FIRE & POLICE
EMPLOYEES' RETIREMENT SYSTEM
City of Baltimore, Maryland



COMPREHENSIVE ANNUAL FINANCIAL REPORT

A Component Unit of the
City of Baltimore, Maryland
Year Ended June 30, 2009

F&P, the Plan protecting Baltimore City's Protectors

Photos courtesy of
Mark L. Dennis, Mayor's Photographer

Photo on page 3 courtesy of
Frank Klein, Photographer

Designed by
Felicia T. Knight, F&P Staff

FIRE & POLICE
EMPLOYEES' RETIREMENT SYSTEM
City of Baltimore, Maryland



COMPREHENSIVE ANNUAL FINANCIAL REPORT

A Component Unit of the
City of Baltimore, Maryland
Year Ended June 30, 2009

Prepared by:
Thomas P. Taneyhill, CPA
Executive Director

David A. Randall
Accounting Manager

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
Comprehensive Annual Financial Report
For the Year Ended June 30, 2009

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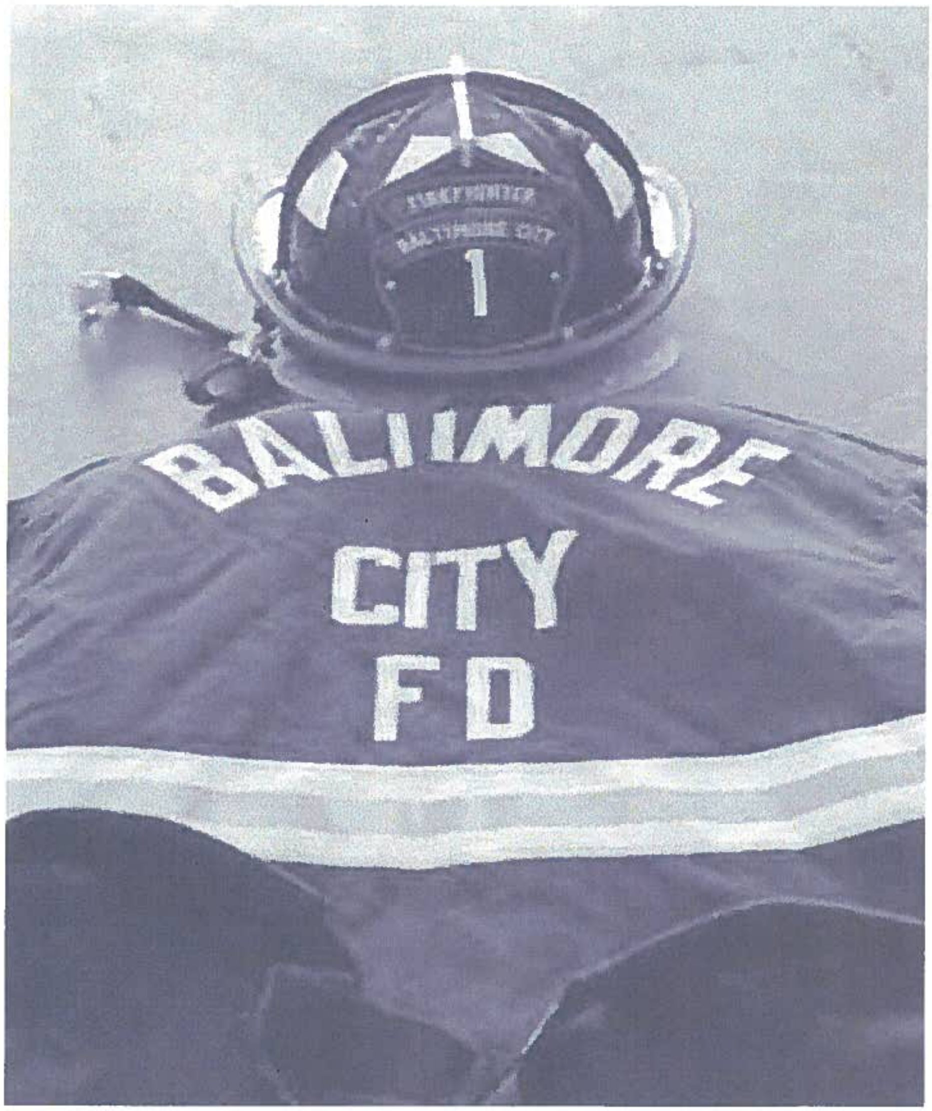
INTRODUCTORY SECTION



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Certificate of Achievement for Excellence in Financial Reporting

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Fire and Police Employees' Retirement System, City of Baltimore, Maryland

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

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

CITY OF BALTIMORE

SHEILA DIXON, Mayor

FIRE AND POLICE EMPLOYEES' RETIREMENT SYSTEM

THOMAS P. TANEYHILL, CPA, Executive Director
7 E. Redwood Street
19th Floor
Baltimore, Maryland 21202

December 31, 2009

The Honorable Members of the Board of Trustees
Fire and Police Employees' Retirement System
Baltimore, Maryland

The Fire and Police Employees' Retirement System of the City of Baltimore (F&P, Plan, System) has just completed its forty-seventh year of service to the uniformed officers of the Baltimore City Fire and Police Departments. On behalf of the dedicated staff that serves the System's membership, I am pleased to submit the Comprehensive Annual Financial Report of the F&P for the fiscal year ended June 30, 2009. The System's administration is responsible for both the accuracy of the data and the completeness of the presentation, including all disclosures. To the best of my knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the F&P. The F&P is a component unit of the City of Baltimore.

This report consists of five sections: the Introductory Section which contains the Letter of Transmittal, the Chairman's Report, the identification of the Board of Trustees (Board), the Organization Chart, and the identification of the professionals who provide services to the Board; the Financial Section which contains the Independent Auditor's Report, the Management's Discussion and Analysis, the financial statements of the System and certain required supplementary information; the Investment Section which contains the Investment Advisor's Report on Investment Activity, Investment Objectives and Policies, Investment Results, various investment schedules, and a Schedule of Investment Professionals; the Actuarial Section which contains the independent Actuary's Disclosure Certification, assumption tables, schedules of valuation data, and a Summary of Plan Provisions; and the Statistical Section which contains data pertaining to active and retired members of the System and benefit expenses.

Established July 1, 1962, by City ordinance, the F&P is a defined benefit plan that covers all uniformed officers of the Baltimore City Fire and Police Departments. The Plan also covers certain Maryland Aviation Administration firefighter/paramedics and certain Maryland Transportation Authority police officers. These State of Maryland employees were grandfathered into F&P plan coverage by State law.

All System related administrative and benefit provisions are established by City ordinance, as contained in Article 22 of the Baltimore City Code, and may be amended only by the Mayor and City Council. The plan provisions, unless specifically excepted, provide a contractual relationship for the membership whereby benefits may not be diminished or impaired in any way.

The F&P provides normal service retirement benefits for members who attain age fifty, regardless of service, or who acquire twenty years of membership service, regardless of age. Employees who become members of the F&P on or after July 1, 2003, must have with the aforementioned at least ten years of service as contributing F&P members. Coverage for line-of-duty disability benefits is immediate upon entry into the System. Disability benefits for non-duty-related injury or illness are provided after the attainment of five years of membership. Line-of-duty death benefits are provided upon membership for any member whose death results from an injury occurring in the actual performance of duty. After one year of System service, members are also covered for non-duty-related death benefits. Members who do not reach service retirement benefit eligibility remain vested only in their accumulated member contributions and interest credits, which are payable to the member upon termination from employment. A Deferred Retirement Option Plan (DROP) is available to members who entered the F&P prior to July 1, 2003, and who attain twenty or more years of service as of December 31, 2009. Members who do not meet the eligibility requirements for DROP may become eligible to participate in a new DROP, known as DROP 2, that commences January 1, 2010. More information on DROP and DROP 2 can be found in the Summary of Plan Provisions beginning on page 70.

Major Initiatives

In addition to the global economic downturn that had dramatic adverse effects on the System's investment portfolio, two major Plan benefit issues, DROP and post-retirement benefit increases, continued to dominate discussions with the City administration. The current DROP was subject to amendment due to a unique provision that allowed the City administration to amend the DROP if a certain funding "test" did not meet requirements. In fiscal year 2005, as was required by the plan provisions, the "DROP test" was performed. It was determined that the test failed which then allowed the City administration to amend or terminate the existing DROP. In fiscal year 2006, the City administration submitted amendments to the City Council to terminate the existing DROP for current members who had not yet attained eligibility and to establish a new DROP for the purpose of reducing required City contributions to the F&P. The Bill became so watered down in City Council that the City administration withdrew the bill as it would not meet the contribution savings sought. During fiscal year 2009, the City administration renewed efforts to amend DROP as one way to curtail the rising employer costs for the F&P. After deliberations between the City administration and the fire and police unions, the terms for a new Deferred Retirement Option Plan, known as DROP 2, were agreed upon and were submitted in March 2009 to the City Council for consideration. The Council approved and the Mayor signed the DROP 2 provisions into law in August 2009 with a delayed effective date of January 1, 2010.

The System's post-retirement increase provisions were again the subject of review and discussion with the Board of Trustees. With the June 30, 2008, actuarial valuation report, the System's actuary again reported to the Board that the post-retirement increase provisions, which are not guaranteed by the City, allocate too many dollars away from the general asset pool in order to pay the increases and not enough assets remain to pay regular retirement benefits to members. The actuary warned that with lower long-term investment earnings expectations and increased volatility in the investment markets, the current post-retirement increase provisions will have a detrimental impact on the assets needed to pay regular plan benefits and, if not remedied, the provisions will substantially increase the City's annual required contribution.

The actuary presented alternatives to the Board which included lowering the assumed rate of return for post-retirement assets from 6.8% to 5.0% or amending the post-retirement provisions. The actuary reported with the June 30, 2008, valuation report that lowering the assumed earnings rate would increase the city's annual required contribution to the F&P by $61.5 million per year. With the June 30, 2009, actuarial valuation report, the contribution increase due to the lowering of the post-retirement assumption rate would rise to $64 million a year, if the assumption change is adopted by the City Council and was approved by the Mayor.

The actuary also presented new post-retirement increase criteria to the Board for consideration. Amendments to the current post-retirement increase provisions were drafted for review by the Board. The Board deferred submission of the amendments to the City administration pending receipt of a legal opinion rendered by the City Solicitor as to whether the proposed amendments violate the contractual relationship section of the plan provisions. The City administration, however, called for the proposed amendments and submitted them to the City Council in October 2008.

In March 2009, the City Council held a hearing regarding the amendments to the post-retirement increase provisions that would replace the current investment performance based provisions with provisions that would provide an automatic increase of 1.5% each year, regardless of investment performance, guarantee already provided increases, and provide for an investment performance averaging methodology, incorporating good and poor investment performance years that must exceed 8.0%, before providing an additional variable increase rate on top of the fixed annual 1.5% increase rate.

At the City Council hearing the union leadership took exception to the poor funded status of the F&P as of December 31, 2008; similar to other pension plans, the F&P's investment portfolio had suffered severe declines due to the global economic downturn and its impact on the capital markets. The unions not only opposed the post-retirement increase amendments, but demanded higher benefit increases that if not provided would be met with penalties that the unions apparently with the concurrence of certain City Council members, would force upon the City and ultimately the City taxpayers to fund larger increases and benefits for retired members.

The City administration in an apparent effort of unity with unions agreed that the poor funded status of the Plan did not provide the appropriate setting to amend the post-retirement increase provisions. The City administration then withdrew its proposals to amend the post-retirement provisions from City Council consideration; and in its place the City administration submitted a bill to eliminate the post-retirement provisions altogether.

Recognizing the potential for a greater than 100% increase in employer costs for the F&P and the need for comprehensive reform, the President of the City Council requested that the F&P benefit provisions, administrative structures, and investment policies be reviewed by an independent group composed of Baltimore industry leaders. Concurrently, the Mayor sought independent review by a public plan expert. The Baltimore review body commenced its work in the summer of 2009 by requesting information from the executive and legislative branches of the City government, the F&P administration, the F&P's actuary, and the fire and police unions. The report from the industry group is expected in early 2010.

The Board initiated a search for investment consulting services as the Board's contract with its investment advisor, the Summit Strategies Group, was to expire on September 30, 2009. The Board issued an RFP and interviewed three candidates out of the ten respondents. As a result of the search, the Board elected to renew its contract with Summit Strategies effective October 1, 2009.

Financial Information

This report has been prepared in accordance with the principles of governmental accounting and reporting promulgated by the Governmental Accounting Standards Board. The accrual basis of accounting is used to record assets and liabilities, revenues and expenses. Revenues are recorded when earned, regardless of the date of collection. Expenses are recorded when liabilities are incurred, regardless of when payment is made.

Accounting principles generally accepted in the United States require that management provide a narrative introduction, an overview, and an analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A begins on page 20 immediately following the report of the independent auditor in the Financial Section of this report.

The System's administration is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the F&P are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and that the valuation of costs and benefits requires estimates and judgments by the System's management.

Sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and the fair presentation of the financial statements and supporting schedules.

Investments

As provided for in the plan provisions, the Board of Trustees is authorized to invest the System's assets and to take appropriate action regarding the investment, management, and custodianship of plan assets. The investment responsibilities of the Board include establishing reasonable investment objectives, developing investment policy guidelines, selecting investment managers, and evaluating performance results to assure adherence to guidelines and the achievement of objectives.

Recessionary pressures fueled by the credit and liquidity crisis that began during the previous fiscal year continued unprecedented economic turmoil in the capital markets well into the third quarter of the System's current fiscal year. Aside from redemption requests to its core real estate managers that went unanswered as the liquidity crisis dried up meaningful real estate transactions, the Board held to its diversified asset allocation plan through the downturn. This plan yielded significant results in the System's fourth fiscal quarter as the domestic and international equity markets staged a considerable rally.

Even with the benefit of the equities rally, the total fund rate of return for fiscal year 2009 was a negative 21.9%, which dropped the Plan deep into the fourth quartile of the public fund investment performance comparison universe.

Portfolio performance has continued to recover following the June 30, 2009, fiscal year end and into fiscal year 2010. The Plan achieved above median performance in the public fund universe comparison for the quarter ended September 30, 2009.

Plan Funding

A ten-year history of the System's funding progress is presented on page 38. This schedule compares the actuarial value of assets to the actuarial accrued liability. This required schedule illustrates the System's funding method which smoothes the recognition of investment gains and losses by releasing net actuarial investment gains and losses at the rate of 20% each year to the actuarial value of assets. The smoothing method is employed so that the City's contribution remains stable as a percentage of member compensation, so that the City's required contribution to the F&P does not vary dramatically from year to year due to investment market volatility. Because the actuarial value of assets excludes certain legislated actuarial reserves, as explained in the following paragraph, this schedule understated the funded status of the F&P when investment gains were realized and it now overstates the Plan funded status as realized investment losses were segregated and were not released to the actuarial value of assets according to the normal five year smoothing method.

In fiscal year 1996, the System's funding method was modified by legislation that established actuarial reserves in which "excess unallocated earnings" (gains and losses) were accumulated each year separate from the reserves maintained for funding purposes. The accumulated gains and losses were shared by the City and the members according to a formula in the provisions. Specific reserved investment gains could be utilized by the City to reduce or eliminate its required contributions to the F&P. Similarly, members could elect to utilize specific reserves to improve benefits. For the first several years, gains were accumulated and were utilized by the City to take contribution reductions and by the members to "purchase" benefit improvements. Beginning with fiscal year 2001 and through fiscal year 2003, losses were accumulated in the separate reserves due to the extraordinary downturn in the global equities markets. At June 30, 2005, net losses of $412.8 million were accumulated. The legislation that established the separate actuarial reserves had a June 30, 2005, sunset provision which required the Board of Trustees to apply the accumulated losses in accordance with an "appropriate asset valuation method." This caveat effectively removed the members from the sharing of the remaining losses, which then became the responsibility of the Plan and the City.

Since amortization of the accumulated losses has a direct impact on the contributions due from the City, the Board sought concurrence from the City administration on the period over which to amortize the accumulated losses. With the June 30, 2005, actuarial valuation, a ten-year amortization period was employed for the release of the accumulated losses to the actuarial value of assets. At June 30, 2009, $198.9 million of the accumulated losses remains in the segregated reserves and will be released to the unallocated earnings calculation at the rate of $39.8 million per year over the remaining five years of the amortization period.

The negative investment performance for fiscal year 2009 provided losses of $509.2 million, which will be released to the actuarial value of assets at the rate of $101.8 million a year for five years beginning with the June 30, 2009, actuarial valuation.

Due to the investment performance losses recorded for the fiscal year ended June 30, 2009, and the continuing recognition of the losses accumulated in the separate reserves noted above, the City's contribution requirements reported in the June 30, 2009, actuarial valuation report will increase from the $82 million paid to the F&P on July 1, 2009, (fiscal year 2010) to $101 million due on July 1, 2010, (fiscal year 2011) if the post-retirement assumption rate remains at 6.8%, or to $165 million if the post-retirement assumption rate is lowered to 5.0%. Given that the amendments proposed by the City administration to amend the post-retirement increase provisions were not adopted by the City Council, the Board had no choice but to recommend to the City administration that the post-retirement assumption earnings rate be lowered to 5.0%.

Independent Audit

The Baltimore City Code stipulates that the Board of Estimates shall select an independent auditor for the F&P and that the auditor shall report his findings annually to the Board of Estimates and to the Board of Trustees. The Board of Estimates elected to have the City Auditor render his opinion as to the fairness of the System's financial statements. The auditor's report is contained in the Financial Section of this report.

Professional Services

The Board of Trustees appoints consultants and investment managers subject to approval by the City's policy making and approval body, the Board of Estimates. These professionals have been chosen based on their ability to provide services that are essential to the effective and efficient operation of the System. All of the professionals who provide service to the Board of Trustees are listed in the Introductory Section on page 15 and in the Investment Section on pages 55 to 57.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Fire and Police Employees' Retirement System, City of Baltimore, Maryland for its comprehensive annual financial report for the fiscal year ended June 30, 2008. This was the twenty-sixth consecutive year (fiscal years 1983-2008) that the F&P has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States and applicable legal requirements.

The Board of Trustees
Fire and Police Employees' Retirement System
Baltimore, Maryland

December 31, 2009

A Certificate of Achievement is valid for a period of one year only. I believe that this current report continues to meet the Certificate of Achievement Program requirements. I am submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

The preparation of this report could not be accomplished without the dedicated efforts of the System's accounting staff, investment advisor, and actuarial consultant. I would like to express my appreciation to all who assisted and contributed to its preparation.

This report is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible stewardship for the assets contributed by the members and the City of Baltimore.

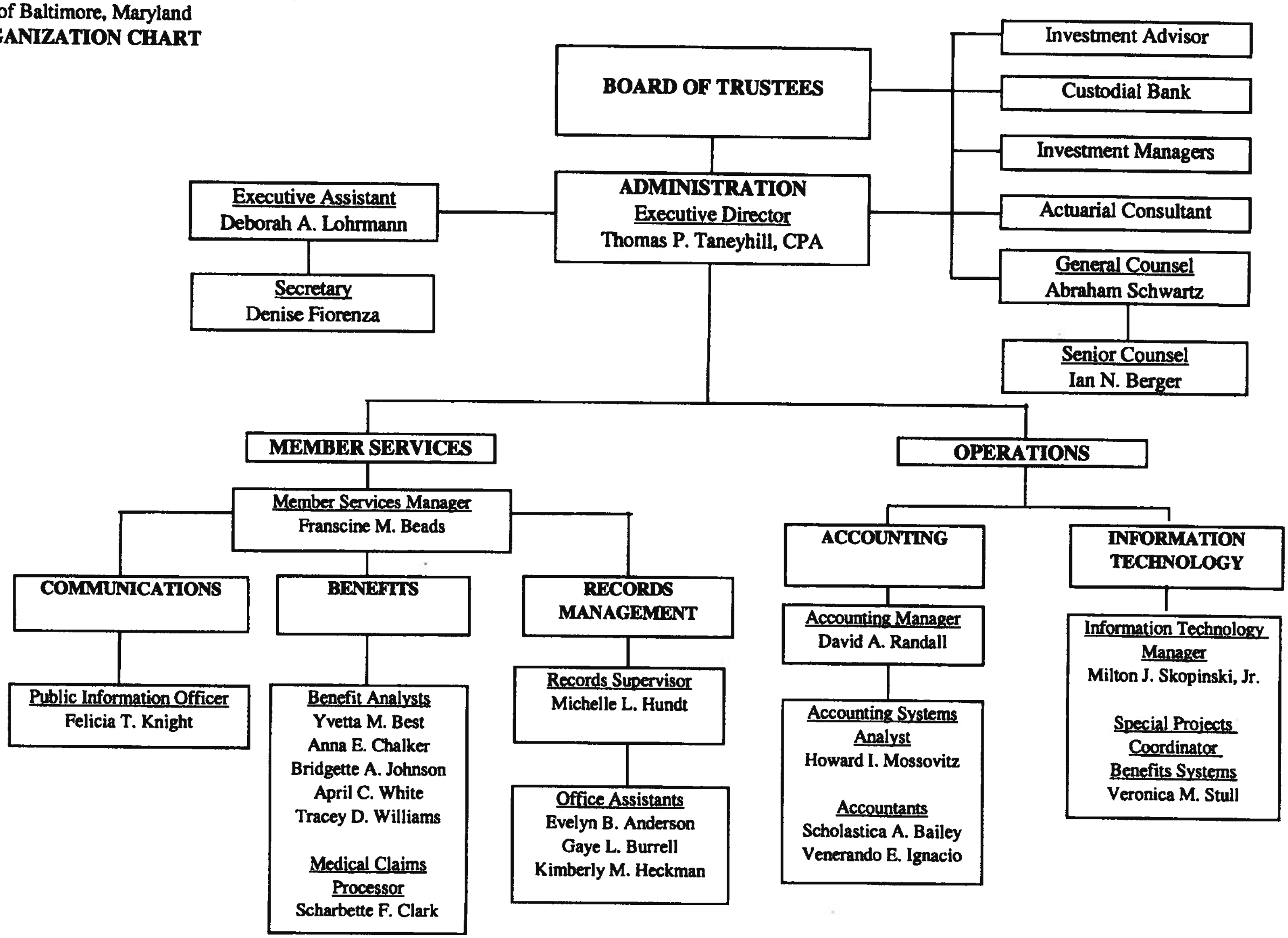
This report is being forwarded to the Mayor, the President of the City Council, the Comptroller, and other members of the Board of Estimates, to all members of the City Council, and to the Fire and Police Departments so that all members of the F&P will have the opportunity to review it. Hopefully, the administration of the City and the membership of the System will find this report both informative and helpful.

