Montgomery County
Employee Retirement Plans

Comprehensive Annual Financial Report

Employees’ Retirement System
Retirement Savings Plan
Deferred Compensation Plan

(Trust Funds of Montgomery County, Maryland)

Fiscal Year 2013
July 1, 2012 – June 30, 2013

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Montgomery County
Employee Retirement Plans
Maryland

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

Montgomery County
Employee Retirement Plans

Comprehensive Annual Financial Report

Employees' Retirement System
Retirement Savings Plan
Deferred Compensation Plan

(*Trust Funds of Montgomery County, Maryland*)

Fiscal Year 2013
July 1, 2012 – June 30, 2013

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

MONTGOMERY COUNTY

17 76

GARDEZ BIEN

MARYLAND

MONTGOMERY COUNTY, MARYLAND
EMPLOYEE RETIREMENT PLANS
Fiscal Year Ended June 30, 2013
TABLE OF CONTENTS

INTRODUCTION SECTION

OFFICES OF THE COUNTY EXECUTIVE

Isiah Leggett
County Executive

Timothy L. Firestine
Chief Administrative Officer

December 2, 2013

Honorable County Executive and
Members of the Montgomery County Council

I am pleased to present to you the Comprehensive Annual Financial Report (CAFR) of the Montgomery County, Maryland (County) Employee Retirement Plans (Plans) for the fiscal year ended June 30, 2013. This annual report is designed to assist you in understanding the structure and current status of the Plans.

FORMAL TRANSMITTAL OF THE CAFR

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

PROFILE OF THE RETIREMENT PLANS

History

The Employees' Retirement System (System) was established in 1965, as a cost-sharing multiple-employer defined benefit pension plan providing benefits to the employees of the County and other agencies or political subdivisions who elect to participate. Participating agencies and subdivisions include the: Montgomery County Revenue Authority, Housing Opportunities Commission of Montgomery County, Town of Chevy Chase, Strathmore Hall Foundation, Inc., Washington Suburban Transit Commission, Montgomery County Employees Federal Credit Union, and certain employees of the State Department of Assessments and Taxation and the District Court of Maryland. The System is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees and Guaranteed Retirement Income Plan (GRIP) participants. The Montgomery County Council passed legislation in FY 2009 enabling the County to establish and maintain a GRIP, a cash balance plan that is part of the System, for employees. During FY 2010 eligible County employees who were members of the Retirement Savings Plan (RSP) were granted the option to elect to participate in the GRIP and to transfer their RSP member account balance to the GRIP and cease being a member of the RSP. There were 5,606 active members, including 1,202 in the GRIP, and 5,961 retirees and beneficiaries participating in the System as of June 30, 2013.

The RSP was established in 1994, as a cost-sharing multiple-employer defined contribution plan providing benefits to all non-public safety and certain public safety employees hired on or after October 1, 1994. Employees covered by the System may make an irrevocable decision to transfer to the RSP. At June 30, 2013, there were 3,470 active plan members.

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

Benefit Provisions

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

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

Major Initiatives

During FY 2013, the Board continued to implement portfolio adjustments which will result in further diversification of the investment portfolio and better management of the System's risk. Toward this effort, the Board approved new investments in the following sectors: public equities, private equity, private real assets, commodities and global real estate securities. The Board also approved a structural change to the asset allocation that will result in the addition of private debt and additional opportunistic investments to the portfolio.

In addition, the Board consolidated the recordkeeping functions for the RSP, DCP, GRIP, and the Deferred Retirement Option Plans, with one recordkeeper resulting in lower costs for participants, improved service levels, and the streamlining of operations.

INFORMATION USEFUL IN ASSESSING THE RETIREMENT PLANS' ECONOMIC CONDITION

Financial Information

Accounting System and Reports

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

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A), which can be found on pages 15 to 19 of this report, provides a brief analysis of the financial performance of the Plans and an introduction to the financial statements of the Plans for the year ended June 30, 2013.

Investments

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

In overseeing the management of the assets of the Plans, the Board has developed sound and prudent investment policies. The Board believes an appropriate balance must be struck between risks taken and returns sought to ensure the long term health of the defined benefit plan. The Board has adopted an investment policy that works to control the extent of downside risk to which the System is exposed while maximizing the potential for long term increases in the value of assets. To achieve this objective, System assets are allocated to a broad array of investment sectors as follows: domestic equities 24.3 percent, private equity 7.5 percent, international equities 16.1 percent, global equities 2.0 percent, fixed income 25.5 percent, inflation indexed bonds 9.0 percent, commodities 4.3 percent, opportunistic 3.8 percent, private real assets 5.7 percent, and global REITs 1.8 percent. For the twelve months ended June 30, 2013, the total return achieved by the System's investments was a gain of 10.85 percent, compared to the gain recorded by the System's benchmark index of 8.48 percent and the actuarial assumed rate of return of 7.5 percent.

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

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

Funding

The System's actuary uses a five-year smoothed market-related value to determine the actuarial value of assets. The smoothing prevents extreme volatility in employer contribution rates due to short-term fluctuations in the investment markets. For the June 30, 2013 valuation, the actuarial value of assets was $3.0 billion and the aggregate actuarial liability was $3.8 billion, resulting in a funded status ratio of 78.8%. The Schedule of Funding Progress, included as Required Supplementary Information in the Financial Section, expresses the System's actuarial value of assets as a percentage of the actuarial accrued liability, providing one indication of the System's funding status on a going-concern basis. The actuary has determined that the present net asset base, expected future contributions and investment earnings thereon, are sufficient to provide for full payment of future benefits under the projected unit credit actuarial cost method.

Internal Control Structure and Budgetary Controls

The Plans' management is responsible for maintaining internal accounting controls to provide reasonable assurance that transactions are properly authorized and recorded as necessary to permit preparation of financial statements in conformity with U.S. generally accepted accounting principles. We believe the internal controls in effect during the fiscal year ended June 30, 2013 adequately safeguard the Plans' assets and provide reasonable assurance regarding the proper recording of financial transactions. In addition, the Board, in conjunction with the Chief Administrative Officer, approves and actively monitors the annual budgets for each plan. Because the cost of internal controls should not exceed the anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatement.

Independent Audit and Actuarial Certification

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

AWARDS AND ACKNOWLEDGEMENTS

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Montgomery County Employee Retirement Plans for its comprehensive annual financial report for the fiscal year ended June 30, 2012. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such a report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Acknowledgements

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

Respectfully submitted,

Timothy L. Firestine
Chief Administrative Officer
Plan Administrator

ADMINISTRATIVE ORGANIZATION

Professional Services

Actuary	Auditor	Custodial Bank
Gabriel Roeder Smith & Company Chicago, IL	CliftonLarsonAllen LLP Timonium, MD	The Northern Trust Company Chicago, IL