I would like to take this opportunity to express my gratitude to the Board of Trustees, the dedicated F&P staff, the System's consultants, investment managers and advisors, all of whom continue to work diligently to assure the successful operation of the System.

Respectfully submitted,

Thomas P. Taneyhill, CPA
Executive Director

Fire and Police Employees Retirement System
City of Baltimore, Maryland
ORGANIZATION CHART



Fire and Police Employees' Retirement System
City of Baltimore, Maryland
BOARD OF TRUSTEES

Stephan G. Fugate, Chairman Fire Captain Baltimore City Fire Department	Elected by active Fire Department members Term expires June 30, 2010 Member of Investment Committee
Edward C. Heckrotte Sr., Vice-Chairman Pump Operator, retired Baltimore City Fire Department	Elected by retired Fire Department members Term expires June 30, 2010
Steven E. Histon Police Sergeant Baltimore City Police Department	Elected by active Police Department members Term expires June 30, 2012
Peter E. Keith, Esquire Partner Gallagher, Evelius & Jones, LLP Baltimore, Maryland	Appointed by the Mayor Term expires December 31, 2011 Member of the Investment Committee
Deborah A. Owens Deputy Commissioner Baltimore City Police Department	Ex-officio Appointed by Police Commissioner Frederick Bealefeld
Joan M. Pratt, CPA Comptroller City of Baltimore	Ex-officio Member of the Investment Committee
James S. Clack Fire Chief Baltimore City Fire Department	Ex-officio
Theodore I. Weintraub Major, retired Baltimore City Police Department	Elected by retired Police Department members Term expires June 30, 2012 Member of the Investment Committee
Vacancy	Appointment by the Mayor

The ex-officio members to the Board are the City Comptroller, the Police Commissioner and the Fire Chief, all of whom may appoint a Deputy to represent her or him on the Board. Elected active and retired member Trustees serve four-year terms. There are no term limits for elected Trustees. Trustees appointed by the Mayor serve terms concurrent with the Mayor's term. Appointed Trustees continue to serve until replaced by the Mayor, or until the expiration of two consecutive full terms. The Board Chairman, Vice-Chairman, and members of the Investment Committee are elected by the members of the Board of Trustees.

CITY OF BALTIMORE

SHEILA DIXON, Mayor

FIRE AND POLICE EMPLOYEES' RETIREMENT SYSTEM

THOMAS P. TANEYHILL, CPA, Executive Director
7 E. Redwood Street
19th Floor
Baltimore, Maryland 21202

December 13, 2009

To All Members, Retirees, and Beneficiaries
Fire and Police Employees' Retirement System

Unable to rewrite history, let us hope that the fiscal year represented in this report will forever be the single worst in history in terms of overall investment performance and that we will never again suffer the global economic meltdown perhaps eclipsed only by the Great Depression. On a fiscal year basis, our Total Fund Composite returns were a negative 21.9 percent, by far the largest single-year loss in terms of both percentage and dollar amount in the forty-seven year existence of our Fund. To put that loss into some historical perspective, prior to FY'09, there have been only four years of negative returns in the last thirty years and the aggregate percentage loss of those four years is only one tenth of a percent more than the single year loss in 2009. Given the previously increasing value of the total fund, however, the total arithmetic dollar loss of those four years is actually less than the single year loss of 2009.

All of that is said not to dwell on the negative, but to set the tone for all that is to follow and all of what might be anticipated in the future. Much of the difficulty that our Fund has faced and will face, while no different than many other municipal defined benefit plans, has been exacerbated to a point of near crisis by the virtual economic crash that began in October of 2008. It is my firm belief that the multitude of issues adversely affecting our Fund today could have been easily managed over time with historically "normal" market returns but, alas and again, we cannot rewrite the history.

Pension benefits accrued in Defined Benefit pension plans are typically based upon a combination of years of service and some average final compensation (AFC) reflective of a specified time-frame just prior to retirement. Once payments begin in retirement, many such plans have Cost Of Living Adjustments (COLA) designed to match or at the least offset inflation. Our plan currently incorporates a structure for post-retirement increases based upon investment performance for a given fiscal year which is known to us as the Variable Annuity. That structure, in place since 1983, is now the subject of pending City Council legislation and will likely change before the close of FY'10. The nature and degree of that change is largely dependent upon the conclusions reached and recommendations made through an independent review currently under way.

The initial legislative foray intended to address the ostensibly problematic Variable Annuity resulted in very close scrutiny of the Plan as a whole and it became very clear to all that the Variable Annuity was not the only issue needing attention. The Greater Baltimore Committee (GBC) was subsequently asked to conduct an independent review of the Plan from "top to bottom" and that effort continues as of this writing with a final report expected sometime in early 2010. It remains to be seen what that final report will conclude and what recommendations will be made but I think it fair to suggest that those changes will not be peripheral.

It might be helpful to keep in mind that there are only three sources of revenue to fund any pension plan and in order of magnitude, they are; employee contributions, employer contributions, and returns on investments. Our Plan is no different from similar municipal defined benefit plans in that, heretofore, seventy cents of every dollar paid in benefits is derived from investment returns. Again, in an atmosphere of historically "normal" market returns, that "balance" is easily sustainable but FY'09 was the polar-opposite of a year of "normal" market returns, and all projections for the future suggest that we might never return to "normal".

To All Members, Retirees, and Beneficiaries
Fire and Police Employees' Retirement System

December 13, 2009

Despite that backdrop of unprecedented difficulty and angst, our Executive Director, Tom Taneyhill, and his staff continue to do what they've always done and that is serve our active and retired members and beneficiaries with an extraordinary degree of competence and professionalism. They dutifully fulfill the awesome responsibility of a well run pension plan which is "to pay benefits due in full, on time, every time" and we all owe them our sincere gratitude.

Finally, I also want to sincerely thank my fellow Board members and acknowledge that they have and will continue to endure the scrutiny and criticism of those who somehow believe that we control the World Economy from the Board Room on the nineteenth floor of 7 East Redwood Street! There is no crystal ball, and we do not enjoy the luxury of making choices and decisions from the perspective of a rear-view mirror and it's more than troubling that there are those who seem to judge our actions in that hindsight manner. The Board of Trustees serve as unpaid, uncompensated, layperson fiduciaries holding to the standard of the "prudent person rule" and it is my extreme pleasure to be associated with such honorable men and women.

Sincerely,

Stephan G. Fugate
Chairman, Board of Trustees

LEGAL AND GENERAL COUNSEL, ACTUARY, AND INDEPENDENT AUDITOR

LEGAL COUNSEL

Law Department
City of Baltimore
George Nilson, Esq.
Richard E. Kagan, Esq.

GENERAL COUNSEL

Fire and Police Employees' Retirement System
City of Baltimore
Abraham M. Schwartz, Esq.

ACTUARY

Mercer
Douglas L. Rowe, F.S.A.
Baltimore, Maryland

INDEPENDENT AUDITOR

Department of Audits
City of Baltimore
Robert L. McCarty, Jr., CPA

See pages 55 to 57 in the Investment Section for a list of investment professionals.

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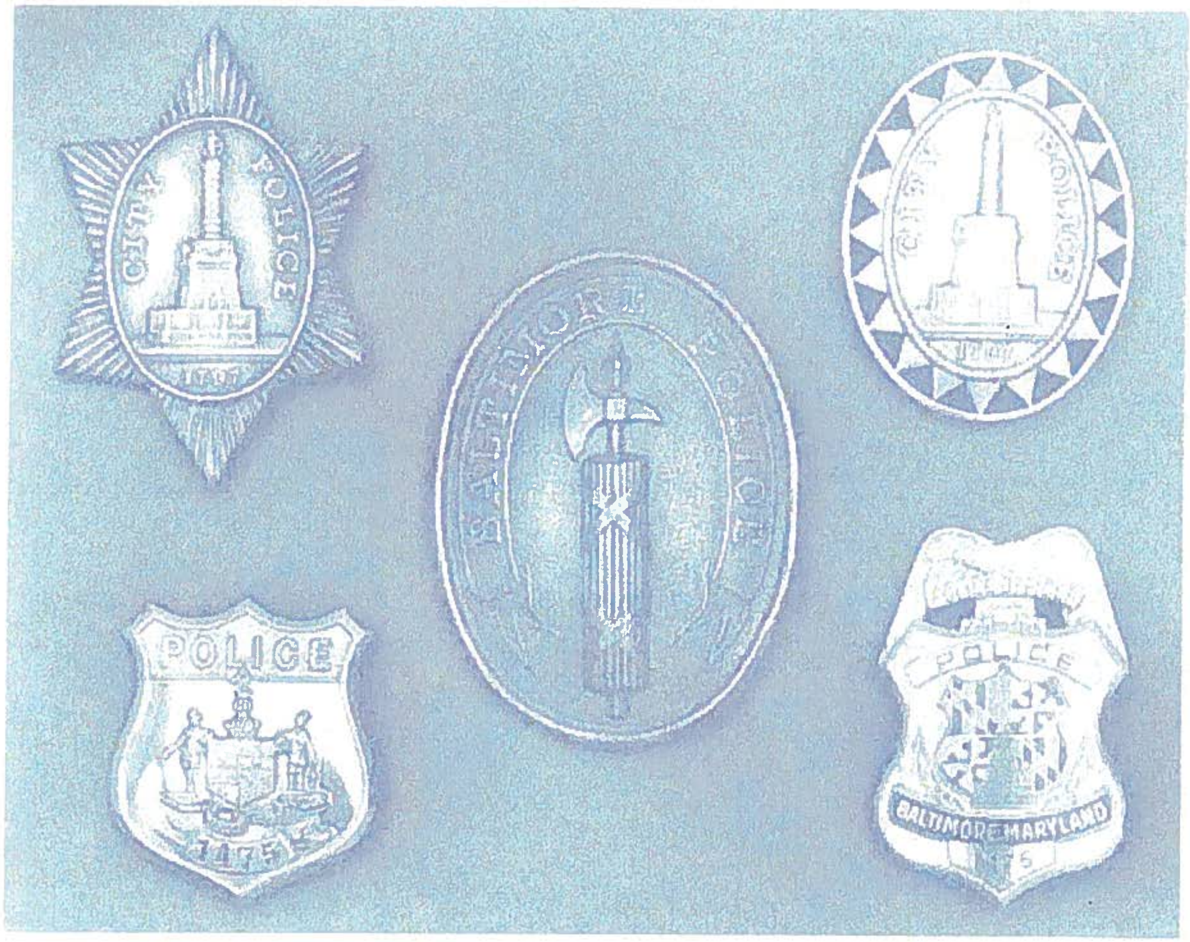
FINANCIAL SECTION



CITY OF BALTIMORE

SHEILA DIXON, Mayor

DEPARTMENT OF AUDITS

ROBERT L. McCARTY, JR., CPA
City Auditor

Room 321, City Hall
Baltimore, Maryland 21202
Telephone: 410-396-4783
Telefax: 410-545-3961

December 31, 2009

Honorable Joan M. Pratt, Comptroller
And Other Members of the
Board of Estimates of the
City of Baltimore
Board of Trustees of the
Fire and Police Employees' Retirement System

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Fire and Police Employees' Retirement System of the City of Baltimore, Maryland , a component unit of the City of Baltimore, as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Fire and Police Employees' Retirement System's management. 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 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 of material misstatement. We were not engaged to perform an audit of the Fire and Police Employees' Retirement System's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fire and Police Employees' Retirement System's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Fire and Police Employees' Retirement System as of June 30, 2009, and the respective changes in plan net assets for the year then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 31, 2009, on our consideration of the Fire and Police Employees' Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Management's Discussion and Analysis. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fire and Police Employees' Retirement System's basic financial statements. The introductory section, required supplementary information and supporting schedules, investment section, actuarial section and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The required supplementary information and supporting schedules have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, investment section, actuarial section and statistical section have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Robert L. McCarty, Jr., CPA
City Auditor

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following overview and analysis of the financial activities of the Fire and Police Employees' Retirement System (F&P, Plan, System) is provided for the fiscal year ended June 30, 2009. Readers are encouraged to consider the information presented here in conjunction with additional information furnished in the Transmittal Letter, which begins on page 5 of this report.

Financial Summary

- The capital markets experienced unprecedented turmoil for almost three quarters of the fiscal year; this had a devastating impact on the System's overall investment portfolio.
- The net assets held in trust for pension benefits decreased by $457.4 million during the fiscal year from $2,151.7 million at June 30, 2008, to $1,694.3 million at June 30, 2009.
- Additions to Plan Net Assets (Revenues) for the year were a negative $268.7 million, a decrease of $262.5 million from the prior year revenues of a negative $6.2 million. The negative revenues were driven by market value declines, the depreciation in the fair value of investments.
- Deductions from Plan Net Assets (Expenses) were $188.6 million in the current year, an increase of $3.4 million from the prior year expenses of $185.2 million; the increase was driven by higher retirement benefit payments to new retirees.
- The managed investment portfolio total rate of return for the fiscal year ended June 30, 2009 was a negative 21.9% which was below the total fund policy index of negative 17.4% and the median public fund performance of negative 16.0%.
- The F&P's domestic fixed income composite led the fiscal year 2009 investment performance with a lowly 3.3% rate of return.
- The System's domestic equity, international equity, and real estate portfolios generated unprecedented losses of 26.3%, 27.4%, and 31.9% respectively, for the fiscal year ended June 30, 2009, signs of the devastation left by the global economic downturn.
- In the fourth quarter of the fiscal year, the equity markets rallied as signs of economic stabilization emerged. The rally continued following June 30, as the System posted a strong 12.0% return for the quarter ended September 30, 2009.
- When compared to other public pension plans reported in the Russell/Mellon Public Fund Universe, the F&P's investment performance for the five year period ended June 30, 2009, fell from the first quartile as reported at June 30, 2008 to the third quartile.
- The F&P's funding objective is to meet benefit obligations through employer and member contributions and by achieving an 8.25% investment rate of return over the long-term.
- As of June 30, 2009, the date of the system's last actuarial valuation, the System's funded ratio was 84.8% on an actuarial value of assets basis and 58.2% on a market value of assets basis, compared to 89.4% and 74.2% at June 30, 2008.
- Capital assets are recorded at cost and include capitalized costs relating to leasehold improvements, computer equipment and office furniture.

Overview of Financial Statements

The following discussion and analysis are intended to serve as an introduction to the F&P financial statements and the Financial Section of this report. The statements and the notes are in conformity with accounting principles generally accepted in the United States. These principles require certain financial statement presentations and disclosures including the use of the accrual basis of accounting to record assets and liabilities, and revenues and expenses.

The **Statement of Plan Net Assets** provides a snapshot of the financial position of the F&P at June 30, 2009, the end of the plan's financial year. It indicates the total assets and total liabilities at June 30, 2009, and the net assets available for future payment of retirement benefits and operating expenditures. The assets comprise cash and cash equivalents, which are fixed income instruments with a two year or less maturity; receivables, which are from investment activity; investments at fair market value; securities lending collateral; and capital assets, which includes leasehold improvements, computer equipment, and office furniture. Securities traded on national or international exchanges are valued at the last reported sale price at current exchange rates. Purchases and sales of investments are recorded on a trade date basis. The fair value of real estate holdings is based primarily on appraisals by third-party appraisers. The liabilities comprise payables for securities lending collateral, certain investment activity, retirement benefits, lump sum distributions payable to members and administrative expenses.

The **Statement of Changes in Plan Net Assets**, on the other hand, summarizes the F&P financial activities that occurred during the plan's financial year from July 1, 2008 through June 30, 2009. Employer contributions are recognized when a formal commitment has been made by the employer to provide the contributions. Member contributions are recognized in the period in which the contributions are due. All investment gains and losses are recorded at trade date. Both realized and unrealized investment gains and losses are recorded. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan provisions.

The **Notes to the Basic Financial Statements** provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes are an integral part of the financial statements and include detailed information not readily evident in the basic financial statements.

The Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets can be found on pages 27 and 28 of this report.

The **Required Supplementary Information** that follows immediately after the notes to the basic financial statements provides two schedules illustrating ten-year historical trend information. The first schedule, concerning the funded status of the F&P, compares the actuarial value of assets to the actuarial accrued liability. The second schedule provides a history of required contributions made by the employer. See the Required Supplementary Information beginning on page 36 of this report.

The remaining supplemental schedules provide additional detailed information concerning operating expenses, investment expenses and payments to consultants. All of this information is considered useful in understanding and evaluating the financial activities of the F&P.

Financial Analysis

The examination of plan net assets over time may serve as a useful indicator of the financial position of the F&P. At June 30, 2009, assets exceeded liabilities by $1.7 billion, a decrease of $457.4 million over the prior year. Assets of the Paid-Up Benefit Reserve and the Contingency Reserve, $477.5 million in total (see Note 3 to the financial statements), are segregated and separately invested from the general plan assets. The assets of these two reserves may only be utilized for the payment of certain post-retirement benefit increases. The remaining net assets of $1,216.9 million are available to meet the ongoing regular benefit obligations to the F&P participants and beneficiaries. As of June 30, 2009, total assets decreased by 24.5% over the prior year mainly due to the decrease in the fair value of the System's investment portfolio and plan benefit payments. Total liabilities decreased mainly due to a reduction in securities lending collateral.

Plan Net Assets
For the Fiscal Years ended June 30, 2009 and 2008

	2009	2008	Increase (Decrease)	Percentage Change
Current assets	$ 54,615,246	$ 51,119,977	$ 3,495,269	6.8%
Capital assets	1,408,110	1,583,785	(175,675)	(11.1)
Investments at fair value	1,806,556,977	2,413,189,853	(606,632,876)	(25.1)
Total Assets	**1,862,580,333**	**2,465,893,615**	**(603,313,282)**	**(24.5)**
Current liabilities	168,259,807	314,190,947	(145,931,140)	(46.4)
Total Liabilities	**168,259,807**	**314,190,947**	**(145,931,140)**	**(46.4)**
Net Assets	**$ 1,694,320,526**	**$ 2,151,702,668**	**$ (457,382,142)**	**(21.3)%**

Investment Assets

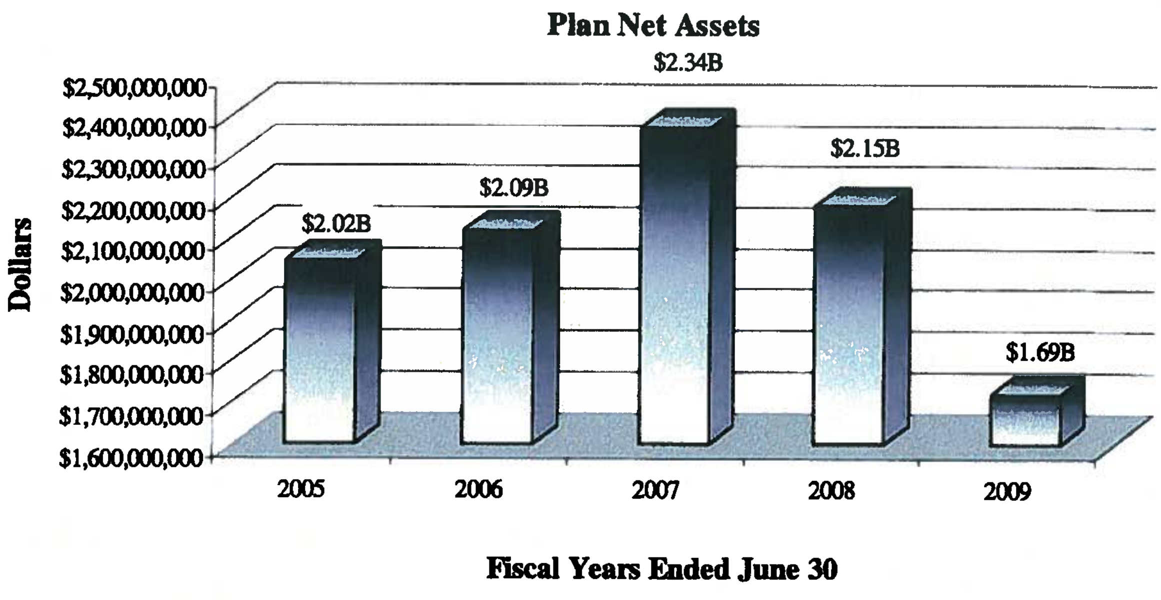
The F&P invests in domestic and international equities, domestic fixed income, hedge fund of funds, private equity fund of funds, and real estate limited partnerships. The System also participates in a securities lending program that is managed by the System's custodian bank. External investment management firms selected by the Board of Trustees and approved by the Board of Estimates, the City's policy making body, manage all assets. BNY Mellon Asset Servicing, the F&P's custodian bank, holds all marketable securities in custody. The Board of Trustees retains the services of a professional investment advisory services firm, the Summit Strategies Group, that assists with investment allocation, manager selection, performance calculations, performance analytics, and other related services.

The F&P's net assets totaled $1.7 billion at the fiscal year ended June 30, 2009, and are allocated to two separate investment portfolios: the "managed" portfolio and the "dedicated" portfolio. The majority of the assets, $1,216.9 million, comprise the "managed" portfolio for which investment rates of return are calculated and tracked. The "managed" assets are allocated to various classes according to the Board's assets allocation targets, as reported in the financial section of this report, and are measured against benchmarks established for the management style within the particular asset class. The composite rate of return for the "managed" portfolio is calculated and is disclosed throughout this report.