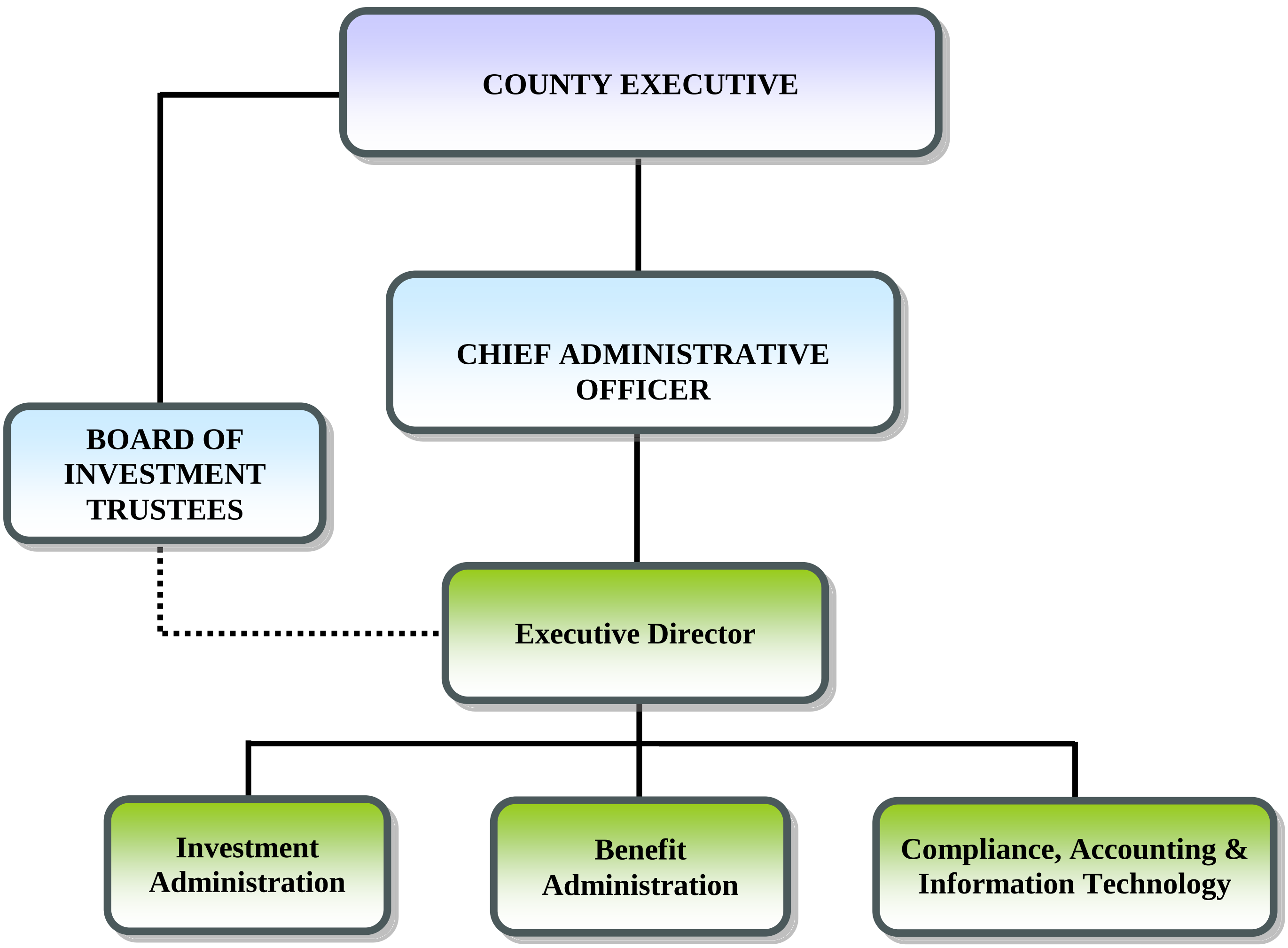
Investment Consultants

Wilshire Associates Pittsburgh, PA	Albourne America, LLC Norwalk, CT
Franklin Park Philadelphia, PA	FLAG Capital Management Stamford, CT

Investment Managers-Employees' Retirement System

Aberdeen Asset Management Inc. United Kingdom	Adams Street Partners Chicago, IL	AEW Partners Boston, MA
Altaris Health Partners New York, NY	Altus Capital Partners Westport, CT	BlackRock Financial Management New York, NY
Bridgewater Associates Westport, CT	Carmel Partners San Francisco, CA	CoreCommodity Management Stamford, CT
DW Healthcare Partners Park City, UT	Eagle Asset Management St. Petersburg, FL	E.I.I. Capital Management New York, NY
EnerVest Houston, TX	First Quadrant L.P. Pasadena, CA	FLAG Capital Management Stamford, CT
Franklin Park Philadelphia, PA	GMO, LLC Boston, MA	Grosvenor Capital Management Chicago, IL
Gryphon International Investment Toronto, Canada	Hampshire Companies Morristown, NJ	HarbourVest Partners Boston, MA
Jennison Associates Boston, MA	JP Morgan Investment Management New York, NY	KPS Capital Partners, LP New York, NY
Landmark Partners Inc. Simsbury, CT	LBA Realty Irvine, CA	Lime Rock Resources Houston, TX
Loomis Sayles & Co. Boston, MA	Los Angeles Capital Management Los Angeles, CA	Marathon London United Kingdom
Mason Wells Milwaukee, WI	Mondrian Investment Partners Ltd. United Kingdom	Nomura Asset Management New York, NY
Odyssey Investment Partners New York, NY	Pearlmark Real Estate Partners Chicago, IL	Pomona Capital New York, NY
RhumbLine Advisors Boston, MA	Riverside Partners Boston, MA	Sands Capital Management Arlington, VA
Schroder Investment Management New York, NY	Systematic Financial Management Teaneck, NJ	TA Associates Boston, MA
TA Associates Realty LLC Boston, MA	Wellington Management Boston, MA	Wicks Group New York, NY

Montgomery County Employee Retirement Plans
Administrative Organization Chart



FINANCIAL SECTION

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of plan net position of the Montgomery County Employee Retirement Plans (the Plans), as of and for the year ended June 30, 2013, and the related changes in plan net position for the year then ended and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the schedules of funding progress and employer contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Plan's basic financial statements. The introduction section, supplementary information, 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 supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The information in the introduction, investment, actuarial, and statistical sections has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2013 on our consideration of the Plans' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plans' internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
December 2, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The following Management's Discussion and Analysis (MD&A) of the Montgomery County Employee Retirement Plans (Plans) financial performance provides an introduction to the financial statements of the Plans as of and for the year ended June 30, 2013. Since the MD&A is designed to focus on current activities, resulting changes and current known facts, it should be read in conjunction with the transmittal letter in the Introduction Section on page 4, and the financial statements, required supplementary information, and other supplementary information which follow this discussion.

REQUIRED FINANCIAL STATEMENTS

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

FINANCIAL ANALYSIS OF THE MONTGOMERY COUNTY EMPLOYEE RETIREMENT PLANS

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

Net Position
(Millions)

	ERS		RSP		DCP	
	2013	2012	2013	2012	2013	2012
Assets:						
Cash and investments	$ 3,461.1	$ 3,233.9	$ 235.2	$ 197.4	$ 303.3	$ 270.9
Receivables	21.1	11.2	0.9	0.8	0.6	0.5
Total assets	3,482.2	3,245.1	236.1	198.2	303.9	271.4
Liabilities	298.0	308.3	-	0.1	-	-
Total net position	$ 3,184.2	$ 2,936.8	$ 236.1	$ 198.1	$ 303.9	$ 271.4

Shown below is a condensed summary of the Changes in Net Position of the ERS, RSP, and DCP for the years ended June 30:

Changes in Net Position
(Millions)

	ERS		RSP		DCP	
	2013	2012	2013	2012	2013	2012
Additions:						
Employer contributions	$ 127.9	$ 107.9	$ 15.6	$ 11.8	$ -	$ -
Member contributions	24.8	22.8	8.3	8.4	18.2	15.0
Net investment income	307.9	117.7	23.7	0.1	34.1	0.3
Total additions	460.6	248.4	47.6	20.3	52.3	15.3
Deductions:						
Benefits	208.9	202.8	-	-	-	-
Refunds and distributions	1.9	2.5	9.4	6.9	19.8	17.7
Administrative expenses	2.4	3.5	0.2	0.3	-	-
Total deductions	213.2	208.8	9.6	7.2	19.8	17.7
Total change in net position	$ 247.4	$ 39.6	$ 38.0	$ 13.1	$ 32.5	$ (2.4)

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

Employees' Retirement System
Net Position
(Millions)

	2013	**2012**	**Percentage Change**
Assets:			
Cash and investments	$ 3,461.1	$ 3,233.9	7.0 %
Receivables	21.1	11.2	88.4
Total assets	3,482.2	3,245.1	7.3
Liabilities:			
Benefits payable and other liabilities	6.5	4.4	47.7
Obligations under securities lending agreements	291.5	303.9	(4.1)
Total liabilities	298.0	308.3	(3.4)
Total plan net position	$ 3,184.2	$ 2,936.8	8.4 %

The table shown above reflects an increase in the ERS' net position of $247.4 million or 8.4 percent during fiscal year (FY) 2013. The increase in total assets was attributable to the strong financial markets.

Retirement Savings Plan Net Position (Millions)			
	2013	**2012**	**Percentage Change**
Assets:			
Cash and investments	$ 235.2	$ 197.4	19.1 %
Receivables	0.9	0.8	12.5
Total assets	236.1	198.2	19.1
Liabilities	-	0.1	(100.0)
Total plan net position	$ 236.1	$ 198.1	19.2 %

During FY 2013, net position increased 19.2 percent to $236.1 million. The increase is due to strong investment markets during FY 2013.

Deferred Compensation Plan Net Position (Millions)			
	2013	**2012**	**Percentage Change**
Assets:			
Investments	$ 303.3	$ 270.9	12.0 %
Receivables	0.6	0.5	20.0
Total plan net position	$ 303.9	$ 271.4	12.0 %

Net assets of the DCP increased 12.0 percent to $303.9 million during FY 2013. The increase is attributable to strong investment markets during FY 2013.

ADDITIONS

The primary sources of additions for the Plans include member and employer (where applicable) contributions and investment income. The following tables compare the source and amount of additions for each Plan during FY 2013 and FY 2012.

Employees' Retirement System Contributions and Investment Income (Millions)			
	2013	**2012**	**Percentage Change**
Employer contributions	$ 127.9	$ 107.9	18.5 %
Member contributions	24.8	22.8	8.8
Net investment income	307.9	117.7	161.6
	$ 460.6	$ 248.4	85.4 %

Investment income increased by 161.6 percent during FY 2013 due to the strong investment returns.

The net investment income for the ERS totaled $307.9 million for FY 2013, comprised of $249.3 million in net appreciation in fair value of investments, $74.8 million in dividends and interest, $1.5 million from securities lending activities, and $17.7 million related to investment expenses. This is compared to net investment income of $117.7 million in FY 2012. The increase in earnings compared to the previous fiscal year is due to the stronger financial markets in FY 2013.

Retirement Savings Plan
Contributions and Investment Income
(Millions)

	2013	2012	Percentage Change
Employer contributions	$ 15.6	$ 11.8	32.2 %
Member contributions	8.3	8.4	(1.2)
Net investment income	23.7	0.1	23,600.0
	$ 47.6	$ 20.3	134.5 %

Employer contributions to the RSP were $15.6 million in FY 2013, an increase of 32.2 percent from FY 2012 due to a 2 percent increase in the employer contribution rate. The higher investment income in FY 2013 is primarily attributable to the strength of the financial markets.

Deferred Compensation Plan
Contributions and Investment Income
(Millions)

	2013	2012	Percentage Change
Member contributions	$ 18.2	$ 15.0	21.3 %
Net investment income	34.1	0.3	11,266.7
	$ 52.3	$ 15.3	241.8 %

Member contributions to the DCP were $18.2 million for FY 2013, an increase of 21.3 percent from the FY 2012 level due to an increase in rollover contributions.

Net investment income for the DCP was $34.1 million, compared to $0.3 million in the previous fiscal year. The higher level in FY 2013 is primarily due to strong returns from the financial markets during the fiscal year.

DEDUCTIONS

The primary sources of deductions from the Plans include the payment of retiree and survivor benefits, participant refunds and distributions, and administrative expenses. The following tables show the use and amount of deductions for each plan during FY 2013 and 2012.

Employees' Retirement System
Deductions by Type
(Millions)

	2013	2012	Percentage Change
Benefits	$ 208.9	$ 202.8	3.0 %
Refunds	1.9	2.5	(24.0)
Administrative expenses	2.4	3.5	(31.4)
	$ 213.2	$ 208.8	2.1 %

During FY 2013, benefits increased due to slight increase in the number of retirements during the year as well as annual cost of living adjustment. Administrative expenses decreased primarily due to the insourcing of retiree payroll.