The remainder of the assets, $477.5 million as of June 30, 2009, are separately invested from the Board's asset allocation targets and are managed in fixed income portfolios dedicated to immunize certain post-retirement increase liabilities. The Board's policy is to invest the dedicated assets in fixed income securities that are managed to match the payout streams of the post-retirement increases. These benefit increases are not guaranteed by the City and the Board has chosen to immunize those benefit payments to assure their continuation. Since the "dedicated" portfolio is managed to immunize the benefit liabilities and it is not managed to the Board's general asset allocation, the rate of return for those assets is not included in the rates of return disclosed in this report. However, the "dedicated" assets are included and reported in the System's financial statements along with the "managed" assets.

All investments are stated at fair value rather than at cost and include the recognition of unrealized gains and losses in the current period. The rate of return on total "managed" assets for the year ended June 30, 2009 was a negative 21.9%, which is directly attributable to the global economic downturn and the impact it has had on the capital markets. The total portfolio annualized rates of return for the last three-year, five-year, and ten-year periods ended June 30, 2009, all of which include the unprecedented negative performance of the current fiscal year, were (4.5)%, 1.8%, and 1.7% respectively. While the Board has diversified the "managed" assets across multiple classes and strategies as it seeks to lower investment risk and maximize opportunities, the Board's asset allocation plan is obviously subject to market volatility. The F&P's long-term actuarial investment return assumption is 8.25%.

Beginning on page 44 of this report, the Investment Section gives detailed information on the F&P investment policies. See page 51 for the comparison of the "managed" asset allocation targets established by the Board of Trustees to the actual asset allocation at June 30, 2009.



Liabilities

The current liabilities are payables incurred mainly by investment portfolio transaction activity, the lump sum benefits payable to members, and the operating expenses of the F&P office.

Changes in Plan Net Assets
For the Fiscal Years Ended June 30, 2009 and 2008

	2009	2008	Increase (Decrease)
Additions			
Net investment income	$ (357,730,702)	$ (97,529,998)	$ (260,200,704)
Employer contributions	69,513,236	72,687,585	(3,174,349)
Member contributions	17,661,252	16,547,425	1,113,827
Net securities lending income	1,801,369	2,049,347	(247,978)
Total Additions	(268,754,845)	(6,245,641)	(262,509,204)
Deductions			
Retirement allowances	173,547,075	166,119,977	7,427,098
Lump sum DROP payments	10,379,493	14,118,642	(3,739,149)
Administrative expenses	3,334,851	3,264,028	70,823
Refunds of member contributions	1,114,334	1,627,871	(513,537)
Death benefits	251,544	63,151	188,393
Total Deductions	188,627,297	185,193,669	3,433,628
Net Increase (Decrease)	$ (457,382,142)	$ (191,439,310)	$ (265,942,832)

Investment Income

For the current fiscal year, the F&P's total managed portfolio lost an unprecedented 21.9%. Losses were recognized in all equity related asset classes and were due to the global economic meltdown resulting from the credit and liquidity crisis. This overall portfolio loss was below the median public fund performance of negative 16.0% and its comparative policy index of negative 17.4%. This underperformance was driven by the System's real estate portfolio which well underperformed its comparative benchmark.

The System's domestic equity, international equity, and hedge fund of funds portfolios returned negative 26.3%, negative 27.4%, and negative 13.4% respectively, but, still managed to outperform their respective benchmarks. The System's "managed" fixed income portfolio returned 3.3%, the only positively performing asset class for the fiscal year, but, the portfolio underperformed its comparative index.

The System's "dedicated" fixed income portfolio, which is invested in U.S. Treasury securities and high grade corporate bonds, returned 7.7% for the year as investors fled to quality. The cash flow of the dedicated fixed income portfolio, as explained above, is matched to the benefit payment streams of the post-retirement increases.

The investment income is reduced by investment expenses which include the fees paid to firms hired by the Board to manage the System's assets, the Board's investment advisory firm, and the System's custodian bank that tracks and reports investment activity. Investment expenses decreased from $6.9 million in fiscal year 2008 to $5.6 million for fiscal year 2009 due to the erosion of the portfolio market values.

The economic crisis that began with the sub-prime mortgage meltdown in fiscal year 2008 continued its downward spiral into fiscal year 2009 with the collapse of the government sponsored mortgage companies, the disappearance of old-line investment banks, the largest government intervention since the Great Depression, and the near bankruptcy of the U.S. auto manufacturers. The lack of available credit in the markets led to rising unemployment, falling home prices, a complete lack of consumer confidence, and to a dramatic drop in commercial real estate values. Some signs of economic stability emerged in the last quarter of fiscal year 2009. However, some economists are not predicting recovery until well after 2009 and fears of a double dip recession remain. Many economists are calling for a long gradual recovery rather than the "V" shaped recovery that has occurred after other recessionary periods. A long recovery will add to the stress already in place for this defined benefit plan and its major sponsor, the City of Baltimore.

Member and Employer Contributions

Member contributions are made at 6.0% of regular compensation. Overtime pay is not subject to the member contribution rate and is not included in the member's average final compensation calculation. Covered member compensation and the related member contributions, increased from the prior year due to the higher income levels for uniformed police and fire personnel.

Employer contributions requirements are determined by the results of the actuarial valuation process which is performed as of the end of each fiscal year. The valuation results determine the contribution requirement due on July 1 two fiscal years hence. For example, the actuarial valuation report prepared as of fiscal year end June 30, 2007, determined the City's contribution requirement due July 1, 2008, which is the fiscal year 2009 contribution requirement; the actuarial valuation report prepared as of fiscal year end June 30, 2008 determined the City's contribution requirement due July 1, 2009, which is the fiscal year 2010 contribution requirement, and so on. The employer contribution is comprised of the contribution made by the City of Baltimore and a contribution made by the State of Maryland for a very small number of State employees whose coverage was grandfathered to the F&P by State law.

The employer contribution decreased $3.2 million to $69.5 in fiscal year 2009, from $72.7 million in fiscal year 2008. The decrease is due to the fact that in fiscal year 2008 the City made an additional $5.7 million contribution to the F&P to cover previous accumulated investment losses and to the System's top quartile investment performance of 19.8% for fiscal year 2007 that assisted in containing the increase in the fiscal year 2009 employer contributions. However, the System's negative 7.0% investment performance for fiscal year 2008 added to the accumulation of negative earnings and results in increasing the employer contributions due to the F&P for fiscal year 2010 to $82.5 million. Negative investment performance of 21.9% for the fiscal year ended June 30, 2009, the recognition of additional accumulated losses from the separate reserves used in previous years to provide benefit improvements to members and retirees and contribution reductions by the City, and costly post-retirement benefit increase provisions that have not been remedied, will drive the employer contribution requirements to unsustainable new highs.

The System's actuary again reported to the Board with the June 30, 2009 actuarial valuation that the post-retirement benefit increase provisions, which allocate assets to provide increases to retirees when investment performance exceeds 7.5%, are having a detrimental impact on the assets needed to pay regular retirement benefits because too many assets must be allocated to pay for the post-retirement increases when performance exceeds the threshold. When portfolio earnings exceed the 7.5% threshold, assets are allocated and separately invested from the "managed" plan assets. The System does not provide a funded automatic cost of living increase. When performance is below the threshold, the retirees do not receive an increase and the retirees do not participate in the negative earnings.

The investment market volatility witnessed from the year ended June 30, 2007, to fiscal year ended June 30, 2009, and into fiscal year 2010 presents the "perfect storm" type of scenario about which the System's actuary has warned the Board and the City administration for years now.

For the fiscal year ended June 30, 2007, when investment performance provided a top quartile 19.8% rate of return, $94 million was allocated away from the general reserves need to pay regular retirement benefits and was used to fund increases to the retirees. The fiscal year ended June 30, 2008, provided negative investment performance of 7.0%. The fiscal year ended June 30, 2009, provided never before experienced negative investment performance of 21.9%. As of the date of this report, a substantial rally in the equities market has occurred in fiscal year 2010.

According to the System's actuary, for the year ended June 30, 2007, too many assets were allocated away from the assets needed to pay regular plan benefits and instead were used to pay out increases to retirees. In fiscal years 2008 and 2009, investment performance has negatively impacted the assets need to pay regular retirement benefits. Increases were not provided to retirees following fiscal years 2008 and 2009. In fiscal year 2010, if the year-to-date investment performance continues for the remainder of the fiscal year, and if the post-retirement provisions are not amended, a substantial amount of assets will have to be allocated away from the general asset pool needed to pay the basic retirement benefits and an increase will have to be paid to the retirees.

Because of lower earnings expectations and increased market volatility, the System's actuary recommended that if the post-retirement increase provisions are not amended, the Board ought to lower its earnings assumption for post-retirement assets from 6.8% to 5.0%.

Because alternatives to the post-retirement increase provisions have not been approved by the Mayor and City Council, the Board has recommended to the City administration that the post-retirement earnings assumption be lowered to 5.0% from 6.8%. The lowering the post-retirement earnings assumption to 5.0% would result in a $64 million annual increase in the City's required contribution to the plan from $101 million to $165 million in fiscal year 2011.

Retirement Benefits and Administrative Expenses

The F&P was created to provide lifetime service retirement and permanent disability benefits to eligible members, survivor benefits and death benefits to eligible beneficiaries. The cost of such programs includes recurring retirement benefit payments, the post-retirement benefit increases, lump-sum payments to Deferred Retirement Option Plan (DROP) participants, lump sum death benefits, refunds of accumulated member contributions and interest to members who leave F&P covered employment and who are not eligible for retirement benefits, and the cost of administering the System.

The primary expense during fiscal year 2009 was for the payment of continuing retirement benefits totaling $173.5 million, an increase of $7.4 million over the $166.1 million in retirement allowances paid in fiscal year 2008. Retirement allowances increased due to higher benefit allowances paid to new retirees. Administrative expenses increased because of higher personnel costs, increased lease payments for office space, and technology system support costs. Leasehold improvements and office furniture are depreciated on a straight-line basis over 15 years, the life of the building lease. Computer equipment is depreciated on a straight-line basis over a five year useful life.

Requests for Information

This report is designed to provide a general overview of the F&P's financial activity. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Thomas P. Taneyhill, CPA
Executive Director
Fire and Police Employees' Retirement System
7 East Redwood Street, 19th Floor
Baltimore, Maryland 21202

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
STATEMENT OF PLAN NET ASSETS
June 30, 2009

Assets		
Cash and Cash Equivalents		$ 42,540,303
Receivables		
Accrued income	$ 6,334,617	
Investments sold	5,740,326	
Total Receivables		12,074,943
Investments, at fair value		
Stocks	701,027,299	
Bonds	639,495,998	
Real estate	152,197,314	
Hedge funds	99,385,057	
Private equity funds	57,446,619	
Total Investments		1,649,552,287
Capital Assets, net of depreciation		
Leasehold improvements	1,002,526	
Office furniture	295,982	
Computer equipment	109,602	
Total Capital Assets, net of depreciation		1,408,110
Securities Lending Collateral		157,004,690
Total Assets		1,862,580,333
Liabilities		
Securities lending collateral	157,004,690	
Investments purchased	3,973,515	
Retirement allowances payable	2,391,564	
Security lending loss payable	2,295,719	
Investment management fees payable	1,147,688	
Administrative expenses payable	837,291	
Lump sums payable to members	577,318	
Other accounts payable	32,022	
Total Liabilities		168,259,807
Net Assets Held in Trust for Pension Benefits		$1,694,320,526

The notes to the basic financial statements are an integral part of this statement.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
STATEMENT OF CHANGES IN PLAN NET ASSETS
For the Year Ended June 30, 2009

Additions		
Contributions		
Employers	$ 69,513,236	
Plan members	17,661,252	
Total Contributions		$ 87,174,488
Investment Income		
Net depreciation in fair value of investments	(401,509,132)	
Interest and dividends	41,441,870	
Real estate income	4,776,070	
Hedge funds income	3,128,175	
Private equity income	47,062	
Less: Investment expenses	(5,614,747)	
Net Investment Income		(357,730,702)
Securities lending income	2,401,747	
Less: Securities lending expenses	(600,378)	
Net Securities lending income		1,801,369
Total Additions		(268,754,845)
Deductions		
Retirement allowances	173,547,075	
Lump sum DROP payments	10,379,493	
Administrative expenses	3,334,851	
Refunds of member contributions	1,114,334	
Death benefits	251,544	
Total Deductions		188,627,297
Net Decrease		(457,382,142)
Net Assets Held in Trust for Pension Benefits		
July 1, 2008		2,151,702,668
June 30, 2009		$1,694,320,526

The notes to the basic financial statements are an integral part of this statement.

1. Plan Description:

The Fire and Police Employees' Retirement System of the City of Baltimore (F&P, Plan, System) is the administrator of a single employer defined benefit local government retirement plan. Established July 1, 1962, the Plan covers all uniformed personnel of the Baltimore City Fire and Police Departments. In addition, the Plan includes seventeen active fire and police officers who are employees of the State of Maryland; this contingent emanated from when the City of Baltimore owned the Baltimore/Washington International Thurgood Marshall Airport. Based on criteria established by the Governmental Accounting Standards Board, the F&P is a component unit of the City of Baltimore and is included in the City's financial report as a public employees retirement system (PERS).

At June 30, 2009, the F&P membership consisted of:

Retirees and beneficiaries currently receiving benefits	5,929
Active plan members	4,690
Total	10,619

The F&P provides normal service retirement benefits, as well as, death and disability benefits in accordance with Article 22 of the Baltimore City Code, which may be amended only by the Mayor and City Council. The reduction of benefits is precluded by the City Code. Membership in the System is mandatory upon employment. The System does not have a vested benefit plan.

Post-retirement benefit increases are provided to those eligible retirees and beneficiaries when the plan is determined at June 30 to have excess investment earnings, as specified by law. See the description of the Paid Up Benefit Reserve and the Contingency Reserve as noted under "Contributions and Reserves" in Note 3.

2. Summary of Significant Accounting Policies:

Basis of Presentation:
The accounting and financial reporting policies of the F&P included in this report conform to accounting principles generally accepted in the United States and reporting standards as promulgated by the Governmental Accounting Standards Board, which designates accounting principles and financial reporting standards applicable to PERS. This report includes solely the accounts of the F&P, a component unit of the City of Baltimore.

There are no component units of the F&P based on the nature of operational or financial relationships.

Basis of Accounting:
These financial statements have been prepared on the accrual basis of accounting, whereby revenues are recorded when they are earned, expenses are recorded when liabilities are incurred, and investment purchases and sales are recorded as of their trade date. Member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments:
Investments are reported at fair value. Securities traded on national or international exchanges are valued at the last reported sales price at the current exchange rates. The real estate holdings are based on the most recent appraisal (either internal to the manager or third party) as then presently available. Investments that do not have an established market are reported at estimated fair value.

3. Contributions and Reserves:

F&P members are required to contribute 6% of their regular compensation through payroll deduction. The employer contributions are determined through an actuarial valuation. According to the plan provisions, contribution requirements of the plan members and the City are established and may be amended by the Mayor and City Council. The valuation method is stipulated in the plan provisions. Administrative costs of the F&P are paid from investment earnings.

The plan provisions, Article 22 of the Baltimore City Code, established the following reserves:

Annuity Savings Reserve - Accumulated in this reserve are members' contributions inclusive of interest credits, less amounts distributed upon termination of employment or death, or transferred to another reserve for retirement.

Annuity Reserve - Upon retirement, the accumulated contributions of members are transferred to this reserve. From this reserve, the members' accumulated contributions are paid as a life annuity.

Pension Accumulation Reserve - Employer contributions are credited and accumulated with earnings in this reserve. DROP benefits and certain death benefits are paid from here. In addition, when a member retires, an amount equal to the member's pension reserve is transferred from this reserve to the Pension Reserve.

Pension Reserve - From this reserve is paid the pension portion of the retirement allowance. The pension represents benefits for life derived from employer contributions and investment income.

Paid Up Benefit Reserve – Credited to this reserve are a portion of excess investment earnings, as defined by the plan provisions, and all earnings on the investments of this reserve. Post-retirement benefit increases provided by the excess earnings are paid from this reserve.

Contingency Reserve – Credited to this reserve are a portion of excess investment earnings, as defined by the plan provisions, and all earnings on the investments of this reserve. The Contingency Reserve was created to insure payment of benefit increases payable from the Paid Up Benefit Reserve. In the event of a deficit in the Paid Up Benefit Reserve, assets would be transferred to that reserve from the Contingency Reserve.

At June 30, 2009, the balances in the legally required reserves are as follows:

Reserves	Balance
Annuity savings reserve	$ 237,159,576
Annuity reserve	250,510,176
Pension accumulation reserve	(514,413,177)
Pension reserve	1,243,599,971
Paid up benefit reserve	440,111,226
Contingency reserve	37,352,754
Total Reserves	$ 1,694,320,526

The annuity savings reserve, annuity reserve, pension accumulation reserve and pension reserve comprise the managed portfolio totaling $1,216,856,546. The paid up benefit reserve and contingency reserve comprise the dedicated portfolio totaling $477,463,980.

At June 30, 2009, the actuarially determined accrued liability exceeded plan assets by $463,652,273.

4. Securities Lending:

The Board of Trustees (the Board) entered into a Securities Lending Authorization Agreement with the System's custodian bank, BNY Mellon Asset Servicing. All individual securities which are readily marketable and which are not restricted due to an outstanding short option are eligible for loan at the discretion of the custodian bank. The investment manager may loan securities held in custody of commingled accounts if authorized in the manager's contract with the F&P.

Collateral received in exchange for securities loaned is collected in an escrow account for the F&P's benefit for the duration of the loan. At no time will the System lose custody of the loaned securities. Collateral in exchange for the principal loaned may be in the form of cash, or securities issued or guaranteed by the U.S. government, its agencies or instrumentalities. Irrevocable Letters of Credit from banks approved by the custodian may not be used as collateral. The minimum levels of collateral will be set at 102% of the market value of domestic securities loaned, including all accrued income, and 105% of the market value of international securities loaned, including all accrued income. If the market value of the collateral falls below 100% of the loaned securities, additional collateral will be collected to maintain the appropriate minimum level. All collateral amounts will be marked to market daily. The F&P does not have the right to sell or pledge securities received as collateral without borrower default.

At June 30, 2009, the F&P had no credit risk exposure to borrowers because the amounts the F&P owed borrowers exceeded the amounts the borrowers owed the F&P. The market value of securities on loan at June 30, 2009, was $152,156,745 and the market value of the collateral received for those securities on loan was $157,004,690. In October 2008, the Board placed a restriction on the dollar amount of securities that can be out on loan at any one time at $375 million. The terms of the Securities Lending Authorization Agreement require that the custodian indemnify the F&P against: (1) the failure to demand adequate and appropriate collateral from a borrower; (2) the failure to comply with the investment guidelines in connection with the investment and reinvestment of cash collateral; (3) the failure to obtain and perfect a security interest or rights equivalent thereto in and to the collateral; and (4) the failure to make a reasoned determination of the creditworthiness of any borrower.

Substantially all securities loans can be terminated on demand either by the custodian or by the borrower, although generally the average term of these loans is one week. Cash collateral is invested in the custodian's short-term investment pool. The short-term investment pool guidelines specify that a minimum of 20% of the invested cash collateral is to be available each business day and the dollar weighted average maturity of holdings should not exceed 90 days.

As a participant in the custodian's short-term investment pool, the F&P suffered a principal loss of $2.3 million. The collateral pool had an interest in Sigma Finance Corporation and during the fiscal year, the security was downgraded and transferred to a liquidating fund at a $1.00 value per unit.

5. Cash and Investments:

The System's cash deposits are entirely covered by federal depository insurance at all times.

The Board of Trustees of the F&P is authorized by the Baltimore City Code to make investments in accordance with the guidelines and limitations set forth in the Code. The Board accomplishes the daily management of the System's investments through an external investment advisor who acts as a fiduciary for the System and through external investment managers. The Board invests the assets of the F&P using the "prudent person standard" which allows the Board to consider the probable safety of investments, avoid speculative investments, and invest as people of prudence, discretion, and intelligence would in a similar situation. The Board has adopted an investment policy and guidelines to formally document its investment objectives and responsibilities.

Governmental Accounting Standards Board (GASB) Statement No. 40 updates and/or supersedes portions of GASB Statement No. 3. GASB Statement No. 40 establishes more comprehensive disclosure requirements related to investment risks: foreign currency risk exposure, interest rate risk and credit risk by quality.

The F&P invested assets at June 30, 2009 are presented below:

Investment Type	Fair Value
Debt Securities:	
Corporate bonds	$ 367,117,626
U.S. treasury notes and bonds	139,965,690
U.S. Government agency bonds	70,821,349
Absolute return strategic funds	54,751,846
Money mutual funds	42,540,303
Barclay aggregate index	6,839,487
Total debt securities	682,036,301
Other:	
Domestic equities	473,158,234
International equities	227,869,065
Real estate	152,197,314
Hedge funds	99,385,057
Private equity funds	57,446,619
Total other	1,010,056,289
Total investments	1,692,092,590
Less cash and cash equivalents	42,540,303
Total net investments	$1,649,552,287

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of June 30, 2009, the F&P has no single issuer that exceeds 5% of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded.

Foreign Currency Risk Exposure

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. It is the Board's policy that external managers demonstrate sensitivity to foreign currency risk. The foreign currency exposure of the System may be hedged back to the U.S. dollar using forward foreign exchange contracts. From 0% to 100% of the foreign currency exposure of a portfolio may be hedged. Cross-hedging to currency other than the U.S. dollar may reach 25% of the total portfolio. Currency speculation is not permitted.

The F&P exposure to foreign currency risk is presented on the following table:

Currency	Market Value
Euro Currency Unit	$ 46,036,811
British Pound Sterling	22,867,769
Japanese Yen	21,384,211
Swiss Franc	11,982,695
Hong Kong Dollar	11,046,128
Canadian Dollar	4,882,354
Taiwan Dollar	4,147,968
Swedish Krona	4,102,522
Singapore Dollar	3,438,958
South Korean Won	3,019,966
Brazil Real	2,136,057
Norwegian Krone	2,053,124
South African Comm Rand	1,959,675
Australian Dollar	1,944,659
Danish Krone	1,800,886
Indonesian Rupian	947,869
Malaysian Ringgit	293,083
Mexican New Peso	211,385
Turkey Lira	183,421
New Zealand Dollar	112,831
Polish Zloty	5,313
Russian Rubel	105
Total Foreign Currency	$144,557,790
U.S. Dollars (held in International Equity)	$ 83,311,275

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. F&P uses the Option Adjusted Duration as a measure of interest rate sensitivity for bonds. Duration is a measure of the approximate sensitivity of a bond's value to interest rate changes. The Board's fixed income interest rate policy states that the effective duration of a portfolio may not exceed 120% of the effective duration of the underlying Lehman Aggregate benchmark.

Asset Type	Option Adjusted Duration (in years)	Fair Value
Corporate bonds	4.48	$367,117,626
U.S. treasury and bonds	13.28	139,965,690
U.S. Government agency bonds	4.83	70,821,349
Absolute return strategic funds	3.89	54,751,846
Money mutual funds	0.08	42,540,303
Barclay aggregate index	4.29	6,839,487
Total debt securities		$682,036,301

Credit Risk by Quality

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Board has not adopted a formal policy to limit credit risk. The F&P's rated debt investments as of June 30, 2009 were rated by a nationally recognized statistical rating agency and are presented below using the Standard and Poor's rating scale:

Asset Type	Quality Ratings	Fair Value
Corporate bonds	AAA	$101,231,255
	AA	20,223,666
	A	91,927,439
	BBB	77,294,746
	BB	24,650,610
	B	21,129,280
	CCC	7,320,854
	CC	739,489
	C	445,942
	D	1,829,609
	Not Rated	20,324,736
Total corporate bonds		$367,117,626
U.S. treasury and bonds	AAA	139,965,690
U.S. Government agency bonds	AAA	70,821,349
Absolute return strategic funds	AAA	54,751,846
Money mutual funds	Not Rated	42,540,303
Barclay aggregate index	AAA	6,839,487
Total debt securities		$682,036,301

6. **Capital Assets:**

Capital Assets consisting of furniture and equipment, computer equipment and leasehold improvements are recorded at cost. Depreciation on computer equipment is calculated on a straight-line basis over a five year useful life; depreciation on leasehold improvements and office furniture is calculated on a straight-line basis over fifteen years, the life of the building lease. Accumulated depreciation for computer equipment is $535,961; for office furniture is $100,631; for leasehold improvements is $351,589.

Asset	June 2008 Balance	Additions	Depreciation	June 2009 Balance
Computer equipment	$ 196,942	$ 38,559	$ 125,899	$ 109,602
Office furniture/equipment	314,379	7,541	25,938	295,982
Leasehold improvements	1,072,465	19,470	89,409	1,002,526
Totals	$1,583,786	$ 65,570	$ 241,246	$1,408,110

7. Funding:

Funding of the System is accomplished through member and employer contributions and the investment earnings. The System uses the projected unit credit funding method. The required schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. This schedule can be found on page 38. The following is a schedule of funding progress as of the actuarial valuation date of June 30, 2009.

Actuarial Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a percentage of Covered Payroll ((b-a)/c)
$2,587,235,012	$3,050,887,285	$463,652,273	84.8%	$281,423,808	164.8%

The information presented above and in the required supplementary schedules was derived from the annual actuarial valuations prepared as of each June 30. Additional information from the latest actuarial valuation dated June 30, 2009 follows:

Actuarial cost method:	Projected unit credit
Amortization method:	Level dollar, open
Amortization period:	20 year period; only one amortization base.
Asset valuation method:	Market value adjusted for investment surpluses and deficits relative to investment assumptions, phased-in at 20% each year.
Actuarial assumptions:	
Investment rate of return	
Pre-retirement	8.25%
Post-retirement	6.80%
Projected salary increases	4.00% to 8.00%, includes inflation at 3.00%
Post-retirement cost-of-living adjustments	Dependent upon investment performance which must exceed 7.50% as calculated each fiscal year end.

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Required Supplementary Information and Supporting Schedules

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
Required Supplementary Information
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Cost (b)	Unfunded (Excess of) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Excess of) as a Percentage of Covered Payroll ((b-a)/c)
2000	$2,078,331,195	$2,029,568,487	$(48,762,708)	102.4%	$191,003,156	(25.5)%
2001	2,098,740,595	2,096,802,530	(1,938,065)	100.1	209,527,825	(0.9)
2002	2,127,393,333	2,173,188,430	45,795,097	97.9	227,785,032	20.1
2003	2,205,205,652	2,286,873,035	81,667,383	96.4	245,711,363	33.2
2004	2,320,027,717	2,395,522,699	75,494,982	96.8	241,245,198	31.3
2005	2,464,821,382	2,560,984,795	96,163,413	96.2	244,814,891	39.3
2006	2,505,470,848	2,709,929,913	204,459,065	92.5	248,558,248	82.3
2007	2,658,735,035	2,893,890,517	235,155,482	91.9	254,489,308	92.4
2008	2,676,354,876	2,994,393,758	318,038,882	89.4	269,690,209	117.9
2009	2,587,235,012	3,050,887,285	463,652,273	84.8	281,423,808	164.8

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
Required Supplementary Information

SCHEDULE OF EMPLOYER CONTRIBUTIONS

This schedule presents the required contributions due from the City of Baltimore and the State of Maryland. In addition, the schedule presents the amount of excess earnings elected by the City to reduce the contributions payable to the F&P, as allowed by the Plan Provisions, and the amount of additional contributions made by the City to the Plan.

Fiscal Year Ended June 30	City Contribution Per Actuarial Valuation	Contributions Required From State of Maryland	Addition To (Reduction In) City Contributions Due To Excess/Deficit Earnings	Total Contributions Required	Total Contributions Made	Percentage Contributed
2000	$27,074,061	$ 235,272	$ (27,074,061)	$ 235,272	$ 235,272	100%
2001	27,297,688	217,340	(27,297,688)	217,340	217,340	100
2002	29,192,803	252,220	(29,192,803)	252,220	252,220	100
2003	34,415,552	263,326		34,678,878	34,678,878	100
2004	42,387,801	311,365		42,699,166	42,699,166	100
2005	48,321,205	345,496		48,666,701	48,666,701	100
2006	49,248,316	413,311		49,661,627	49,661,627	100
2007	54,092,757	530,750	5,505,220	54,623,507	60,128,727	110
2008	66,423,208	532,536	5,731,841	66,955,744	72,687,585	109
2009	68,928,188	585,048		69,513,236	69,513,236	100

See notes to required supplementary information.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

1. Ordinance 00-49 of 2000 provided for plan benefit improvements for active members and most retirees and beneficiaries. The improvements which included a one percent increase to retirees and beneficiaries who were receiving retirement benefits as of June 30, 2000, a reduction in the member contribution for one year, an increase in the accrual rates for Intermediate and Full Deferred Retirement Option Plan (DROP) retirement benefits, and a reduction in the time period to attain eligibility for a Full DROP retirement benefit, increased the June 30, 2000 actuarial accrued liability by $61.7 million. Ordinance 97-164 of 1997, allows the use of excess earnings to reduce the cost of plan benefit improvements. For fiscal year 2000, $61.7 million of excess earnings were used to offset the increase in the actuarial accrued liability due to these plan benefit improvements.

2. Ordinance 03-576 of 2003 provided amendments and clarifications to the plan provisions that affect current and future active members. The ordinance clarified the provisions regarding service credit while members are on military leave of absence to conform to federal and state laws. The improvements amended or added provisions to allow certain members to purchase previous service credits lost due to separation from service, to allow members to purchase up to 6 months of Maryland Police Corps training time for service credit, and to allow members to transfer certain service credits from former federal and state governmental pension and retirement systems outside the state of Maryland. The ordinance also placed restrictions on how much service credit can be transferred to the F&P from other qualified plans based on whether the service was in a uniformed position or civilian position. In addition, the ordinance added restrictions to the service retirement requirements and to the eligibility requirements to enter the Deferred Retirement Option Plan for members who enter the F&P on or after July 1, 2003, and required a minimum of ten years of service as a member of the F&P and as an employee paid by the Mayor and City Council of Baltimore. The ordinance did not have a material financial impact on the System.

3. Preceding the preparation of the June 30, 2005 Actuarial Valuation Report, the System's actuary performed an Actuarial Experience Study for the three year period ended June 30, 2005. As a result of the Experience Study, the Board of Trustees adopted changes in actuarial assumptions which included increases to the salary scale for most ages, reductions to pre-retirement and post-retirement mortality rates, increases to withdraw rates for members under age 50, decreases to withdraw rates for members over age 50, reductions to non-line-of-duty disability rates for members age 40 and above, increases to line-of-duty disability rates for ages 44 and below, an increase to the DROP participation rate, and changes to both DROP and non-DROP retirement rates. These assumption changes, which were incorporated into the June 30, 2005 actuarial valuation, increased the actuarial accrued liability $39.5 million. The Board approved utilization of $34.3 million of excess investment earnings to reduce the increase in the unfunded accrued liability.

4. A plan provision that required that excess earnings be credited and deficit earnings be charged to certain actuarial reserves, expired on June 30, 2005. The purpose of the reserves, established June 30, 1996, was to segregate excess positive earnings that could then be utilized by the City to reduce its required employer contributions to the plan and by the plan membership to "purchase" benefit improvements. The reserves were initially utilized for those two purposes. Subsequently, however, because of the downturn in the global equity markets in fiscal years 2001 through 2003, the reserves have instead accumulated net deficit earnings of $412.8 million as of June 30, 2005. The plan provision requires that the Board of Trustees apply the deficit in the reserves in accordance with an appropriate asset valuation method. The City Administration requested that a 10-year amortization of the accumulated net deficit be utilized. It is expected that the City's employer contributions to the plan will substantially increase in future years due to this deficiency.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF ADMINISTRATIVE EXPENSES
For the Year Ended June 30, 2009

Salaries and Wages:		
Permanent full-time salaries	$ 1,214,427	
Overtime	5,387	
Total Salaries and Wages		$ 1,219,814
Other Personnel Costs:		
Medical insurance and health care	198,200	
Retirement	137,823	
Social security	90,206	
Other employee benefits	9,883	
Total Other Personnel Costs		436,112
Contractual Services:		
Technology systems support	370,648	
Actuarial services	324,951	
Retirement payroll processing	269,505	
Lease payments	228,591	
Other professional services	46,944	
Equipment maintenance	27,689	
Postage	27,409	
Financial audit fees	26,000	
Equipment rental	22,873	
Dues and publications	20,623	
Telephone systems	16,451	
Staff training	15,600	
Board meeting expense	11,121	
Trustee education	9,470	
Printing	6,299	
Total Contractual Services		1,424,174
Depreciation expense		241,246
Office supplies		7,630
Office furniture		4,917
Computer equipment		958
Total Administrative Expenses		$ 3,334,851

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF INVESTMENT EXPENSES
SCHEDULE OF PAYMENTS TO CONSULTANTS
For the Year Ended June 30, 2009

Schedule of Investment Expenses

Investment Expenses	**Fees**
Investment management fees	$5,168,859
Securities lending fees	600,378
Investment advisor fees	267,500
Custodial fees	178,388
Total Investment Expenses	**$6,215,125**

Schedule of Payments to Consultants

Firm	**Fees**	**Nature of Service**
Mercer	$324,951	Actuarial services
TeleCommunication Systems	152,965	Technology systems support
Bogdan Computer Services	129,622	Technology systems support
Baltimore City Department of Audits	26,000	Financial audit
Magothy Technology	18,302	Technology systems support
Total Paid to Consultants	**$651,840**	

Note: A schedule of fees and commissions is also illustrated in the Investment Section on page 54.

INVESTMENT SECTION

Summit Strategies Group

December 1, 2009

To the Board of Trustees of the
Fire & Police Employees' Retirement System of the City of Baltimore

Introduction

This report, prepared for the Fire & Police Employees' Retirement System of the City of Baltimore (System) by Summit Strategies Group (Summit) is based on information supplied by the System's custodian, BNY Mellon. BNY Mellon provides Summit with beginning and ending market values, cash flows, securities transactions and positions for the System as well as each manager, where applicable. BNY Mellon audits the information contained in its monthly accounting reports. Summit uses BNY Mellon's monthly reports to calculate performance returns for the System and the Trustees.

Distinction of Responsibilities

The System's Board of Trustees (the Trustees) is responsible for the investment and administration of System assets. This includes establishing the strategic asset allocation that, over time, is the primary determinant of investment return on assets. A thorough understanding of both the System's assets and liabilities is essential for determining an appropriate asset allocation. The key drivers of this analysis are the projections of the System's liabilities and the projections of expected future returns and risk (as measured by standard deviation of returns) for each asset class as well as correlation between asset classes. The liabilities include all key dimensions of the System's pension plan: membership, benefits, liabilities, assets, and funding requirements. In February 2009, the Trustees adopted a modified target asset allocation, which is shown in the table below. This was the target allocation in place at fiscal year-end 2009.

Investment Policy/Structure

The asset allocation adopted by the Trustees is included in the System's investment policy. The System employs various investment managers to implement the asset allocation within the guidelines and limitations contained in the investment policy. System assets are invested using numerous investment managers so as to diversify the System's assets among multiple asset classes and investment styles. Each investment manager is delegated full investment discretion for its respective portfolio including the discretion to purchase and sell individual securities, and control industry and economic sector exposure.

The System's investment policy is designed to provide broad diversification among asset classes in order to maximize return at an appropriate level of risk and to minimize the risk of large losses to the System. In addition, asset allocation ranges, target allocations and a process of periodic rebalancing are used to maintain compliance with the investment policy and to increase the likelihood that the System will achieve its long-term risk and return objectives. The following table outlines the System's long-term target asset allocation:

Asset Class	Allocation Target
US Equity	38%
International Equity	22%
Private Equity	5%
Total Equity	*65%*
Domestic Fixed Income	18%
Real Estate	10%
Hedge Funds	7%
Total Portfolio	*100%*

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Within each asset class, the Trustees employ several investment managers to further diversify the investment approach and to minimize style biases. The Trustees employ both active and passive investment strategies to obtain the desired asset allocation mix in a cost effective and efficient manner.

Investment Objectives
The System's investment policy contains the following objectives:

1. To preserve the inflation-adjusted capital value of the System;
2. To ensure adequate liquidity to meet benefit liabilities as they fall due;
3. To meet the actuarial interest rate assumptions; and
4. To exceed the investment return objective without unduly jeopardizing objectives 1-3.

The investment return objective is a hypothetical policy portfolio constructed as follows (at fiscal year-end): 43% Russell 3000 Index, 22% MSCI All Country World Ex-US Index, 13% Barclays Capital Aggregate Index, 5% Barclays Capital US Corporate High Yield Index, 10% NCREIF Property Index, and 7% HFRI Fund of Funds Composite Index. In addition, the System's investment performance is evaluated relative to the Mellon Trust Universe of Public Pension Funds; a performance universe representing the performance of approximately 400 public pension plans with an aggregate market value of $888 billion as of June 30, 2009. Finally, each investment manager is measured and evaluated against its relevant broad market index and style peer universe.

Market Overview
The theme for the fiscal year is that of two distinct capital market scenarios. The US and global economies began to slow significantly in late 2007-early 2008 and continued during the fiscal year. US GDP contracted in all four quarters of the fiscal year ended June 30, 2009, for a fiscal year GDP decline of 3.9%. Inflation also dropped, with CPI decreasing 1.2% over the fiscal year, due to declining food and energy prices. Unemployment continued to rise, ending the 12-month period at 9.5%, the highest level in 26 years.

What started as the bursting of the bubble in home prices and problems in a small, obscure part of the U.S. mortgage market, exploded into a full-blown economic recession and meltdown of the capital markets during the fiscal year. Problems in the subprime mortgage market started in late 2007 and extended to the broad mortgage market in the first half of calendar year 2008. Investor confidence was shaken to its core and the credit markets all but stopped functioning in the Fall, when, among other events, Fannie Mae and Freddie Mac were taken into conservatorship, Lehman Brothers filed for bankruptcy, and Goldman Sachs and Morgan Stanley changed to commercial banks in order to survive. For the fiscal year, domestic equities, as measured by the Russell 3000 Index, fell 26.6%. Note, this return for the fiscal year is after the index returned a positive 16.9% for the fourth quarter. Likewise, international stocks, as measured by the MSCI EAFE Index fell 31.4% for the fiscal year. In the credit markets, credit spreads moved to all time highs in the Fall reflecting investor fear and resulting in a global flight to quality, only to turn around in 2009. For the fiscal year, the domestic investment grade bond market, as measured by the Barclays Capital Aggregate Bond Index, returned a positive 6.1% thanks to the demand for U.S. Treasuries.

The last 3 months of the fiscal year, however, demonstrated a significant change in the capital markets, with the credit markets beginning to thaw, liquidity improving, and investors beginning again to invest in risky assets. In the first six months of calendar year 2009, international equity rebounded more rapidly than domestic equity, due in large part to weakness in the U.S. Dollar. Emerging markets in particular performed very well as consensus continues to build that the developing world will outpace developed countries in the future. In the fixed income markets, corporate spreads continue to decline reflecting price appreciation in all bonds, except for U.S. Treasuries.

At this point, markets seem to have discounted a "double-dip" recession and are rallying in anticipation of an economic rebound during the upcoming fiscal year, despite the fact that economic growth may be muted and inflation risk is growing. In the marketplace in general, some poor market-timing decisions were made at market lows during the fiscal year. The System's Board of Directors remained calm, however, and remained true to the System's asset allocation strategy while looking for new opportunities. Now the System's investment performance is in the process of being rewarded for that patience.

Investment Performance

For investment performance measurement purposes, the total investment portfolio is split between "actively managed" accounts and "other" assets. "Other" assets consist of the Cash Reserve, held for the payment of benefits and administrative expenses, and "Post Retirement" assets held in immunized portfolios dedicated solely to paying post retirement benefit increases. It is only the actively managed assets that are displayed below. Summit calculates and reports all returns in accordance with the Global Investment Performance Standards (GIPS). As an investment consultant, Summit is prohibited from stating that investment performance is shown "in compliance with" or "in accordance with" GIPS, as GIPS compliance is reserved solely for use by investment management firms. However, Summit strives to uphold and maintain the guiding principles underlying the GIPS standards, both ethically and in its performance calculation methodology. Accordingly, all performance returns are calculated using a time-weighted the methodology known as the Modified Dietz method. This algorithm attempts to eliminate the effects of cash flows and geometrically links period returns.

For the fiscal year ended June 30, 2009, the System's rate of return was (21.9%) and ranked in the 93rd percentile of the Mellon Trust Public Fund Universe. The System's Investment Policy calls for measuring performance over rolling 3-5 year periods. Accordingly, the System has compounded at annual rates of return of (4.5%) and 1.8% for the last 3 and 5 years, ranking in the 92nd and 64th percentiles for those periods respectively. For the previous four consecutive fiscal years, however, the System ranked in the 12th, 4th, 30th, and 85th percentiles respectively. Clearly the global market meltdown had a larger-than-average effect on the System. The Fund underperformed its benchmark return of (17.4%) for the current fiscal year, due in part to:

- Higher than average allocation to international equities and real estate.
- Underperformance of the fixed income portfolio.
- Underperformance of the real estate portfolio.

The market value of the actively managed accounts decreased from $1.67 billion on June 30, 2009, to $1.21 billion on June 30, 2009. The decrease in value is primarily attributable to market-wide sell-off of all risk assets, underperformance of strategic asset allocation, which had worked over the past three years, and underperformance of certain managers. At the end of fiscal year 2009, the System's assets were allocated as follows:

			Fiscal Year Rate of Return	
	Market Value ($ in millions)	Percent of Total	System	Benchmark
US Equity	$482.0	39.9%	(26.3%)	(26.6%)
International Equity	$231.9	19.2%	(27.4%)	(30.5%)
US Fixed Income	$174.4	14.4%	3.3%	6.1%
Hedge Funds	$99.3	8.2%	(13.4%)	(15.1%)
Real Estate	$161.9	13.4%	(31.9%)	(19.6%)
Private Equity	$60.6	5.0%	N/A	N/A
Total Managed Assets	$1,207.9	100.0%	(21.9%)	(17.4%)

Of Note

Pending at the end of the fiscal year was: in-depth review of underperforming managers, restructuring the fixed income portfolio, identification of private equity managers for new commitments, and an asset- liability study.

Regardless of the economic or capital market climate, it is a pleasure to serve the System, and to work with staff and the Trustees. I look forward to the continued search for competitive investment returns in the current challenging capital market environment.

Sincerely,

Daniel J. Holmes
Managing Director

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
OUTLINE OF INVESTMENT OBJECTIVES AND POLICIES

Investment Objectives
The primary investment objectives of the Board of Trustees (Board) of the Fire and Police Employees' Retirement System (F&P, System) are set forth below. It is recognized that maximizing any one objective may compromise the achievement of other objectives. For example, maximizing liquidity may reduce investment return; seeking maximum investment return may subject capital preservation to higher risk. Accordingly, the investment objectives are given in descending order of priority:

1. To preserve the capital value of the System assets adjusted for inflation;
2. To ensure adequate System liquidity to meet benefit liabilities as they fall due;
3. To meet the actuarial interest rate assumptions; and
4. Without unduly jeopardizing the above objectives, to exceed the investment return objective by the astute management of funds.

General Investment Policy
The Board must comply with investment restrictions imposed by the laws of the City of Baltimore and any other State or Federal laws dealing with investment of public retirement plan assets. System investment managers are expected to familiarize themselves with these laws.

Investment policy for the System relates to the portfolio of all assets that comprise the total holdings of the System. The Board recognizes that the objective of a sound and prudent policy is to produce investment results that will preserve the assets of the System, as well as to maximize earnings of the F&P consistent with its long-term needs. These long-term needs have been ascertained through various studies performed on behalf of the Board by its actuary and its investment advisor. Investment policy and the long-term average allocation of plan assets to which they refer are deemed to be consistent with the projected pattern of cash flows to the F&P and its projected benefit payments. Should the projected finances of the System change significantly, the applicable Federal or State statutes be amended, or changes in the System's asset valuation methods be adopted, these policies and average asset allocations will be reviewed and modified by the action of the Board, if appropriate.