Retirement Savings Plan
Deductions by Type
(Millions)

	2013	2012	Percentage Change
Distributions	$ 9.4	$ 6.9	36.2 %
Administrative expenses	0.2	0.3	(33.0)
	$ 9.6	$ 7.2	33.3 %

The expenses related to the RSP are comprised of distributions and administrative costs. The 36.2 percent increase in distributions is due to employee turnover.

Deferred Compensation Plan
Deductions by Type
(Millions)

	2013	2012	Percentage Change
Distributions	$ 19.8	$ 17.7	11.9 %

During FY 2013, distributions paid from the DCP increased by 11.9 percent over the FY 2012 level due to an increase in employee terminations and retiree withdrawals.

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

MONTGOMERY COUNTY, MARYLAND
STATEMENTS OF PLAN NET POSITION
JUNE 30, 2013

	Employees' Retirement System	Retirement Savings Plan	Deferred Compensation Plan
ASSETS			
Equity in County's pooled cash and investments	$ 1,108,905	$ 556,797	$ -
Investments:			
Government and agency obligations	282,344,930	-	-
Municipal/Provincial obligations	22,924,377	-	-
Asset-backed securities	3,212,480	-	-
Corporate bonds	582,765,510	-	-
Collateralized mortgage obligations	25,117	-	-
Common and preferred stock	1,356,684,162	-	-
Mutual and commingled funds	369,851,201	234,672,571	303,302,906
Short-term investments	75,697,933	-	-
Cash collateral received under securities lending agreements	291,568,717	-	-
Real assets	235,951,453	-	-
Private equity	238,964,221	-	-
Total investments	3,459,990,101	234,672,571	303,302,906
Dividend, interest, and other receivables	14,762,968	-	-
Contributions receivable	6,423,088	938,299	609,861
Total assets	3,482,285,062	236,167,667	303,912,767
LIABILITIES			
Payable for collateral received under securities lending agreements	291,568,717	-	-
Benefits payable and other liabilities	6,471,134	25,734	-
Total liabilities	298,039,851	25,734	-
Net position restricted for pensions	$ 3,184,245,211	$ 236,141,933	$ 303,912,767

See accompanying notes to financial statements.

MONTGOMERY COUNTY, MARYLAND
STATEMENTS OF CHANGES IN PLAN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013

	Employees' Retirement System	**Retirement Savings Plan**	**Deferred Compensation Plan**
ADDITIONS			
Contributions:			
Employer	$ 127,887,620	$ 15,628,750	$ -
Members	24,854,331	8,273,565	18,228,940
Total contributions	152,741,951	23,902,315	18,228,940
Investment income	324,135,736	23,724,012	34,096,559
Less investment expenses	17,748,344	7,780	
Net gain from investment activities	306,387,392	23,716,232	34,096,559
Income from securities lending	1,186,186	-	-
Less securities lending expenses	(285,825)	-	-
Net income from securities lending	1,472,011	-	-
Total additions	460,601,354	47,618,547	52,325,499
DEDUCTIONS			
Retiree benefits	153,566,262	-	-
Disability benefits	46,635,541	-	-
Survivor benefits	8,601,914	-	-
Refunds and distributions	1,925,124	9,388,909	19,847,470
Administrative expenses	2,400,996	201,052	-
Total deductions	213,129,837	9,589,961	19,847,470
Increase in net position	247,471,517	38,028,586	32,478,029
Net position restricted for pensions			
Beginning of year	2,936,773,694	198,113,347	271,434,738
End of year	$ 3,184,245,211	$ 236,141,933	$ 303,912,767

See accompanying notes to financial statements.

INTRODUCTION

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

EMPLOYEES' RETIREMENT SYSTEM - Defined Benefit Pension Plan

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

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

A. Plan Description and Contribution Information

Membership. At June 30, 2013, the date of the latest actuarial valuation, membership in the System consisted of:

Retirees and beneficiaries receiving benefits	5,961
Terminated plan members entitled to but not yet receiving benefits	358
Active plan members	5,606

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

Contributions. The System is a contributory plan with employees contributing a percentage of their base annual salary. Contribution rates range from 3 percent to 11.25 percent of regular earnings annually based on group classification and contributions earn interest at the rate of 4 percent per annum as specified under Section 33-39(b) of the Code. The County and each participating agency are required to contribute the remaining amounts necessary to fund the System using the actuarial basis as specified in Section 33-40 of the Code.

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

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

Legislation enacted by the Montgomery County Council in November 1999 required the Chief Administrative Officer of the County to establish Deferred Retirement Option Plans, or DROP Plans, allowing any employee who is a member of a specified membership group or bargaining unit, and who meets certain eligibility requirements, to elect to “retire” but continue to work for a specified time period, during which pension payments are deferred. When the member’s participation in the DROP Plan ends, the member must stop working for the County, draw a pension benefit based on the member’s credited service and earnings as of the date that the member began to participate in the DROP Plan, and receive the value of the DROP Plan payoff.

For members of the GRIP, employee contributions vest immediately and employer contributions are vested after three years of service or upon death, disability, or reaching retirement age. Members are fully vested upon reaching normal retirement (age 62) regardless of years of service. At separation, a participant’s benefit is determined based upon the account balance which includes contributions and earnings.

B. Summary of Significant Accounting Policies

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

Method Used to Value Investments. Investments are stated at fair value. The fair value is generally based on quoted market prices at June 30, 2013. Fair value for private investment funds, including private equity, private real estate, and private real assets, is determined using unit values supplied by the fund managers, which are based upon the fund managers’ appraisals of the funds’ underlying holdings. Such values involve subjective judgment and may differ from amounts which would be realized if such holdings were actually sold. The fair value of limited partnership investments are based on valuations of the underlying assets of the limited partnerships as reported by the general partner. Cash received as collateral on securities lending transactions and investments made with such cash are reported as assets along with a related liability for collateral received.

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

Accounting Changes. The System adopted GASB Statement No. 63, *Financial Reporting of Deferred outflows of Resources, Deferred inflows of Resources, and Net Position,* which was issued to provide guidance to state and local governments on how to account for transactions that result in the acquisition or consumption of net assets that are applicable to future periods. This statement requires the title of the "Statement of Net Assets" to be titled the "Statement of Net Position". Net position is defined as the residual of all other elements presented in a statement of financial position. The statement of net position should report the residual amount as *Net Position*, rather than net assets.

C. Funded Status and Funding Progress

The funded status of the System as of June 30, 2013, the most recent actuarial valuation date, is as follows:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
$3,012,547,244	$3,821,380,732	$808,833,488	78.8%	$395,988,026	204.3%

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

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

Valuation date	June 30, 2013
Actuarial cost method	Projected unit credit
Amortization method	Level percentage of payroll assuming 4% annual payroll growth.
Amortization period	Closed amortization approach. The period was reset to 18 years as of June 30, 2010. Amortization bases created in the future will be amortized over 20 years.
Asset valuation method	5-Year phase-in of market gains/losses
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases depending on age	4% - 9.25%
Inflation rate assumption	3.00%
Cost-of-living assumption	3% on credited service earned prior to June 30, 2011 2.3% on credited service earned thereafter, reflecting the 2.5% cap.
Post-retirement Increases	Consumer Price Index - by Group
Mortality rates after retirement	RP 2000 projected 30 years, separate tables for males and females

D. Trustees of the Plan

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

E. Investments

Section 33-61C of the Code, authorizes the Board to act with the care, skill, prudence and diligence under the circumstances that a prudent person acting in a similar capacity and familiar with the same matters would use to conduct a similar enterprise with similar purposes. The Code also requires that such investments be diversified so as to minimize the risk of large losses unless it is clearly not prudent to diversify under the circumstances. The Board has adopted an investment policy that works to control the extent of downside risk to which the System is exposed while maximizing the potential for long term increases in the value of assets. The overall investment policies do not address specific levels of credit risk, interest rate risk or foreign currency risk. The Board believes that risks can be managed, but not eliminated, by establishing constraints on the investment portfolios and by monitoring the financial markets, the System's asset allocation and the investment managers hired by the System. Each investment manager has a specific benchmark and investment guidelines appropriate for the type of investments they are managing. Section 33-60 of the Code prohibits the Board from investing in any bonds, notes, or debt instruments issued by Montgomery County, any political subdivision within Montgomery County, any agency supported or financed wholly or partly by taxes levied by the Montgomery County Council, or any agency supported by bond issues underwritten by Montgomery County.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. The Board's investment policies and guidelines manage interest rate risk by establishing duration constraints on each fixed income manager's portfolio based on the duration of each manager's respective benchmark. Duration is a measure of interest rate risk based on a bond price's sensitivity to a 100-basis point change in interest rates. The greater the duration of a bond, or a portfolio of bonds, the greater its price volatility will be in response to a change in interest rates and vice-versa. Duration of eight would mean that, given a 100-basis point change up/down in rates, a bond's price would move down/up by 8 percent. As of June 30, 2013, the System's fixed income portfolio had the following sensitivity to changes in interest rates:

Type of Investment	Effective Duration in Years	Fair Value	Percentage of Portfolio
U.S. Government Obligations	15.70	$ 79,437,489	8.03%
Foreign Government Obligations	1.72	18,315,824	1.85%
Asset-Backed Securities	13.81	3,212,480	0.32%
Collateralized Mortgage Obligations	3.97	25,117	0.00%
Municipal/Provincial Obligations	15.53	22,924,377	2.32%
Corporate Bonds	8.44	515,285,123	52.07%
Fixed Income Pooled Funds	N/A	275,800,459	27.87%
Short-term Investments and others	N/A	74,571,534	7.54%
Total Fixed Income Securities		$ 989,572,403	100.00%