The Board recognizes that its investment portfolio must be diversified over several different asset classifications in order to reduce risk. The following asset allocation has been established as an overall objective for the total holdings of the System:

Asset Category	Percentage of Total Fund at Market Value Target
Domestic Equity	38%
International Equity	22%
Private Equity	5%
Domestic Fixed Income	18%
Real Estate	10%
Alternative Strategies	7%

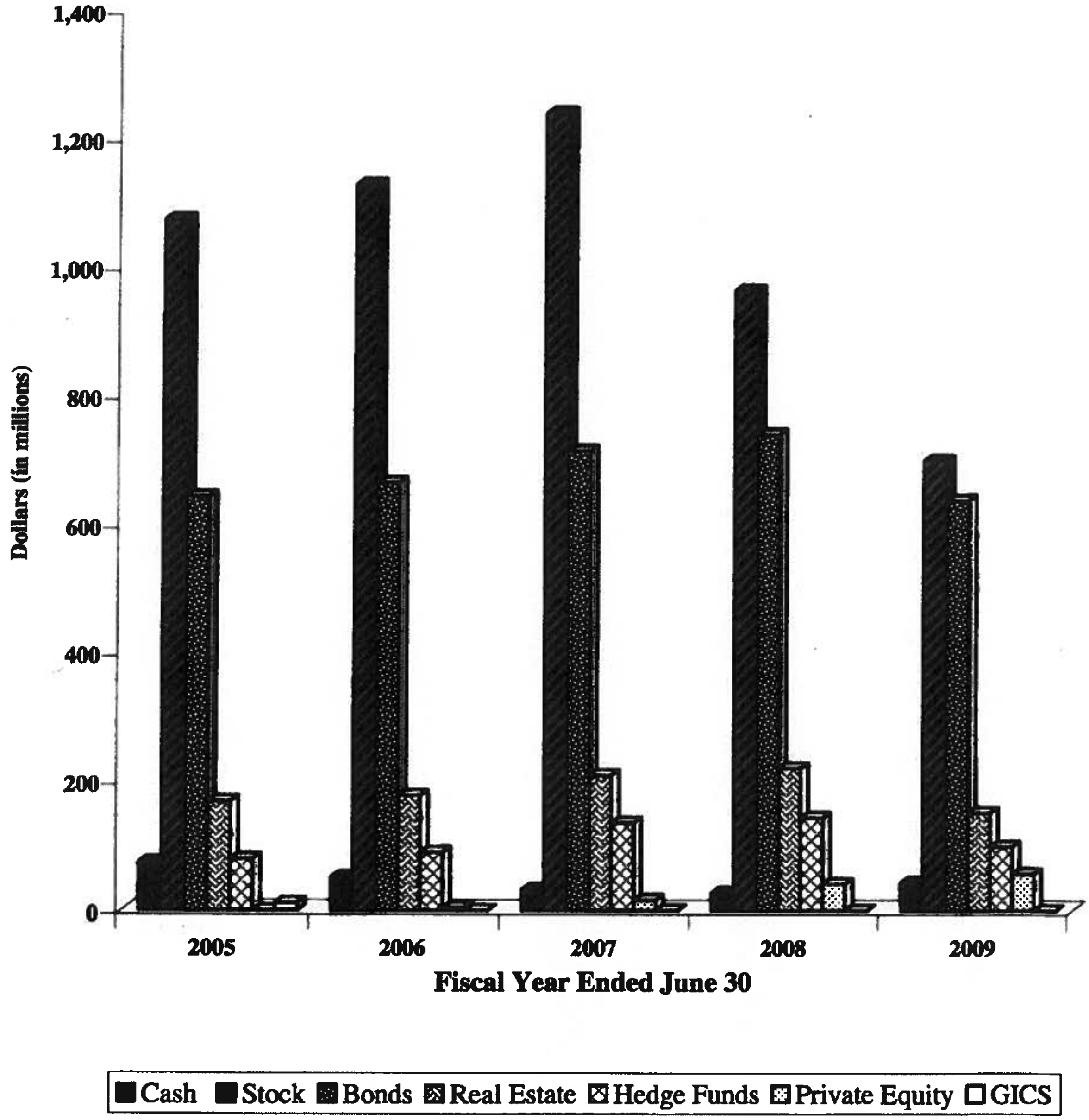
Within each major asset classification, investments are further diversified. Excessive concentration in any particular security, company or industry is to be avoided. Investment guidelines have been supplied to each of the System's investment managers. Subject to these objectives and guidelines, and the System laws, the investment managers have full discretion in investment decisions. Managers are advised to notify the Board in writing if these objectives cannot be met or if the guidelines constrict performance. The investment managers are encouraged to suggest changes to the guidelines at any time.

Proxy Voting

Pursuant to a U.S. Department of Labor directive, the Board has a long standing policy that, when solicitations of proxies with respect to securities are received by an investment manager, the decisions as to whether and how to vote such proxies are delegated to that investment manager.

The Board also recognizes, however, that the investment manager's decisions must be made in accordance with applicable legal standards and that the Board has an obligation to ensure that those standards are being observed. Therefore, the Board requests that annually (June 30) each management firm furnish the System with a written statement of their policy and practices with respect to the voting of securities held in their employee benefit plan asset portfolios, together with their written assurance that such policies and practices are being followed. These statements and assurances will be included, and will be given appropriate weight, in the Board's continuing evaluation of each manager's overall investment performance.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
TOTAL PORTFOLIO COMPOSITION
MARKET VALUE OF INVESTMENTS



	2005		2006		2007		2008		2009	
Cash	$ 74	4%	$ 51	3%	$ 32	1%	$ 27	1%	$ 43	3%
Stock	1,074	52	1,129	54	1,242	53	966	45	701	41
Bonds	644	31	666	31	716	30	742	35	639	38
Real Estate	169	8	178	8	210	9	221	10	152	9
Hedge Funds	80	4	90	4	136	6	144	7	99	6
Private Equity			4		16	1	41	2	57	3
GICS	12	1								
Total	$ 2,053	100%	$ 2,118	100%	$ 2,352	100%	$ 2,141	100%	$ 1,691	100%

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
INVESTMENT RESULTS - TIME WEIGHTED RATE OF RETURN

		Annualized		
Total Returns	**FY 2009**	**3 Years**	**5 Years**	**10 Years**
TOTAL PORTFOLIO	(21.9)%	(4.5)%	1.8%	1.7%
Composite Benchmark	(17.4)	(2.3)	2.6	2.6
DOMESTIC EQUITIES	(26.3)	(9.5)	(2.2)	(1.9)
S&P 500 Index	(26.2)	(8.2)	(2.2)	(2.2)
Russell 1000	(26.7)	(8.2)	(1.9)	(1.8)
Russell 2000	(25.0)	(9.9)	(1.7)	2.4
Russell 3000	(26.6)	(8.4)	(1.8)	(1.5)
INTERNATIONAL EQUITIES	(27.4)	(3.6)	7.3	5.0
MSCI ACWI Free Ex-US	(30.5)	(5.4)	5.0	2.9
DOMESTIC FIXED INCOME	3.3	4.4	3.9	5.5
Barclays Capital US Government/Credit	5.3	6.2	4.8	5.9
Barclays Capital Aggregate	6.1	6.4	5.0	6.0
HEDGE FUND	(13.4)	1.5	N/A	N/A
HFRI FOF Conservative Index	(15.1)	(1.9)	1.5	4.1
REAL ESTATE	(31.9)	(4.6)	4.1	7.6
NCREIF Property Index	(19.6)	1.0	7.6	8.5

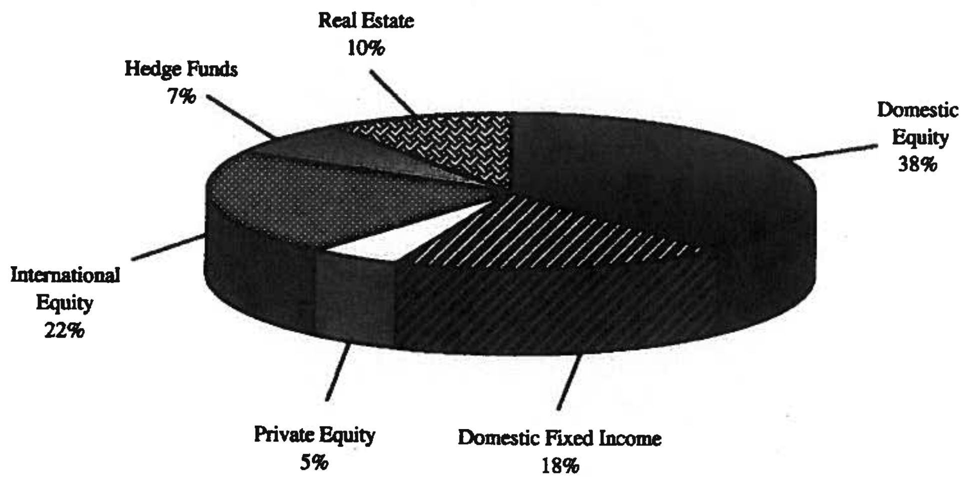
Notes:
This schedule illustrates the investment results of the "managed" investment portfolio which excludes assets of the Paid Up Benefit Reserve, Contingency Reserve and the operating cash reserve.

The composite returns above were calculated by the System's investment advisor, who used a time weighted rate of return based on market value.

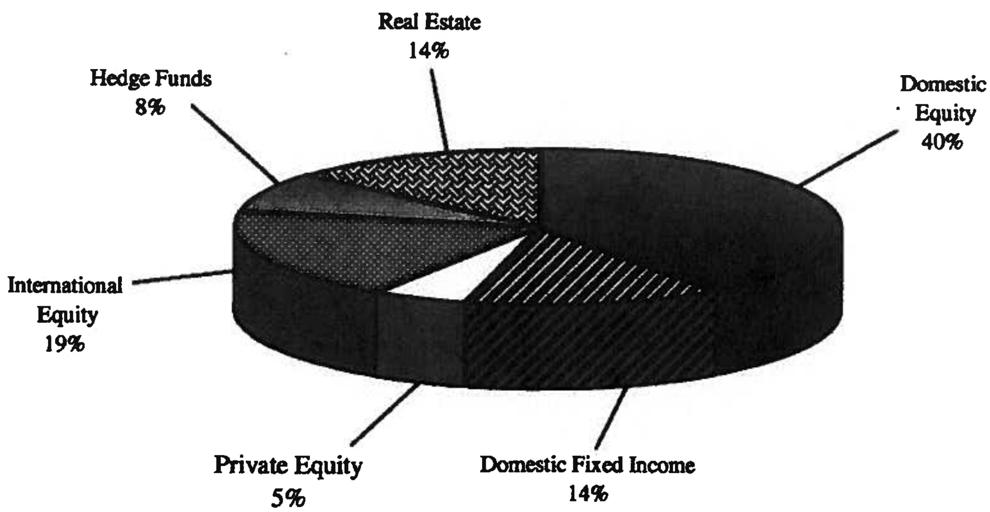
The Composite Benchmark exhibits the overall rate of return for a sample unmanaged portfolio. At fiscal year end 2009, the Composite Benchmark is comprised of 43% Russell 3000 Index, 22% MSCI All Country World Ex-US Index, 13% Barclays Capital Aggregate Index, 5% Barclays Capital US Corporate High Yield Index, 10% NCREIF Property Index, and 7% HFRI Fund of Funds Composite Index.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
ASSET ALLOCATION - ACTIVELY MANAGED ACCOUNTS
For the Period Ended June 30, 2009

TARGET ASSET ALLOCATION



ACTUAL ASSET ALLOCATION



Note: For asset allocation purposes, only actively managed accounts are included. Assets of the Paid Up Benefit Reserve and the Contingency Reserve are not included in this illustration. The assets of these reserves are invested separately for the sole purpose of providing post retirement benefit increases. Assets in the cash reserve are also excluded from this illustration. These assets are held for the purpose of providing cash for the payment of benefits and administrative expenses.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland

TOP TEN DOMESTIC AND INTERNATIONAL STOCK HOLDINGS BY MARKET VALUE
TOP TEN BOND HOLDINGS BY MARKET VALUE

June 30, 2009

Top Ten Domestic Stock Holdings

	Shares	Stock	Market Value
1)	95,080	Exxon Mobil Corp	$6,647,043
2)	180,455	J P Morgan Chase & Co	6,155,320
3)	50,100	IBM Corp	5,231,442
4)	75,695	Chevron Corporation	5,014,794
5)	325,600	Pfizer Inc	4,884,000
6)	33,700	Apple Inc	4,799,891
7)	370,700	General Electric Co	4,344,604
8)	174,469	AT & T Inc	4,333,810
9)	110,902	Hewlett Packard Co	4,286,362
10)	155,466	Du Pont E I De Nemours & Co	3,983,039

Top Ten International Stock Holdings

	Shares	Stock	Market Value
1)	70,409	Technip Sa EUR	$3,445,708
2)	76,666	Vinci EUR2.50 (Post Subdivision)	3,439,525
3)	381,656	HSBC Hldgs USD0.50 Hong Kong REG	3,232,975
4)	39,800	Fanuc Co NPV	3,200,995
5)	85,256	E.ON AG NPV	3,015,917
6)	39,885	Siemens AG NPV REGD	2,754,157
7)	116,345	Telefonica SA EUR1	2,630,644
8)	55,393	AKZO Nobel NV EUR2	2,436,578
9)	242,345	Ericsson (L.M.) Telefonaktiebolaget SEK1 SER B	2,367,820
10)	47,900	Tokyo Electron NPV	2,318,422

Top Ten Bond Holdings

	Par	Bonds	Market Value
1)	72,870,000	U S Treasury Bond Strip 05/15/2030	$28,649,569
2)	30,000,000	Israel St U S Government NTS 5-Z Zero Cpn 11/15/2013	26,086,200
3)	38,700,000	U S Treasury Strip 08/15/2020	24,052,824
4)	15,050,000	U S Treasury Bond 5.000% 05/15/2037	16,752,531
5)	21,309,000	GOVT Ln Tr CTF CL 1-Z 10/01/2020	11,898,306
6)	18,700,000	Israel St Zero Cpn GTD CL 8-Z 08/15/2021	10,101,553
7)	10,000,000	Israel St U S Government GTD NT CL-Z 03/15/2012	9,444,600
8)	15,800,000	U S Treasury Strip 05/15/2021	9,380,618
9)	19,000,000	U S Treasury Bond Strip 08/15/2026	8,810,490
10)	7,250,000	U S Treasury Bond 5.500% 08/15/2028	8,379,405

A complete list of portfolio holdings is available upon request.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
INVESTMENT SUMMARY
June 30, 2009

	Market Value	Percent of Total Investments
Stock:		
U.S. Common Stock		
Technology	$ 91,651,640	5.56%
Financial	67,193,523	4.07
Consumer services	52,728,233	3.20
Health care	49,443,040	3.00
Capital goods	45,160,682	2.74
Energy	33,899,071	2.05
Consumer nondurables	27,216,200	1.65
Basic industries	26,705,062	1.62
Utilities	17,250,594	1.05
Consumer durables	15,427,088	0.93
Transportation	8,952,209	0.54
Total U.S. Common Stock	435,627,342	26.41
Other		
International Stock	227,869,065	13.81
Large cap index fund	37,530,892	2.28
Total Other	265,399,957	16.09
Total Stock	**701,027,299**	**42.50**
Bonds:		
U.S. Securities and Agencies		
U.S. Agencies	139,965,690	8.49
Treasury notes and bonds	70,821,349	4.29
Total U.S. Securities and Agencies	210,787,039	12.78
Corporate		
Financial	220,375,086	13.36
Industrial	95,530,665	5.79
Utilities	27,409,883	1.66
Transportation	23,801,992	1.45
Total Corporate	367,117,626	22.26
Barclay Aggregate Index	6,839,487	0.41
Absolute Return Strategic Funds	54,751,846	3.32
Total Bonds	**639,495,998**	**38.77**
Other Investments:		
Real estate	152,197,314	9.23
Hedge funds	99,385,057	6.02
Private equity funds	57,446,619	3.48
Total Other Investments	**309,028,990**	**18.73**
Total Investments	**$1,649,552,287**	**100.00%**

Note: This schedule includes all plan assets including the assets of the Paid Up Benefit Reserve and the Contingency Reserve.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SUMMARY SCHEDULE OF FEES AND COMMISSIONS
For the Year Ended June 30, 2009

	Assets Under Management	Fees
Investment Managers' Fees		
Domestic equity	$481,245,469	$2,261,275
International equity	231,807,529	1,504,957
Fixed income	643,320,335	994,579
Real estate	160,827,609	408,048
Securities lending		600,378
Total Investment Managers' Fees		$5,769,237
Other Investment Service Fees:		
Custodial fees		$178,388
Investment advisor fees		267,500
Total Other Investment Service Fees		$445,888

Brokerage Fees

Broker's fees on investment transactions for the year ended June 30, 2009 amounted to $1,124,339. Brokerage firms receiving more than $7,100 in fees are listed below.

Brokerage Firms	Fees Paid	Brokerage Firms	Fees Paid
Percival Financial, LTD	$106,649	Abel Noser Corp	$13,719
BNY	97,754	BOE Securities	13,052
UBS	73,751	Williams Capital Group LP	13,032
Merrill Lynch	62,528	Knight Securities	12,261
Citigroup GBL Markets	60,195	Morgan Keegan & Company	10,750
Credit Suisse First Boston	42,029	RBC Capital Markets Corp	10,493
Stifel Nicolaus	40,414	Cantor Fitzgerald & Company	10,376
Morgan J P Securities Inc.	47,187	GRW Capital Corp	10,023
Jefferies & Company	30,409	Rosenblatt Securities LLC	9,064
Weeden & Company	27,473	Friedman Billings	9,051
Goldman Sachs	25,098	Piper Jaffray & Company	8,187
Deutsche Banc Alex Brown Inc.	24,844	Banc of America	7,715
Barclays Capital LE	22,265	Baypoint Trading LLC	7,535
Cowen and Company LLC	15,239	National Financial Services Corp	7,162
Liquidnet Inc.	14,417	Lehman Brothers	7,109

Brokerage Commissions

Because of the highly visible nature of the Fire and Police Employees' Retirement System, it is important that the investment managers have best execution as their primary objective. While the managers are permitted to direct a portion of brokerage commissions for research, it is expected that each manager will receive commission discounts which are commensurate with current discount practice. Investment managers are expected to give preference whenever possible to brokerage firms with offices located in the Baltimore Metropolitan Area. However, the managers are expected to negotiate commission rates, and local brokerage firms should be given preference only when commission rates and transaction services are competitive with those available from other firms.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
INVESTMENT PROFESSIONALS

DOMESTIC EQUITY MANAGERS

Large Cap

INTECH
Jennifer Young
Palm Beach Gardens, Florida

Mellon Capital Management
Karen Wong
San Francisco, CA

The Edgar Lomax Company
Randall Eley
Springfield, Virginia

Columbus Circle Investors
Anthony Rizza
Stamford, Connecticut

Small and Mid Cap

Pinnacle Associates, Ltd.
Peter Marron
New York, New York

Rothschild Asset Management Inc
T. Radey Johnson
New York, New York

Hotchkis & Wiley Capital Management
Sheldon Lieberman
Los Angeles, California

INTERNATIONAL EQUITY MANAGERS

William Blair & Co.
George Greig
Chicago, Illinois

Aberdeen Asset Management, Inc.
Devan Kaloo
London, England

Causeway Capital Management, LLC
Sarah Ketterer
Los Angeles, California

Hedge Fund of Funds

Union Bancaire Privee Asset Management, LLC
Peter Barcia
New York, New York

Cadogan Management, LLC
Peter Hommeyer
New York, New York

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
INVESTMENT PROFESSIONALS

FIXED INCOME MANAGERS

Loomis Sayles & Company, L.P.
Clifton Rowe
Boston, Massachusetts

MacKay Shields
Michael Kimble
New York, New York

Utendahl Capital Management, L.P.
Tom Mandel
New York, New York

Mellon Capital Management
Susan Ellison
San Francisco, California

Western Asset Management Company
Steve Walsh
Pasadena, California

REAL ESTATE MANAGERS

Principal Global Investors
John Berg
De Moines, Iowa

AREA Property Partners
Steven M. Wolf
Atlanta, Georgia

LaSalle Investment Management, Inc.
James Hutchinson
Chicago, Illinois

Alex Brown Realty
John M. Prugh
Baltimore, Maryland

Blackrock Realty
Jay Alexander, Theodore Koros
Florham Park, New Jersey
San Francisco, California

ING Clarion
Stephen Hansen
New York, New York

DLJ Real Estate
Andy Rifkin
New York, New York

Angelo Gordon Real Estate
Keith Barket
New York, New York

PRIVATE EQUITY

Pantheon
Brett Johnson
San Francisco, California

Adams Street Partners
Miguel F. Gonzalo
Chicago, Illinois

BlackRock
Russell Steenberg
Plainsboro, New Jersey

Squadron Capital Advisors
David Pierce
Hong Kong

Capital Dynamics
Thomas Kubr
New York, NY

Maryland Venture Capital Trust
Baltimore, Maryland

LGT Capital Partners
Tycho Snyers
New York, NY

Siguler Guff
Thomas McGowan
New York, NY

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
INVESTMENT PROFESSIONALS

GLOBAL CUSTODIAN

BNY Mellon Asset Servicing
Arlene Sefcik
Pittsburgh, Pennsylvania

SECURITIES LENDING

BNY Mellon Asset Servicing
Stephen R. Crosby
Pittsburgh, Pennsylvania

INVESTMENT ADVISOR

The Summit Strategies Group
Daniel Holmes
St. Louis, Missouri

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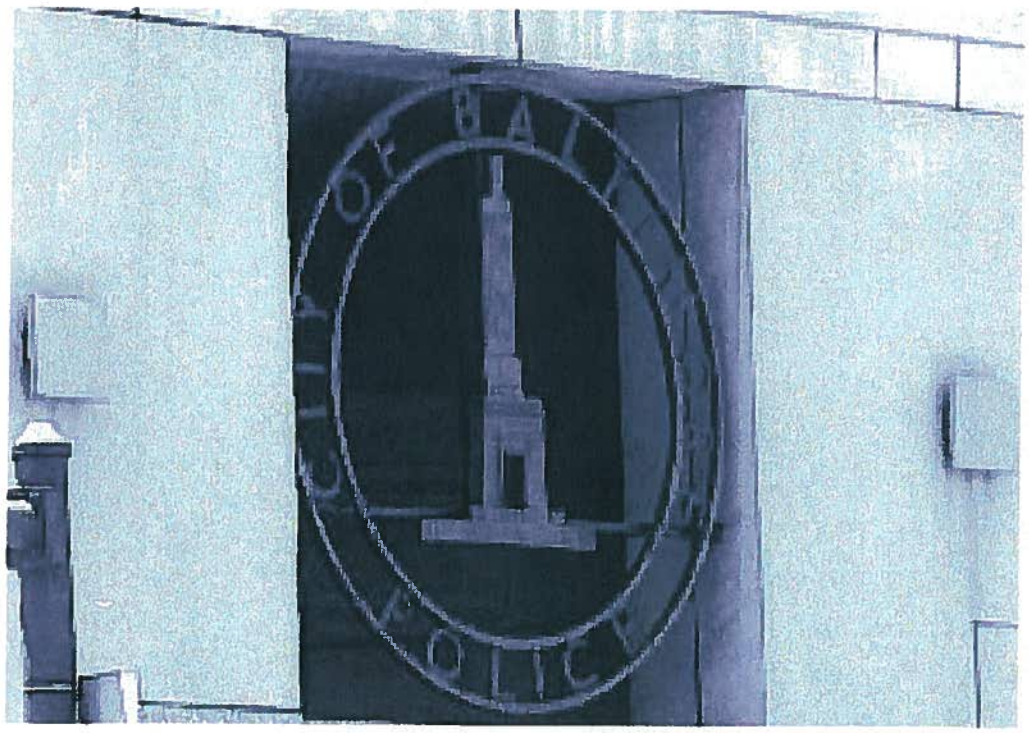
ACTUARIAL SECTION



MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

November 16, 2009

Board of Trustees
Fire & Police Employees' Retirement System
Baltimore, Maryland

Honorable Members of the Board of Trustees:

Mercer performs an actuarial valuation of the System at the end of each fiscal year. In this Comprehensive Annual Financial Report (CAFR), all supporting schedules in the Actuarial Section and the Schedule of Funding Progress and the Schedule of Employer Contributions in the Financial Section have been prepared by the System based on the information included in Mercer's report on the annual actuarial valuation.