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

International Securities	Equity	Fixed Income	Short-term and Other	Total Non-U.S. Dollar
Euro	$ 136,868,124	$ 7,848,238	$ 102,869,688	$ 247,586,050
British pound sterling	66,222,859	-	46,142,487	112,365,346
Japanese yen	112,789,888	-	(4,373,507)	108,416,381
Hong Kong dollar	15,599,744	-	4	15,599,748
Norwegian krone	2,552,418	-	10,829,229	13,381,647
Danish krone	8,732,325	-	-	8,732,325
Mexican peso	-	5,007,271	-	5,007,271
South Korean won	4,911,741	-	(55,996)	4,855,745
Philippine peso	544,058	2,219,499	-	2,763,557
Brazilian real	-	2,119,539	-	2,119,539
Other Currencies	54,806,423	2,268,497	(212,510,474)	(155,435,554)
Total International Securities	$ 403,027,580	$ 19,463,044	$ (57,098,569)	$ 365,392,055

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

The quality ratings of investments in fixed income securities as described by nationally recognized rating organizations as of June 30, 2013 are as follows:

Type of Investment	**Quality Rating**	**Fair Value**	**Percentage of Portfolio**
U.S. Government Obligations*	AAA	$ 79,437,489	8.03%
Foreign Government Obligations	AAA	1,646,938	0.16%
	AA	347,468	0.04%
	A	7,226,770	0.73%
	BBB	5,909,844	0.60%
	BB	1,949,738	0.20%
	Unrated	1,235,066	0.12%
Asset-Backed Securities	AAA	3,212,480	0.32%
Collateralized Mortgage Obligations	B	25,117	0.00%
Municipal/Provincial Bonds	AAA	5,456,529	0.55%
	AA	10,074,437	1.02%
	A	7,393,411	0.75%
Corporate Bonds	AAA	3,330,563	0.34%
	AA	29,345,558	2.96%
	A	147,530,472	14.91%
	BBB	92,810,428	9.38%
	BB	61,195,343	6.18%
	B	92,892,719	9.39%
	CCC	58,932,444	5.95%
	CC	1,588,733	0.16%
	C	149,625	0.02%
	D	209,125	0.02%
	Unrated	27,300,113	2.76%
Fixed Income Pooled Funds	Unrated	275,800,459	27.87%
Short-term Investments and others	Unrated	74,571,534	7.54%
Total Fixed Income Securities		$ 989,572,403	100.00%

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

Derivatives. In accordance with the Board's Statement of Investment Policy and Objectives, the System regularly invests in derivative financial instruments in the normal course of its investing activities to manage exposure to certain risks within the fund. During FY 2013, the System invested directly in various derivatives including exchange-traded futures contracts, forward currency contracts, and swaps. Investment managers are prohibited from purchasing securities on margin or using leverage unless specifically permitted within the investment manager's guidelines. These investments generally contain market risk resulting from fluctuations in interest and currency rates. The credit risk of these investments is associated with the creditworthiness of the related parties to the contracts. The System could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. The Board's Statement of Investment Policy and Objectives seeks to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. In addition, the System has indirect exposure to market and credit risk through its ownership interests in certain mutual and commingled funds which may hold derivative financial instruments. The System is not a dealer, but an end-user of these instruments.

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

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

Futures contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery of a specified financial instrument at a predetermined date and price. Gains and losses on futures contracts are settled daily. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that a counterparty will not pay. As of June 30, 2013, the System held 143 long US Treasury futures contracts with a fair value of $20,366,094 and 559 short US Treasury futures contracts with a fair value of ($79,338,453).

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. Foreign exchange contracts contain market risk resulting from fluctuations in currency rates. The credit risk is associated with the creditworthiness of the related parties to the contracts. As of June 30, 2013, the System held $216,526,562 buy foreign exchange contracts and ($290,955,095) sell foreign exchange contracts. The unrealized gain on the System's contracts was $919,827.

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

As of June 30, 2013, the fair value of securities on loan was $297,121,590. Cash received as collateral and the related liability of $291,568,717 as of June 30, 2013, is shown on the Statement of Plan Net Position. Securities received as collateral are not reported as assets since the System does not have the ability to pledge or sell the collateral securities absent borrower default. Securities lending revenues and expenses amounting to $1,186,186 and ($285,825), respectively, have been classified with investment income and investment expenses, respectively, in the accompanying financial statements.

The following represents the balances relating to the securities lending transactions at June 30, 2013:

Securities Lent	Underlying Securities	Non-Cash Collateral Value	Cash Collateral Investment Value
Lent for Cash Collateral:			
U.S. Government Obligations	$ 62,106,649	$ -	$ 63,236,757
Corporate Bonds	79,125,445	-	81,140,442
Equities	142,347,171	-	147,191,518
Lent for Non-Cash Collateral:			
U.S. Government Obligations	10,201,154	10,445,843	-
Corporate Bonds	625,718	658,993	-
Equities	2,715,453	2,874,110	-
Total	$ 297,121,590	$ 13,978,946	$ 291,568,717

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

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2013, there were no funds held by a counterparty that was acting as the System’s agent in securities lending transactions.