The most recent valuation was as of June 30, 2009. The actuarial valuation report was prepared for the System's Trustees exclusively for the following purposes:

- Present the results of a valuation of The Fire and Police Employees' Retirement System of the City of Baltimore as of June 30, 2009.
- Review plan experience for the year ended June 30, 2009.
- Provide the City contribution for the 2011 fiscal year and the State contribution for the 2010 fiscal year.
- Provide reporting and disclosure information for financial statements for governmental agencies pursuant to GASB Statement Numbers 25 and 27.

The funding method (also called the actuarial cost method) used in the annual valuation is the Projected Unit Credit cost method. The actuarial value of assets recognizes 20% of investment performance above or below the assumed rate of return each year. The employer's contribution is increased or decreased to amortize over 20 years the difference between the actuarial value of assets and the Actuarial Accrued Liability. Since the plan year beginning July 1, 2002, this amortization has increased the employer's contribution.

Over the long term, the actuarial methods are designed to produce reasonably level contributions as a percentage of covered payroll. However, even in the absence of plan improvements, contribution levels can rise over time. This can occur, for example, if the average age of the active members were to increase because of a decline in the number of new members being added to the plan, or if plan experience is less favorable than the actuarial assumptions for a significant period of time. Over the short term, unless investment earnings exceed assumed earnings by significant amounts, recommended contributions are likely to increase due to recognition of past investment losses. The types of events that cause volatility in the contribution rates include favorable/unfavorable investment returns, and actuarial gains or losses resulting from differences between actual experience and the assumed rates of retirement, disability, pay increases, etc.

A valuation report is a snapshot of a plan's estimated financial condition at a particular point in time; it does not predict a plan's future financial condition or its ability to pay benefits in the future. Over time, a plan's total cost will depend on a number of factors, including the amount of benefits the plan pays, the number of people paid benefits, plan expenses and the amount earned on any assets invested to pay the benefits. These amounts and other variables are uncertain and unknowable at the valuation date, but are assumed to fall within a reasonable range of possibilities.

To prepare the valuation report, actuarial assumptions are used to select a single scenario from a range of possibilities. The results of that single scenario are included in the valuation report. However, the future is uncertain and the plan's actual experience will differ from those assumptions; these differences may be significant or material. In addition, different assumptions or scenarios may also be within the reasonable range and results based on those assumptions would be different. Actuarial assumptions may also be changed from one valuation to the next because of changes in mandated requirements, plan experience, changes in expectations about the future and other factors. Due to the limited scope of our assignment, we did not perform, nor do we present, an analysis of the potential range of future possibilities and scenarios.

Page 2
November 16, 2009
Board of Trustees
Fire & Police Employees' Retirement System
Baltimore, Maryland

Because actual plan experience will differ from the assumptions, decisions about benefit changes, investment policy, funding amounts, benefit security and/or benefit-related issues should be made only after careful consideration of alternative future financial conditions and scenarios, and not solely on the basis of a valuation report.

This valuation is based on actuarial assumptions approved by the Board of Trustees, as described in this Actuarial Section of this CAFR. The 8.25% pre-retirement investment return assumption and the 6.8% post-retirement investment return assumption are prescribed by statute. While not shown in this CAFR, under the Trustees' direction, we also provided valuation results using Mercer's recommendation of a 5.0% post-retirement investment return assumption. A change to the assumptions for expenses paid from the plan, based on a review of 2005-2008 experience, was incorporated in the June 30, 2009 valuation. In addition, changes in plan provisions and assumptions to reflect City Council Bill 09-0295 (DROP2), which is effective January 1, 2010, were also incorporated in the June 30, 2009 valuation.

To prepare the valuation report, Mercer used and relied on financial and participant data submitted by the Retirement System. We reviewed the financial and participant data for internal consistency and general reasonableness, but we have not verified or audited any of the data or information provided. We obtained plan provisions and any noncodified practices that might result in material differences in benefits from the System. The Trustees are solely responsible for the accuracy, validity and comprehensiveness of this information. A summary of the plan provisions valued is shown in this section of the CAFR. If the data or plan provisions supplied are not accurate and complete, the valuation results may differ significantly from the results that would be obtained with accurate and complete information; in that event the report may need to be revised. The valuation is based on a closed group of members; no new hires are assumed.

Neither the June 30, 2009 valuation report nor the information extracted from that report for this CAFR may be relied upon for any other purpose or by any party other than the Trustees, the City of Baltimore or the Plan's auditors solely for the purpose of completing an audit related to the matters described. Mercer is not responsible for the consequences of any unauthorized use.

To the best of our knowledge and belief, our report is complete and accurate and all costs, liabilities and other factors under the plan were determined in accordance with generally accepted actuarial principles and procedures in accordance with applicable statutes, using an actuarial cost method approved by the Board. Although we express no opinion on the assumptions prescribed by statute, we believe the other actuarial assumptions are reasonable and represent our best estimate of the plan's anticipated experience with respect to those assumptions. The assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by Government Accounting Standards Board Statement No. 25. In our opinion, our report fully and fairly discloses the actuarial position of the plan on an ongoing basis.

I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in the valuation report. I am not aware of any direct or material indirect financial interest or relationship, including investments or other services that could create a conflict of interest, that would impair the objectivity of Mercer's work.

Respectfully submitted,

Douglas L. Rowe

Douglas L. Rowe, FSA, MAAA, EA

ACTUARIAL FUNDING METHOD AND ACTUARIAL ASSUMPTIONS

Actuarial Funding Method

Method of Funding:
(Effective 6/30/1988)

The Projected Unit Credit Cost Method is used. Normal Cost is calculated as that portion of projected pension cost allocated to the participant's upcoming year of service less the amount of anticipated employee contributions. No new entrants are assumed. This is a closed group valuation.

Effective July 1, 1992, the current Unfunded Actuarial Liability is open-ended and amortized over 20 years. Gains and losses are reflected in the Unfunded Actuarial Liability.

Asset Valuation:
(Effective 6/30/1982)

Earnings above or below the assumed return are released into the actuarial value of assets at the rate of 20% per year. This moderates fluctuations in contributions considerably.

Effective 6/30/2005, the accumulated deficit under an agreement between the City and unions representing members of the plan to use excess investment income for contribution holidays and benefit improvements is being recognized as an investment loss over 10 years.

Post Retirement Benefit Increases:
(Effective 6/30/1983)

The liability for these increases is assumed to be equal to the assets of the Paid Up Benefit Reserve plus the Contingency Reserve. If the actuary feels that these funds are insufficient, additional reserves will be calculated. If the actuary believes that the assets in the Paid Up Benefit Reserve and Contingency Reserve are more than the liabilities for post retirement benefits, the excess is not used to reduce any other liability but simply held as excess funds to back up future post retirement benefit payments.

Actuarial Assumptions

Investment return:
(Effective 6/30/1995)

8.25% compounded annually until retirement and 6.8% after retirement.

According to Article 22 of the Baltimore City Code, regular member accumulations earn 5.50% and DROP account accumulations earn 8.25%.

Expenses:

Expenses are paid from the fund. It is assumed that the fund will have sufficient earnings to pay these expenses and meet the interest assumption.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
ACTUARIAL ASSUMPTIONS

Salary Scale:
(Effective 6/30/2008)

Salary increases are assumed to vary with age. Sample rates are as follows:

Age	Annual Rate of Salary Increase
20	.0800
25	.0700
30	.0625
35	.0500
40	.0500
45	.0500
50	.0500
55	.0400
60	.0400
64	.0400

The interest rate and salary assumptions are based on an inflation rate of 3.0%.

Additional Assumptions:
(Effective 7/1/1989)

Spouse Age:	Husband assumed 4 years older than wife
Remarriage Rates:	None
Children:	Joint and survivor benefits loaded 4% for children
Percent Married:	Males 75%, females 75%

Mortality Rates for
Retired and Disabled
Members and Beneficiaries
(Effective 6/30/2008)

Retirees and Beneficiaries

	Service Members		Disabled Members	
Age	Male	Female	Male	Female
55	0.004944	0.002506	0.006451	0.002940
60	0.008857	0.004821	0.010671	0.004913
65	0.016076	0.009380	0.019097	0.008404
70	0.026299	0.014912	0.031079	0.016230
75	0.041156	0.024788	0.051653	0.029663
80	0.068050	0.042960	0.081603	0.049100

The mortality rates for service members are based on the 1994 Uninsured Pensioners Generational Mortality table increased by a 5-year projection in 2006. The GAM 1983 table is set forward four years and reduced by 19 percent for disabled members.

ACTUARIAL ASSUMPTIONS AND METHODS

Mortality and Morbidity Rates for Active Members:
Sample rates for all mortality and morbidity are as follows (Effective 6/30/2008):

Age	Withdrawal[1]	Non-Line-of-Duty Disability	Line-of-Duty Disability	Non-Line-of-Duty Death Male	Non-Line-of-Duty Death Female	Line-of-Duty Death[2]
20	0.070083	0.000228	0.000864	0.000566	0.000315	0.000076
25	0.054430	0.000232	0.001138	0.000725	0.000322	0.000119
30	0.031211	0.000594	0.001792	0.000871	0.000385	0.000164
35	0.018943	0.001914	0.003520	0.000924	0.000525	0.000253
40	0.010828	0.001840	0.004988	0.001172	0.000786	0.000385
45	0.003026	0.002651	0.005644	0.001742	0.001080	0.000433
50	0.037573	0.002800	0.004600	0.002876	0.001590	0.000372
55	0.048033	0.001446	0.004664	0.004944	0.002506	0.000300
60	0.084338	0.001162	0.006208	0.008857	0.004821	0.000159
64	0.100843	0.000812	0.006353	0.014312	0.008277	0.000062

All probabilities shown on this page were based on the June 30, 2008 actuarial experience study.

[1]Withdrawal decrements are reduced to zero when participant is eligible to retire.
[2]Benefit loaded 0.50% for post-disability line-of-duty death benefit.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
ACTUARIAL ASSUMPTIONS RETIREMENT RATES

The retirement rates are assumed to be affected by whether or not a member participates in DROP or DROP 2. Members that do not join DROP or DROP 2 are assumed to have retirement rates that vary by service until age 50. Thereafter, they are assumed to vary solely by age. It is assumed that 90% of members will elect to participate in DROP. Retirement rates are as follows and reflect possibilities of retirement with and without DROP/DROP 2 rates:

Non-DROP/DROP 2 Rates Until Age 50 (with 90% reduction)

Years of Service	Non-DROP Retirement Rates
20	6.00%
21	2.25
22	2.25
23	2.93
24	3.38
25 or more	3.38

Non-DROP/DROP 2 Rates After Age 50 (with 90% reduction)

Age	Non-DROP Retirement Rates
50	0.64 %
51	0.46
52	0.46
53	0.47
54	0.59
55	0.73
56	0.69
57	0.69
58	0.69
59	1.39
60	2.12
61	1.72
62	2.55
63	2.55
64	3.23
65	100.00

Full DROP Rates

Years After Electing DROP	DROP Retirement Rates
1	4.00 %
2	5.00
3	8.00
4	10.00
5	25.00
6	17.00
7+	25.00

Full DROP 2 Rates

Years After Electing DROP2	DROP 2 Retirement Rates	
	Fire	Police
1	3.25%	4.75 %
2	4.25	5.75
3	11.25	12.75
4-5	10.25	11.75
6	7.25	9.00
7	7.25	26.00
8-9	24.00	26.00
10-13	23.50	26.50
14+	23.00	27.00

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date June 30	Number	Annual Payroll	Annual Average Pay	% Increase In Average Pay
2000	4,667	$191,003,156	$40,926	3.6%
2001	4,871	209,527,825	43,015	5.1
2002	4,875	227,785,032	46,725	8.6
2003	4,875	245,711,363	50,402	7.9
2004	4,778	241,245,198	50,491	0.2
2005	4,690	244,814,891	52,199	3.4
2006	4,627	248,558,248	53,719	2.9
2007	4,578	254,489,308	55,590	3.5
2008	4,615	269,690,209	58,438	5.1
2009	4,690	281,423,808	60,005	2.7

Fire and Police Employees' Retirement Sytem
City of Baltimore, Maryland
SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

	Added to Rolls		Removed from Rolls		Rolls - End of Year			
Year Ended June 30	No.	Annual Allowances*	No.	Annual Allowances	No.	Annual Allowances	% Increase in Annual Allowances	Average Annual Allowances
2000	255	$ 7,315,414	141	$2,406,524	5,078	$113,402,712	4.5%	$22,332
2001	202	5,744,867	151	2,706,188	5,129	116,441,391	2.7	22,703
2002	211	5,317,804	168	2,988,395	5,172	118,770,800	2.0	22,964
2003	241	7,127,894	160	3,209,861	5,253	122,688,833	3.3	23,356
2004	345	11,813,675	168	3,261,435	5,430	131,241,073	7.0	24,170
2005	314	14,678,942	166	3,213,125	5,578	142,706,890	8.7	25,584
2006	309	12,062,518	171	3,540,124	5,716	151,229,284	6.0	26,457
2007	287	12,085,575	175	3,750,941	5,828	159,563,918	5.5	27,379
2008	264	15,906,340	211	4,699,524	5,881	170,770,734	7.0	29,038
2009	232	7,709,875	184	4,049,841	5,929	174,430,768	2.1	29,420

* Includes post-retirement adjustments

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SOLVENCY TEST

The Retirement System's funding objective is to meet long-term benefit promises through contributions which spread the cost over the employees' service base. If the contributions to the System are soundly executed, the System will pay all promised benefits when due - the ultimate test of financial soundness.

A short-term solvency test is one means of examining a system's progress under its funding program. In a short-term solvency test, the plan's present assets are compared with: 1) Active member contributions on deposit; 2) The liabilities for future benefits to present retired lives; and 3) The liabilities for service already rendered by active members. In a system which has been following the discipline of allocating cost on a consistent basis to valuation years, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (liability 3) will be partially covered by the remainder of present assets. Generally, the funded portion of liability 3 will increase over time. Liability 3 being fully funded is rare.

The schedule below illustrates the System's history of liability 3.

	Aggregate Accrued Liabilities For				Portion of Accrued Liabilities Covered by Reported Assets		
Valuation Date June 30	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active Members (Employer Financed Portion)	Valuation Assets	(1)	(2)	(3)
2000	$164,329,116	$1,258,254,621	$606,984,750	$2,078,331,195	100%	100%	108.0%
2001	175,086,388	1,281,344,804	640,371,338	2,098,740,595	100	100	100.3
2002	187,770,301	1,308,031,625	677,386,504	2,127,393,333	100	100	93.2
2003	197,937,017	1,368,638,818	720,297,200	2,205,205,652	100	100	88.7
2004	197,462,032	1,502,541,087	695,519,580	2,320,027,717	100	100	89.1
2005	200,799,034	1,653,513,286	706,672,475	2,464,821,382	100	100	86.4
2006	206,295,261	1,731,864,189	771,770,463	2,505,470,848	100	100	73.5
2007	214,167,284	1,875,522,941	804,200,292	2,658,735,032	100	100	70.8
2008	223,169,334	1,933,289,565	837,934,859	2,676,354,876	100	100	62.0
2009	237,159,576	1,971,574,127	842,153,582	2,587,235,012	100	100	44.9

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
ANALYSIS OF FINANCIAL EXPERIENCE

Gains and Losses in Accrued Liabilities During Fiscal Year
Resulting from Differences Between Assumed Experience and Actual Experience

Type of Activity	Gain or (Loss) for Fiscal Year 2008	Gain or (Loss) for Fiscal Year 2009
Age and Service Retirements If members retire at older ages or with lower final average pay than assumed, there is a gain. If younger ages or higher pays, a loss.	$ 13,110,819	$ 12,645,665
Disability Retirements If disability claims are less than assumed, there is a gain. If more claims, a loss.	(4,179,227)	(3,112,449)
Death-in-Service Benefits If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	(718,402)	1,119,302
Withdrawal From Employment If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	1,326,589	(927,364)
Pay Increases If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	(15,221,887)	8,501,946
Investment Income If there is greater investment income than assumed, there is a gain. If less, a loss.	(84,072,486)	(194,116,114)
Death After Retirement If retirees live longer than assumed, there is a loss. If not as long, a gain.	(1,673,380)	2,599,338
New Entrants New entrants create a loss because they were not assumed in the previous evaluation.	(1,963,034)	(1,930,695)
Other Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, valuation methods, etc.	140,441	(12,468,140)
Gain or (Loss) During Year From Financial Experience	$(93,250,567)	$(187,688,511)

1. **EFFECTIVE DATE:**

   The System was established July 1, 1962, and has been amended periodically.

2. **ELIGIBILITY:**

   Any uniformed officer of the Police or Fire Departments shall become a member as a condition of employment.

3. **MEMBER CONTRIBUTIONS:**

   Members contribute at the rate of 6% of regular compensation for their entire period of service. Contributions are treated as made by the employer and are made to the System pre-tax according to Section 414(h)(2) of the Internal Revenue Code.

   Members of the Baltimore City Employees' Retirement System who transferred to this System after July 1, 1967, and did not make up the contributions which would have been made from July 1, 1962, are to have their retirement allowance reduced by the actuarial equivalent of the deficient contributions with interest.

4. **AVERAGE FINAL COMPENSATION:**

   Average Final Compensation (AFC) shall mean the average annual compensation based on eighteen consecutive months of service during which the member's compensation was highest.

5. **MILITARY SERVICE CREDIT:**

   (A) **Military Service Prior to Employment:** A maximum of three years service credit is granted provided the member has acquired:

   (1) 10 years of service and attained the age of 50; or

   (2) 20 years of service, regardless of age; or

   (3) 15 years of service, regardless of age for a job removal.

   (B) **Military Service Within Employment:** Upon retirement or death, any member who had a break in employment due to military duty, shall receive service credit for the period of absence as provided by the Veterans Reemployment Rights Act.

6. **SERVICE RETIREMENT BENEFIT:**

   (A) **Eligibility Requirements:**

   (1) For members who entered the System on or before June 30, 2003:

   (a) age 50, regardless of years of service credit; or

   (b) regardless of age, 20 years of service credit.

   (2) For members who entered the System on or after July 1, 2003:

   (a) age 50, with at least 10 years of service as a contributing member of this System; or

(b) regardless of age, 20 years of service with at least 10 years as a contributing member of this System.

(B) **Benefit Amount:** The sum of:

(1) an annuity of the actuarial equivalent of the member's accumulated contributions and interest; plus

(2) a pension, which together with the annuity, shall be equal to 2.5% of the member's average final compensation for each of the first 20 years of service; plus

(3) 2.0% of the member's average final compensation for each year of service in excess of 20 years.

7. **NON-LINE-OF-DUTY DISABILITY RETIREMENT BENEFIT:**

(A) **Eligibility Requirements:** Five years of membership service and determined by a hearing examiner to be mentally or physically incapacitated for the further performance of duty and that such incapacity is likely to be permanent.

(B) **Benefit Amount:** The sum of:

(1) an annuity of the actuarial equivalent of the member's accumulated contributions and interest; plus

(2) a pension, which together with the annuity, shall be equal to 2.5% of the member's average final compensation for each year of service up to 20 years; plus

(3) 2.0% of the member's average final compensation for each year of service in excess of 20 years.

(4) the total of this benefit shall not be less than 25% of the member's average final compensation.

(C) **Offset to Retirement Allowance:** This allowance is offset by workers' compensation, if the member entered the System after July 1, 1970.

8. **LINE-OF-DUTY DISABILITY RETIREMENT BENEFIT:**

(A) **Eligibility Requirements:** Immediate eligibility upon membership in the System and determined by a hearing examiner to be incapacitated for the further performance of duty, and the incapacity resulted from an injury occurring while in the actual performance of such duty without willful negligence on the part of the member.

Should such disability further result in extensive brain damage causing total incapacity or in the loss of or the use of both hands or both arms or both feet or both legs or both eyes or any two thereof, an additional pension will be payable.

(B) **Benefit Amount:**

(1) The sum of:

(a) an annuity of the actuarial equivalent of the member's accumulated contributions and interest; plus

(b) a pension equal to 66.667% of the member's average final compensation.

(2) If the member's disability results in extensive brain damage causing total incapacity or in the loss of or the use of both hands or both arms or both feet or both legs or both eyes or any two thereof, an additional pension is paid so that the retirement allowance is equal to 100% of the member's current annual compensation at the time of retirement.

City Council Bill 09-0403 which would amend the 100% Line-of-Duty Disability provisions to be similar to the Line-of-Duty Death benefit remains pending.

(C) **Offset to Retirement Allowance:** This allowance is offset by workers' compensation, if the member entered the System after July 1, 1970.

9. **TERMINATION OF EMPLOYMENT:**

(A) **Eligibility Requirements:** If removed from a position without fault upon acquiring 15 years of service, the member is eligible for an immediate benefit; otherwise a refund of accumulated contributions and interest if not eligible for any other benefits.

(B) **Benefit Amount:** The sum of:

(1) an annuity of the actuarial equivalent of the member's accumulated contributions and interest; plus

(2) a pension, which together with the annuity, shall be equal to 2.5% of the member's average final compensation for each of the first 20 years of service; plus

(3) 2.0% of the member's average final compensation for each year of service in excess of 20 years.

10. **MAXIMUM ALLOWANCE AND OPTIONAL METHODS OF RECEIVING BENEFIT PAYMENTS:**

(A) **Maximum Allowance:** Upon retiree's death, 50% of the retiree's maximum allowance is paid to the spouse provided they had been married for at least one year prior to retirement or five years beginning before or after retirement. A spouse remains eligible for the maximum benefit unless she or he remarries or until death. If there is no eligible spouse, the allowance will be paid to any minor and unmarried children until the last child marries, dies, or attains age 18 or age 22 if a full-time student. All other options will result in a lesser amount paid.

(B) **Reserve Guarantee Option:** Upon retiree's death, a cash refund to retiree's designated beneficiary based on present value of allowance at retirement less payments made.

(C) **100% Joint and Survivor Option:** Upon retiree's death, 100% of retiree's allowance to continue to designated beneficiary until death.

(D) **50% Joint and Survivor Option:** Upon retiree's death, 50% of retiree's allowance to continue to designated beneficiary until death.

(E) **100% Pop-up Joint and Survivor Option:** Upon retiree's death, 100% of retiree's allowance to continue to designated beneficiary until death. If the beneficiary predeceases member, the member's benefit "pops-up" to the maximum allowance.

(F) **50% Pop-up Joint and Survivor Option:** Upon retiree's death, 50% of retiree's allowance to continue to designated beneficiary until death. If the beneficiary predeceases member, the member's benefit "pops-up" to the maximum allowance.

(G) **Specific Benefit Option:** Upon the retiree's death and subject to the approval of the Board of Trustees, the member's designated beneficiary will receive:

(1) a specific lump sum amount; or

(2) a specific periodic allowance.

These options are available for service, termination, non-line-of-duty disability, and line-of-duty disability retirement. The option and/or beneficiary may be changed within thirty days after retirement.

11. **NON-LINE-OF-DUTY DEATH BENEFIT:**

(A) **Eligibility Requirements:** Member who dies while actively employed but whose death does not qualify as a line-of-duty death.

(B) **Benefit Amount:**

(1) Lump-sum benefit: The member's accumulated contributions and interest and if the member has one or more years of service, 50% of the greater of the member's current annual compensation or average final compensation shall be payable to the member's designated beneficiary or as specified by the plan provisions.

(2) 25% plus benefit: In lieu of (1) above, if the member had at least two years of continuous service, an annual sum equal to 25% of the member's current annual compensation, plus 1.5% of the member's current annual compensation for each year of service in excess of two years. This benefit is not to exceed 50% of the member's current annual compensation. This benefit shall be payable to:

(a) the member's spouse until the spouse remarries or dies; or

(b) the member's minor and unmarried children equally until the last child marries, dies, or attains age 18 or age 22 if a full-time student.

(3) 100% survivorship benefit: If the member was eligible for a service retirement and the member's designated beneficiary is his/her spouse to whom she/he was married for at least one year prior to the date of death, or surviving parent, such beneficiary may elect to receive in lieu of (1) and (2) above, an allowance equal to the amount that would have been paid under the 100% Joint and Survivor Option.

(C) **Offset to Retirement Allowance:** This allowance is offset by workers' compensation, if the member entered the System after July 1, 1970.

12. **LINE-OF-DUTY DEATH BENEFIT:**

(A) **Eligibility Requirements**:

(1) Immediate eligibility upon membership in the System and determined by a hearing examiner that the member's death arose out of and in the course of the actual performance of duty, without willful negligence on the part of

on the part of the member; or

(2) A member had been granted a line-of-duty disability and dies within five years as a result of the last injury that resulted in a line-of-duty disability retirement.

(B) **Benefit Amount:** This benefit will consist of:

(1) A refund of the member's accumulated contributions and interest to the member's designated beneficiary or as specified by the plan provisions, and

(2) A pension of 100% of member's current annual compensation to be paid to:

(a) the member's surviving spouse to continue for life; or

(b) if no surviving spouse or the spouse dies, then equally to the member's minor and unmarried children equally until the last child marries, dies, or attains age 18 or age 22 if a full-time student; or

(c) if no surviving spouse or eligible minor child or children, then to the member's surviving dependent parents to continue for life.

(C) **Offset to Retirement Allowance:** This allowance is offset by workers' compensation, if the member entered the System after July 1, 1970.

13. **DEFERRED RETIREMENT OPTION PLAN (DROP):**

The Deferred Retirement Option Plan became effective July 1, 1996.

(A) **Eligibility: a member who does not meet the following eligibility requirements as of December 31, 2009, will not be eligible for DROP participation and will not be entitled to DROP benefits effective January 1, 2010. Such member may be eligible for participation in the Deferred Retirement Option Plan 2 (DROP 2) that becomes effective January 1, 2010.**

(1) For members who entered the System on or before June 30, 2003, a member must acquire 20 or more years of service, regardless of age on or before December 31, 2009.

(2) For members who entered the System on or after July 1, 2003, a member must acquire 20 or more years of service with at least 10 years of service as a contributing member of this System, regardless of age, on or before December 31, 2009.

(3) An application must be filed not less than 30 days nor more than 90 days prior to the date the DROP participation will begin.

(4) A member who terminates employment immediately becomes ineligible to participate or to continue to participate in the DROP.

(B) **Term of DROP:**

The maximum period of time that a member can participate in the DROP is a single term of three consecutive years beginning on the member's DROP start date.

(C) **No Service Credit While in DROP:**

A DROP participant remains a member of the F&P but is not credited with F&P service.

Except for Intermediate DROP Retirement Benefits, compensation during the member's DROP participation period shall be disregarded in calculating the member's AFC.

(D) **Discontinuation of DROP Participation:**

(1) If a member terminates service anytime during or at the end of the three year DROP period, participation in the DROP ends automatically.

(2) A member may elect to end participation in the DROP on either the first or second anniversary of the DROP participation start date. The election must be made by filing an application with the System not less than 30 days nor more than 90 days prior to the first or second anniversary of the member's DROP start date.

(3) A member who continues employment after terminating participation in the DROP shall resume earning service credit in the F&P.

(4) Once a member terminates participation in the DROP, the member cannot again participate in the DROP at a later date.

(5) If a member retires at the end of the DROP participation period, begins receiving DROP retirement benefits, and is then reemployed in a position covered by the F&P or any Baltimore City sponsored retirement system, all DROP retirement benefit payments will be suspended until the member's later retirement.

(E) **DROP Account:** The member's DROP account shall consist of:

(1) For each full year of a member's DROP participation, an amount equal to the maximum annual service retirement allowance the member would have received had the member retired from service and began receiving the maximum retirement allowance;

(2) For each partial year of a member's DROP participation, an amount equal to a member's pro-rated maximum annual service retirement allowance;

(3) A separate sub-account consisting of the member's regular mandatory contributions made during the member's DROP participation period: and

(4) Interest compounded annually at 8.25% until the member terminates from service.

(F) **DROP Retirement Benefit:**

(1) BASIC DROP:

A member who terminates service during or at the conclusion of the DROP participation period will receive:

(a) the service retirement benefit the member would have received if the member had retired on the date the DROP participation began; and

(b) the balance in the member's DROP account.

(2) INTERMEDIATE DROP:

A member who continues working following the conclusion of the DROP participation period and terminates service within 18 months following the DROP participation period will receive:

(a) all benefits under the Basic DROP Benefit; plus

(b) 2.0% of the member's AFC, calculated as of the member's date of termination from employment covered by this System, for each year of service credit, prorated for partial years, earned by employment following the DROP participation period (taking into account the member's annual compensation while in DROP), not to exceed 18 months; plus

(c) a recovery rate of 1.5% of the member's AFC, calculated as of the member's date of termination from employment covered by this System, for each year of service credit, prorated for partial years, earned by employment following the DROP participation period (taking into account the member's annual compensation while in DROP), not to exceed 18 months, but limited to a "recovery" of 2.0% if the member discontinued participation in DROP after 1 year or limited to a "recovery" of less than 2.25% if the member discontinued participation in DROP after 2 years; plus

(c) 2.0% of the member's AFC, calculated as of the member's termination date from employment covered by this System, for each year of service not already included in the calculation of the member's retirement benefit under (a) and (b).

(3) FULL DROP:

A member who continues working following the conclusion of the DROP participation period and terminates service 18 or more months following the DROP participation period will receive:

(a) an annuity of the actuarial equivalent of the member's accumulated contributions and interest; plus

(b) a pension, which together with the annuity, shall be equal to 2.5% of the member's AFC, calculated as of the member's date of termination from employment covered by this System for each of the first 20 years of service; plus

(c) 2.0% of the member's AFC, calculated as of the member's date of termination from employment covered by this system for each year of service in excess of 20 years; plus

(d) a recovery rate of 1.5% of the member's AFC, calculated as of the member's date of termination from employment covered by this System, for each year of service credit, prorated for partial years, earned by employment following the DROP participation period, not to exceed 4 years, but limited to a "recovery" of 2.0% if the member discontinued participation in DROP at 1 year or limited to a "recovery" of 4.0% if the member discontinued participation in DROP at 2 years; plus

(e) the balance in the member's DROP account.

(G) **Non-Line-of-Duty Disability:**

(1) any member who retires on account of a non-line-of-duty disability during or at the end of the DROP participation period will receive the Basic DROP Retirement Benefit.

(2) any member who retires on account of a non-line-of-duty disability within 18 months following the DROP participation period will receive the Intermediate DROP Retirement Benefit.

(3) any member who retires on account of a non-line-of-duty disability 18 or more months following the DROP participation period will receive the Full DROP Retirement Benefit.

(H) **Line-of-Duty Disability:**

Any member who retires on account of a line-of-duty disability during or following the DROP participation period will receive the line-of-duty disability retirement benefit consisting of: an annuity of the member's accumulated contributions and interest, plus 66.667% of current AFC. This benefit will be paid instead of any DROP retirement benefits and the member will not receive the balance in the DROP account.

(I) **Non-Line-of-Duty Death:**

Due to the non-line-of-duty death of a member who dies during or following the DROP 2 participation period, the beneficiary will receive the non-line-of-duty death benefit according to the DROP provisions. The member's DROP account is payable according to the form of the non-line-of-duty death benefit as follows:

(1) Lump-sum benefit: The beneficiary of a deceased DROP participant will receive the balance of the deceased member's DROP account in a lump sum payment.

(2) 25% plus benefit: The beneficiary can elect to receive the balance of the deceased member's DROP account in a lump sum payment or in periodic payments.

(3) 100% survivorship benefit: The beneficiary can elect to receive the balance of the deceased member's DROP account in a lump sum payment or in periodic payments.

(J) **Line-of-Duty Death:**

The line-of-duty death benefit payable due to the death of a member who dies during or following the DROP participation period will equal either of the following as elected by the member's beneficiary:

(1) the non-line-of-duty death benefit including DROP benefits as described above; or

(2) the line-of-duty death benefit payable as though the member had never participated in the DROP.

(K) **Benefits for Reemployed DROP Participants:**

(1) if a member receiving DROP retirement benefits is reemployed in a position covered by the F&P or any Baltimore City sponsored retirement system and then later receives a service or disability retirement, the member will resume receiving the DROP benefits which had been suspended at the time of reemployment. Additionally, the member will receive 2.0% of the member's AFC for each year of service credit earned during the reemployment period.

(2) if a member receiving DROP retirement benefits is reemployed in a position covered by the F&P or any Baltimore City sponsored retirement system, and then dies during employment, the member's beneficiary will receive a non-line-of-duty death benefit. This reemployment death benefit also applies to line-of-duty death.

(L) **DROP Post-Retirement Benefit Increases:**

(1) A member who retires during or at the end of the DROP participation period will have that DROP participation period credited toward the eligibility requirement for post-retirement benefit increases.

(2) A member who continues working following the DROP participation period will not have that DROP participation period credited toward the eligibility requirement for post-retirement benefit increases.

(3) Post-retirement benefit increases for former DROP participants are applied prospectively.

(M) **Form of Payment of Benefits from DROP Account:**

A member (or a beneficiary after the death of the member in service) can choose to receive the total balance of the DROP account as:

(1) One lump sum which can be:

(a) rolled over to an IRA or similar account; or
(b) taken in pocket; or

(2) Periodic payments in the same form as the retirement benefit.

14. **DEFERRED RETIREMENT OPTION PLAN 2 (DROP 2):**

DROP 2 becomes effective January 1, 2010. A member who is a DROP participant or who is entitled to DROP benefits is not entitled to DROP 2 participation or DROP 2 benefits. DROP 2 provisions differ for fire department and police department personnel.

(A) **Eligibility:**

(1) For members who entered the System on or before June 30, 2003, a member must acquire 20 or more years of service on or after January 1, 2010, regardless of age.

(2) For members who entered the System on or after July 1, 2003, and on or before December 31, 2009, a member must acquire 20 or more years of service with at least 10 years of service as a contributing member of this System, regardless of age.

(3) For members who enter the System on or after January 1, 2010, a member must acquire 20 or more consecutive years of service credit through City employment and as a contributing member of the System, regardless of age.

(3) An application must be filed not less than 30 days nor more than 90 days prior to the date the DROP 2 participation will begin.

(4) A member who terminates employment immediately becomes ineligible to participate or to continue to participate in the DROP 2.

(B) **Term of DROP 2:**

The maximum period of time that a member can participate in the DROP 2 is a single term of three consecutive years beginning on the member's DROP 2 start date.

A member must remain in DROP 2 for a minimum of 1 year to be eligible for DROP 2 benefits.

(C) **No Service Credit While in DROP 2:**

A DROP 2 participant remains a member of the F&P but is not credited with F&P service.

Except for Mid DROP Retirement Benefits, compensation during the member's DROP 2 participation period shall be disregarded in calculating the member's AFC.

(D) **Discontinuation of DROP 2 Participation:**

(1) If a member terminates service anytime during or at the end of the three year DROP 2 period, participation in the DROP 2 ends automatically.

(2) A member may elect to end participation in the DROP 2 on either the first or second anniversary of the DROP 2 participation start date. The election must be made by filing an application with the System not less than 30 days nor more than 90 days prior to the first or second anniversary of the member's DROP 2 start date.

(3) A member who continues employment after terminating participation in the DROP 2 shall resume earning service credit in the F&P.

(4) Once a member terminates participation in the DROP 2, the member cannot again participate in the DROP 2 at a later date.

(5) If a member retires at the end of the DROP 2 participation period, begins receiving DROP 2 retirement benefits, and is then reemployed in a position covered by the F&P or any Baltimore City sponsored retirement system, all DROP 2 retirement benefit payments will be suspended until the member's later retirement.

(E) **DROP 2 Account:** The member's DROP 2 account shall consist of:

(1) For each full year of a member's DROP 2 participation, an amount equal to the maximum annual service retirement allowance the member would have received had the member retired from service and began receiving the maximum retirement allowance;

(2) For each month of a member's DROP 2 participation, an amount equal to one-twelfth of a member's maximum annual service retirement allowance;

(3) For each day not included in (1) or (2), an amount equal to 1/365 of the member's maximum annual service retirement allowance;

(4) Documentation requirements must be met prior to the member's DROP 2 start date for inclusion of pre-employment military service credit in the DROP 2 benefits calculation.

(5) A separate sub-account consisting of the member's regular mandatory contributions made during the member's DROP 2 participation period: and

(6) Interest compounded annually at 5.50% until the member terminates from service.

(F) **DROP 2 Retirement Benefit - FIRE DEPARTMENT MEMBERS:**

(1) EARLY DROP:

A member must complete a minimum of 1 year of DROP 2 participation to be eligible for Early DROP benefits. A member who terminates service during year 2 or year 3 or at the conclusion of the DROP 2 participation period will receive:

(a) the following percentages of the member's AFC calculated as of the day before the member's DROP 2 start date:

(i) 2.5% for each of the first 20 years of service, plus
(ii) 2.0% for each full year of service in excess of 20 years, prorated for partial years, prior to the member's DROP 2 start date; no service credit is earned during the member's DROP 2 participation period; plus

(b) the balance in the member's DROP 2 account.

(2) MID DROP:

A member who continues working, resumes earning service credit for employment covered by this System following the conclusion of the member's DROP 2 participation period, and terminates service anytime within 5 years following the member's DROP 2 participation period will receive:

(a) the following percentages of the member's AFC calculated as of the day before the member's DROP 2 start date:

(i) 2.5% for each of the first 20 years of service, plus
(ii) 2.0% for each full year of service in excess of 20 years, prorated for partial years, prior to the member's DROP 2 start date, plus
(iii) 2.0% for each full year of service, prorated for partial years, purchased during or following the member's DROP 2 participation period, if any; no service credit is earned during the member's DROP 2 participation period; plus

(b) the following percentages of the member's AFC calculated as of the member's termination date from employment covered by this System:

(i) 2.0% for each full year of service, prorated for partial years, for up to 5 years of employment as a contributing member of this System following the member's DROP 2 participation period; no service credit is earned during the member's DROP 2 participation period; plus
(ii) A recovery rate of 1.5% for each of the first four years of employment covered by this system immediately following the member's DROP 2 participation period, subject to the following limitations:

1. if the member discontinued DROP 2 participation at 1 year, the recovery rate is limited to

to 2.0%.

2. if the member discontinued DROP 2 participation at 2 years, the recovery rate is limited to 4.0%.

plus,

(c) the balance in the member's DROP 2 account.

(3) COMPLETE DROP:

A member who continues working, resumes earning service credit for employment covered by this System following the conclusion of the member's DROP 2 participation period, and terminates service 5 or more years following the DROP 2 participation period will receive:

(a) the following percentages of the member's AFC calculated as of the member's termination date from employment covered by this System:

(i) 2.5% for each of the first 20 years of service, plus
(ii) 2.0% for each full year of service, prorated for partial years, for service in excess of 20 years, excluding employment covered by this System during the member's DROP 2 participation period; plus
(iii) A recovery rate of 1.5% for each of the first four years of employment covered by this System immediately following the member's DROP 2 participation period, subject to the following limitations:

1. if the member discontinued DROP 2 participation at 1 year, the recovery rate is limited to 2.0%.
2. if the member discontinued DROP 2 participation at 2 years, the recovery rate is limited to 4.0%.

plus,

(c) the balance in the member's DROP 2 account.

(G) **DROP 2 Retirement Benefit – POLICE DEPARTMENT MEMBERS:**

(1) EARLY DROP:

A member must complete a minimum of 1 year of DROP 2 participation to be eligible for Early DROP benefits. A member who terminates service during year 2 or year 3 or at the conclusion of the DROP 2 participation period will receive:

(a) the following percentages of the member's AFC as of the day before the member's DROP 2 start date:

(i) 2.5% for each of the first 20 years of service, plus
(ii) 2.0% for each full year of service in excess of 20 years, prorated for partial years, prior to the member's DROP 2 start date; no service credit is earned during the member's DROP 2 participation period; plus

(b) the balance in the member's DROP 2 account.

(2) MID DROP:

A member who continues working, resumes earning service credit for employment covered by this System following the conclusion of the member's DROP 2 participation period, and terminates service anytime within 3½ years following the DROP 2 participation period will receive:

(a) the following percentages of the member's AFC as of the day before the member's DROP 2 start date:

(i) 2.5% for each of the first 20 years of service, plus
(ii) 2.0% for each full year of service in excess of 20 years, prorated for partial years, prior to the member's DROP 2 start date, plus
(iii) 2.0% for each full year of service, prorated for partial years, purchased during or following the member's DROP 2 participation period, if any; no service credit is earned during the member's DROP 2 participation period; plus

(b) the following percentage of the member's AFC calculated as of the member's termination date from employment covered by this System:

2.0% for each full year of service, prorated for partial years, for up to 3 ½ years of employment as a contributing member of this System following the member's DROP 2 participation period; no service credit is earned during the member's DROP 2 participation period; and

(c) the balance in the member's DROP 2 account.

(3) COMPLETE DROP:

A member who continues working, resumes earning service credit for employment covered by this System following the conclusion of the member's DROP 2 participation period, and terminates service 3½ or more years following the DROP 2 participation period will receive:

(a) the following percentages of the member's AFC calculated as of the member's termination date from employment covered by this System:

(i) 2.5% for each of the first 20 years of service, plus
(ii) 2.0% for each full year of service, prorated for partial years, for service in excess of 20 years, excluding employment covered by this System during the member's DROP 2 participation period; plus

(b) the balance in the member's DROP 2 account.

(H) **Non-Line-of-Duty Disability:**

(1) the member must complete a minimum of 1 year of the DROP 2 participation period to be eligible for any DROP 2 benefits.

(2) any member who retires prior to the first anniversary of the member's DROP 2 start date is not entitled to any benefits under DROP 2. The benefit will be calculated as though the member had never participated in DROP 2.

(3) any member who retires on account of a non-line-of-duty disability during or at the end of the DROP 2 participation period will receive the Early DROP Retirement Benefit.

(4) any Fire department member who retires within 5 years following the end of the DROP 2 participation period or any Police department member who retires within 3 ½ years following the end of the DROP 2 participation period on account of a non-line-of-duty disability will receive the Mid DROP Retirement Benefit.

(5) any Fire department member who retires with 5 or more years following the end of the DROP 2 participation period or any Police department member who retires with 3 ½ or more years following the end of the DROP 2 participation period on account of a non-line-of-duty disability will receive the Complete DROP Retirement Benefit.

(I) **Line-of-Duty Disability:**

Any member who retires on account of a line-of-duty disability during or following the DROP 2 participation period will receive the line-of-duty disability retirement benefit consisting of: an annuity of the member's accumulated contributions and interest, plus 66.667% of current AFC. This benefit will be paid instead of any DROP 2 retirement benefits and the member will not receive the balance in the DROP 2 account.

(J) **Non-Line-of-Duty Death:**

Due to the non-line-of-duty death of a member who dies after completing a minimum of one year of DROP 2 participation or following the DROP 2 participation period, the beneficiary will receive the non-line-of-duty death benefit according to the DROP 2 provisions. The member's DROP 2 account is payable according to the form of the non-line-of-duty death benefit as follows:

(1) Lump-sum benefit: The beneficiary of a deceased DROP 2 participant will receive the balance of the deceased member's DROP 2 account in a lump sum payment.

(2) 25% plus benefit: The beneficiary can elect to receive the balance of the deceased member's DROP 2 account in a lump sum or in periodic payments.

(3) 100% survivorship benefit: The beneficiary can elect to receive the balance of the deceased member's DROP 2 account in a lump sum payment or in periodic payments.

If the member dies within the first year of the DROP 2 participation period, the benefit will be calculated as though the member had never participated in DROP 2.

(K) **Line-of-Duty Death:**

The line-of-duty death benefit payable due to the death of a member who dies after completing a minimum of one year of DROP 2 participation or following the DROP 2 participation period will equal either of the following as elected by the member's beneficiary:

(1) the non-line-of-duty death benefit including DROP 2 benefits as described above; or

(2) the line-of-duty death benefit payable as though the member had never participated in the DROP 2.

If the member dies within the first year of the DROP 2 participation period, the benefit will be calculated as though the member had never participated in DROP 2.

(L) **Benefits for Reemployed DROP 2 Participants:**

(1) if a member receiving DROP 2 retirement benefits is reemployed in a position covered by the F&P, the member's DROP 2 retirement benefits shall be suspended. When the member later retires again on a service or non-line-of-duty disability retirement, the member will resume receiving the DROP 2 benefits which had been suspended at the time of reemployment, plus, the member will receive 2.0% (prorated for partial years) of the member's current AFC for each year of service credit earned during the reemployment period.

(2) if a member receiving DROP 2 retirement benefits is reemployed in a position covered by the F&P, and then dies during the reemployment period, beneficiary eligibility for either non-line-of-duty death benefits or line-of-duty death benefits must be determined according to the DROP 2 provisions.

(3) if a member receiving DROP 2 retirement benefits is re-employed in a position covered by another Baltimore City sponsored retirement system, the member's DROP 2 retirement benefits shall be suspended; when the member later retires again, the member will resume receiving the DROP 2 retirement benefits which had been suspended at the time of reemployment,

(M) **Pre-employment Military Service Credit for DROP 2 Participants:**

A member may receive up to 3 years of membership service credit for military service prior to employment with the City of Baltimore if the requirements are met according to the plan provisions. Credit for pre-employment military service may be used in the calculation of the member's maximum service retirement benefit credited to the member's DROP 2 account.

The member must apply and provide the F&P proper and complete documentation of pre-employment military service prior to the member's DROP 2 participation start date in order for the pre-employment military service to be used in the calculation of the members DROP 2 benefit credited to the DROP 2 account.

If the member fails to properly apply and provide the F&P with complete documentation of pre-employment military service prior to the member's DROP 2 participation start date, the pre-employment military service credit will not be included in the calculation of the member's maximum service retirement benefit that is credited to the member's DROP 2 account.

(N) **Form of Payment of Benefits from DROP 2 Account:**

A member (or an eligible beneficiary after the death of the member in service) can choose to receive the total balance of the DROP 2 account as:

(1) One lump sum which can be:

(a) rolled over to an IRA or similar account; or
(b) taken in pocket; or

(2) Periodic payments in the same form as the retirement benefit.

15. **POST-RETIREMENT BENEFIT INCREASES:**

Post-retirement benefit increases are automatically provided to certain retirees and beneficiaries when investment performance determined as of each June 30 exceeds 7.5%. Retirees and beneficiaries who have been receiving periodic benefit payments for two or more years as of the June 30 determination date are eligible for the increase. An exception exists for DROP participants who retire during or at the end of their DROP participation period. Basic DROP retirees will have their DROP participation period credited toward the eligibility requirements for post-retirement benefit increases. The actuarially determined increase is payable as equal percentage increases commencing in the January following the June 30 investment performance determination date.

Note: City Council Bill 09-0348 which will eliminate the post-retirement benefit increase provisions remains pending.

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Statistical Section

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
STATISTICAL SECTION NARRATIVE

The Statistical Section of this Comprehensive Annual Financial Report presents information to add historical perspective, context, and detail to the financial statements, notes to financial statements, and required supplementary information presented in the preceding sections. To provide historical perspective and a sense of trends, most exhibits in this Section are presented in multiple-year formats. The information is categorized into two topical groups: Financial Trends and Demographic and Economic Information.

<u>Financial Trends</u>

These schedules contain trend information to help the reader understand how the F&P's financial performance has changed over time.

Statement of Changes in Plan Net Assets - Fiscal Years 2000 - 2009
Revenues by Source - Fiscal Years 2000 - 2009
Expenses by Type - Fiscal Years 2000 - 2009
Benefit Expenses by Type - Fiscal Years 2000 - 2009
Average Monthly Service Retirement Benefit Payments - Fiscal Years 2000 - 2009

<u>Demographic and Economic Information</u>

These schedules offer demographic indicators to help the reader understand trends in F&P membership.

Active Members by Years of Service - Fiscal Years 2000 – 2009
Active Members and Active DROP Members by Years of Service and Department
Active DROP Members by Fiscal Year of DROP Entry and Department – Fiscal Years 1997 – 2009
Retirees and Beneficiaries by Attained Age and Type of Retirement
DROP Retirees and DROP Beneficiaries by Attained Age and Type of Retirement

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
CHANGES IN PLAN NET ASSETS

	2000	2001	2002	2003	2004
Additions					
Net investment income	$153,861,543	$ (91,538,575)	$(116,309,906)	$ 44,013,099	$222,184,012
Employer contributions	235,272	217,340	252,220	34,678,878	42,699,166
Member contributions	9,470,800	11,526,631	14,241,040	15,159,112	15,421,154
Net securities lending income	754,867	810,855	819,795	624,204	536,506
Total Additions	164,322,482	(78,983,749)	(100,996,851)	94,475,293	280,840,838
Deductions					
Retirement allowances	114,825,783	115,816,317	118,137,697	120,442,353	126,884,291
Lump sum DROP payments	12,934,599	11,148,700	7,545,984	12,147,757	24,494,758
Administrative expenses	1,087,798	1,284,702	1,520,942	1,562,487	1,905,163
Refunds of member contributions	1,078,875	804,084	800,898	1,059,150	1,093,504
Death benefits	669,134	531,714	540,949	126,270	551,962
Total Deductions	130,596,189	129,585,517	128,546,470	135,338,017	154,929,678
Net Increase (Decrease)	$ 33,726,293	$(208,569,266)	$(229,543,321)	$(40,862,724)	$125,911,160

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
CHANGES IN PLAN NET ASSETS (Concluded)

	2005	2006	2007	2008	2009
Additions					
Net investment income	$218,297,510	$178,616,240	$347,068,360	$ (97,529,998)	$(357,730,702)
Employer contributions	48,666,701	49,661,627	60,128,727	72,687,585	69,513,236
Member contributions	15,359,931	15,157,898	15,438,649	16,547,425	17,661,252
Net securities lending income	389,616	561,649	756,603	2,049,347	1,801,369
Total Additions	282,713,758	243,997,414	423,392,339	(6,245,641)	(268,754,845)
Deductions					
Retirement allowances	135,950,256	147,353,252	155,639,508	166,119,977	173,547,075
Lump sum DROP payments	22,253,341	14,025,599	12,950,280	14,118,642	10,379,493
Administrative expenses	2,143,390	2,552,458	2,818,795	3,264,028	3,334,851
Refunds of member contributions	1,403,449	1,708,619	2,007,222	1,627,871	1,114,334
Death benefits	620,679	520,214	721,942	63,151	251,544
Total Deductions	162,371,115	166,160,142	174,137,747	185,193,669	188,627,297
Net Increase (Decrease)	$120,342,643	$ 77,837,272	$249,254,592	$(191,439,310)	$(457,382,142)

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
REVENUES BY SOURCE

Fiscal Year	Net Investment Income	Employer Contributions Amount	Employer Contributions % of Covered Payroll	Member Contributions	Total
2000	$ 154,616,410	$ 235,272	0.1%	$ 9,470,800	$164,322,482
2001	(90,727,720)	217,340	0.1	11,526,631	(78,983,749)
2002	(115,490,111)	252,220	0.1	14,241,040	(100,996,851)
2003	44,637,303	34,678,878	14.1	15,159,112	94,475,293
2004	222,720,518	42,699,166	17.7	15,421,154	280,840,838
2005	218,687,126	48,666,701	19.9	15,359,931	282,713,758
2006	179,177,889	49,661,627	20.0	15,157,898	243,997,414
2007	347,824,963	60,128,727	23.6	15,438,649	423,392,339
2008	(95,480,651)	72,687,585	27.0	16,547,425	(6,245,641)
2009	(355,929,333)	69,513,236	24.7	17,661,252	(268,754,845)

Note: Employer contributions were made in accordance with actuarially determined contribution requirements.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
EXPENSES BY TYPE

Fiscal Year	Retirement Benefits	DROP Payments	Refunds	Administrative Expenses	Total
2000	$115,494,917	$12,934,599	$1,078,875	$1,087,798	$130,596,189
2001	116,348,031	11,148,700	804,084	1,284,702	129,585,517
2002	118,678,646	7,545,984	800,898	1,520,942	128,546,470
2003	120,568,623	12,147,757	1,059,150	1,562,487	135,338,017
2004	127,436,253	24,494,758	1,093,504	1,905,163	154,929,678
2005	136,570,935	22,253,341	1,403,449	2,143,390	162,371,115
2006	147,873,466	14,025,599	1,708,619	2,552,458	166,160,142
2007	156,361,450	12,950,280	2,007,222	2,818,795	174,137,747
2008	166,183,128	14,118,642	1,627,871	3,264,028	185,193,669
2009	173,798,619	10,379,493	1,114,334	3,334,851	188,627,297

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
BENEFIT EXPENSES BY TYPE

Year	Age and Service Benefits		Death Benefits			Disability Benefits			
						Retirees			
Ending	Retirees	Beneficiaries	Duty	Non-Duty	Lump Sum	Duty	Non-Duty	Beneficiaries	Total
2000	$90,685,753	$5,667,627	$2,208,325	$2,818,393	$637,708	$16,325,621	$5,888,643	$4,197,446	$128,429,516
2001	86,485,377	6,515,936	2,469,426	3,121,856	378,886	17,523,788	6,140,540	4,860,922	127,496,731
2002	88,370,371	6,641,581	2,367,554	2,835,013	114,338	16,031,594	5,462,832	4,401,347	126,224,630
2003	94,740,211	7,191,867	2,366,651	2,764,583	22,790	15,944,128	5,259,650	4,426,500	132,716,380
2004	112,012,174	7,250,029	2,365,946	2,847,450	251,077	16,124,695	5,019,237	6,060,403	151,931,011
2005	119,001,250	7,783,462	2,482,341	2,904,441	394,961	16,792,991	5,027,007	4,437,823	158,824,276
2006	118,470,165	8,380,341	2,564,442	2,853,866	258,136	19,654,354	5,107,533	4,610,228	161,899,065
2007	123,111,432	9,121,591	2,736,442	3,026,112	335,991	20,835,183	5,367,831	4,777,148	169,311,730
2008	131,942,122	10,116,092	2,914,432	3,142,188	63,151	21,797,015	5,331,204	4,995,566	180,301,770
2009	133,001,464	10,862,644	3,608,486	3,242,417	251,544	22,751,656	5,481,123	4,978,778	184,178,112

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
AVERAGE MONTHLY SERVICE RETIREMENT BENEFIT PAYMENTS

Retirement Effective Dates	Years of Credited Service				
From July 1, 1999 to June 30, 2009	10-15	16-20	21-25	26-30	31+
Period 7/1/99 to 6/30/00					
Average Monthly Benefit		$ 1,873	$ 1,918	$ 2,308	$ 2,782
Average-Average Final Compensation		50,632	44,344	44,888	46,816
Number of Active Retirees		4	53	43	63
Period 7/1/00 to 6/30/01					
Average Monthly Benefit			2,183	3,203	3,855
Average-Average Final Compensation			45,324	48,864	51,470
Number of Active Retirees			29	36	30
Period 7/1/01 to 6/30/02					
Average Monthly Benefit	$ 1,524	2,116	2,645	3,546	4,297
Average-Average Final Compensation	43,978	47,757	49,133	54,004	58,825
Number of Active Retirees	1	3	42	26	17
Period 7/1/02 to 6/30/03					
Average Monthly Benefit		2,232	2,764	4,296	4,508
Average-Average Final Compensation		51,415	54,898	65,392	58,185
Number of Active Retirees		1	37	51	40
Period 7/1/03 to 6/30/04					
Average Monthly Benefit		2,485	2,696	4,014	4,584
Average-Average Final Compensation		55,083	56,997	61,054	61,189
Number of Active Retirees		3	55	47	77

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
AVERAGE MONTHLY SERVICE RETIREMENT BENEFIT PAYMENTS (Concluded)

	Years of Credited Service				
	10-15	16-20	21-25	26-30	31+
Period 7/1/04 to 6/30/05					
Average Monthly Benefit	$ 1,362	$ 2,424	$ 2,911	$ 3,850	$ 4,646
Average-Average Final Compensation	54,254	59,831	59,630	61,690	64,114
Number of Active Retirees	1	3	76	31	35
Period 7/1/05 to 6/30/06					
Average Monthly Benefit		2,019	2,777	3,381	3,709
Average-Average Final Compensation		53,983	60,022	59,139	62,059
Number of Active Retirees		2	70	26	43
Period 7/1/06 to 6/30/07					
Average Monthly Benefit		3,518	2,919	3,651	3,562
Average-Average Final Compensation		100,170	62,371	64,576	63,259
Number of Active Retirees		2	56	12	74
Period 7/1/07 to 6/30/08					
Average Monthly Benefit	1,668		3,001	4,084	5,092
Average-Average Final Compensation	54,859		65,961	68,201	74,043
Number of Active Retirees	2		88	22	16
Period 7/1/08 to 6/30/09					
Average Monthly Benefit	1,575	2,224	3,141	4,614	5,238
Average-Average Final Compensation	58,129	56,686	67,964	75,614	70,033
Number of Active Retirees	1	2	64	27	24
Period 7/1/99 to 6/30/09					
Average Monthly Benefit	1,532	1,934	2,696	3,694	4,227
Average-Average Final Compensation	52,805	59,445	53,664	60,342	60,999
Number of Active Retirees	5	20	570	321	419

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF ACTIVE MEMBERS BY YEARS OF SERVICE

Years of Credited Service	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
0-4	968	1,124	1,153	1,179	1,114	1,084	1,019	1,017	1,088	1,142
5-9	1,048	1,079	1,034	933	912	885	931	949	946	900
10-14	856	820	777	861	991	935	948	902	814	759
15-19	623	606	640	679	696	773	717	661	757	904
20-24	447	584	642	668	581	507	473	514	515	513
25-29	444	380	329	244	233	279	345	348	329	291
30+	281	278	300	311	251	227	194	187	166	181
Total Members	4,667	4,871	4,875	4,875	4,778	4,690	4,627	4,578	4,615	4,690
Average Service Credit	12.94	12.60	12.81	12.88	12.56	12.48	12.46	12.52	12.34	12.45
Average Age	38.99	38.42	38.37	38.26	38.75	38.55	38.66	38.73	38.91	38.99

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF CURRENT ACTIVE MEMBERS BY YEARS OF SERVICE AND DEPARTMENT
SCHEDULE OF CURRENT ACTIVE DROP MEMBERS BY YEARS OF SERVICE AND DEPARTMENT
For the Year Ended June 30, 2009

Schedule of Current Active Members By Years of Service and Department

Years of Credited Service	Police Department	Fire Department	School Crossing Guards	Airport Employees	Total
0-4	753	389			1,142
5-9	556	344			900
10-14	557	202			759
15-19	628	276			904
20-24	275	226		12	513
25-29	156	132		3	291
30+	85	91	3	2	181
Total Members	3,010	1,660	3	17	4,690

Schedule of Current Active DROP Members By Years of Service and Department

Years of Credited Service	Police Department	Fire Department	School Crossing Guards	Airport Employees	Total
20-24	223	193		12	428
25-29	154	131		3	288
30+	85	89	1	2	177
Total DROP Members	462	413	1	17	893

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF CURRENT ACTIVE DROP MEMBERS BY FISCAL YEAR OF DROP ENTRY AND DEPARTMENT

Year of DROP Entry	Police Department	Fire Department	School Crossing Guards	Airport Employees	Total
7/1/96 - 6/30/97	49	56		1	106
7/1/97 - 6/30/98	4	3			7
7/1/98 - 6/30/99	10	6	1		17
7/1/99 - 6/30/00	25	40		1	66
7/1/00 - 6/30/01	26	23		1	50
7/1/01 - 6/30/02	38	30			68
7/1/02 - 6/30/03	23	32			55
7/1/03 - 6/30/04	41	11		1	53
7/1/04 - 6/30/05	28	29		1	58
7/1/05 - 6/30/06	66	48		4	118
7/1/06 - 6/30/07	44	45		2	91
7/1/07 - 6/30/08	73	71			144
7/1/08 - 6/30/09	35	19		6	60
Total DROP Members	462	413	1	17	893

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF RETIREES BY ATTAINED AGE AND TYPE OF RETIREMENT
For the Year Ended June 30, 2009

		TYPE OF RETIREMENT*				
Age	Number of Recipients	0	2	3	4	9
0-24	1				1	
25-29	4				4	
30-34	25			7	18	
35-39	67	1	1	14	51	
40-44	172	68	5	21	77	1
45-49	279	177	5	19	77	1
50-54	420	351	1	19	49	
55-59	615	542	1	20	52	
60-64	861	752	1	26	82	
65-69	628	521		32	75	
70-74	512	405		41	64	2
75-79	454	334		44	75	1
80-84	307	221		30	56	
85 and up	165	118		19	28	
Totals	4,510	3,490	14	292	709	5
Average Annual Benefit	$33,765	$35,474	$30,621	$18,149	$31,672	$58,124

*Type of Retirement
0 - Normal retirement for age and service
2 - Discontinued service
3 - Non-line-of-duty disability
4 - Line-of-duty disability
9 - Line-of-duty disability, 100% of compensation

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF BENEFICIARIES BY ATTAINED AGE AND TYPE OF RETIREMENT
For the Year Ended June 30, 2009

Age	Number of Recipients	TYPE OF RETIREMENT* 0	2	3	4	6	7a	7b	8
0-24	27	3		2	5			9	8
25-29	1							1	
30-34	0								
35-39	7							2	5
40-44	11	6		1	1				3
45-49	43	28		3	4	2	1	2	3
50-54	63	38		3	8	6	3	1	4
55-59	104	62	1	10	5	15	5	2	4
60-64	133	80		13	12	8	9	2	9
65-69	155	86		22	21	9	9		8
70-74	195	87		31	48	14	8		7
75-79	241	111		50	54	19	3		4
80-84	222	107		34	53	14	3	1	10
85 and up	217	136		29	29	10	2		11
Totals	1,419	744	1	198	240	97	43	20	76
Average Annual Benefit	$15,611	$14,550	$11,971	$10,153	$13,086	$24,186	$10,453	$19,059	$39,312

*Type of Retirement
0 - Normal retirement for age and service
2 - Discontinued service
3 - Non-line-of-duty disability
4 - Line-of-duty disability
6 - Non-line-of-duty death, member eligible for service retirement at death
7a - Non-line-of-duty death, 25% of compensation
7b - Non-line-of-duty death, 25% of compensation, plus 1.5% of compensation for each year in excess of two years
8 - Line-of-duty death

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF DROP RETIREES BY ATTAINED AGE AND TYPE OF RETIREMENT
SCHEDULE OF DROP BENEFICIARIES BY ATTAINED AGE AND TYPE OF RETIREMENT
For the Year Ended June 30, 2009

Schedule of DROP Retirees by Attained Age and Type of Retirement

Age	Number of Recipients	TYPE OF RETIREMENT* 0	4
40-44	32	32	
45-49	129	127	2
50-54	274	268	6
55-59	368	361	7
60-64	391	386	5
65-69	197	195	2
70-74	80	80	
Totals	1,471	1,449	22
Average Annual Benefit	$40,917	$40,905	$41,736

Schedule of DROP Beneficiaries by Attained Age and Type of Retirement

Age	Number of Recipients	TYPE OF RETIREMENT* 0	3	4	6	7b	8
40-44							
45-49							
50-54	4	3			1		
55-59	12	4	1		6		1
60-64	10	5			3	1	1
65-69	6	4			2		
Totals	32	16	1		12	1	2
Average Annual Benefit	$23,174	$12,326	$17,064	$0	$32,150	$24,290	$58,599

*Type of Retirement
0 - Normal retirement for age and service
3 - Non-line-of-duty disability
4 - Line-of-duty disability: Member not eligible for DROP benefits
6 - Non-line-of-duty death, member eligible for service retirement at death
7b - Non-line-of-duty death, 25% of compensation, plus 1.5% of compensation for each year in excess of two years
8 - Line-of-duty death: Beneficiary not eligible for DROP benefits

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Fire & Police Employees' Retirement System
City of Baltimore, Maryland
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