F. Allocated Insurance Contract

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

G. Income Taxes

The Internal Revenue Service issued a determination letter in September 2013, which stated that the System and its underlying trust qualify under the applicable provisions of the Internal Revenue Code and are exempt from federal income taxes. In the opinion of the plan administrator, the System and its underlying trust have operated within the terms of the System and are qualified under the applicable provisions of the Internal Revenue Code.

RETIREMENT SAVINGS PLAN - Defined Contribution Pension Plan

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

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

A. Plan Description and Contribution Information

Membership. At June 30, 2013 membership in the Plan consisted of:

Active plan members	3,470
Inactive plan members	866

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

Contributions. For fiscal year 2013, under Section 33-116 of the Code, the Plan required non-public safety employees to contribute 4 percent of regular earnings up to the Social Security wage base and 8 percent above the Social Security wage base. Public safety employees are required to contribute 3 percent of regular earnings up to the Social Security wage base and 6 percent above the Social Security wage base. Section 33-117 of the Code requires the County and each participating agency to contribute 8 percent and 10 percent of regular earnings for non-public safety and public safety employees, respectively.

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

B. Summary of Significant Accounting Policies

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

Method Used to Value Investments. Investments are stated at fair value. The fair value is generally based on quoted market prices at June 30, 2013.

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

C. Trustees of the Plan

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

D. Investments

Section 33-125 of the Code authorizes the Board to establish a diversified slate of mutual and commingled investment funds from which participants may select an option. The Board exercises the Standard of Care as delineated in Section 33-61 of the Code. As of June 30, 2013, the fair value of the mutual and commingled investment funds was $234,672,571, of which $45,999,788 was invested in international mutual funds.

E. Income Taxes

The Internal Revenue Service issued a determination letter in December 2010, which stated that the Plan and its underlying trust qualify under the applicable provisions of the Internal Revenue Code and are exempt from federal income taxes. In the opinion of the plan administrator, the Plan and its underlying trust have operated within the terms of the Plan and are qualified under the applicable provisions of the Internal Revenue Code.

DEFERRED COMPENSATION PLAN

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

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

A. Plan Description and Contribution Information

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

Plan Contributions. Under Section 33-11 of the Code, all employees hired after July 1, 2008 are automatically enrolled in the Plan with a 1% contributions unless they elect out within 60 days from the date of hire. All eligible participants are automatically enrolled in the Plan as of the date of hire. If they do not opt out of the Plan within 60 days from the date of hire, they begin making a contribution equivalent to 1% of their salary.

B. Summary of Significant Accounting Policies

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

Method Used to Value Investments. Investments are stated at fair value. The fair value is generally based on quoted market prices at June 30, 2013.

C. Trustees of the Plan

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

D. Investments

The Board is required to establish a diversified slate of mutual and commingled funds from which participants may select investment options. The Board exercises the Standard of Care as delineated in Section 33-61 of the Code. As of June 30, 2013, the fair value of the mutual and commingled investment funds was $303,302,906, of which $42,187,291 was invested in international mutual funds.

REQUIRED SUPPLEMENTARY INFORMATION

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

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/08	$ 2,701,119,470	$ 3,341,549,425	$ 640,429,955	80.8 %	$ 372,214,906	172.1 %
6/30/09	2,736,010,044	3,489,057,559	753,047,515	78.4	376,895,171	199.8
6/30/10	2,791,144,974	3,645,576,341	854,431,367	76.6	431,226,155	198.1
6/30/11	2,869,422,276	3,744,713,474	875,291,198	76.6	405,336,529	215.9
6/30/12	2,891,435,563	3,768,745,962	877,310,399	76.7	398,460,248	220.2
6/30/13	3,012,547,244	3,821,380,732	808,833,488	78.8	395,988,026	204.3

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

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2008	$ 117,686,375	100 %
2009	109,567,014	100
2010	113,957,784	100
2011	109,343,933	100
2012	107,855,595	100
2013	127,887,620	100

SCHEDULE OF ADMINISTRATIVE EXPENSES
EMPLOYEES' RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2013

Personnel Services:	
Salaries and wages	$ 1,226,528
Retirement contributions	81,715
Insurance	108,587
Social security	84,333
Total personnel services	1,501,163
Professional Services:	
Actuarial	212,630
Independent public accountants	29,376
Outside legal	11,164
Computer technical support	3,046
Other professional services	62,516
Temporary	14,027
Total professional services	332,759
Benefit Processing:	
Disbursement services	41,525
Recordkeeping services	80,716
Disability management	315,840
Total benefit processing	438,081
Due diligence and continuing education	28,695
Office Management:	
Office equipment and supplies	99,466
Miscellaneous	832
Total office management	100,298
Total administrative expenses	$ 2,400,996

SCHEDULE OF INVESTMENT EXPENSES
EMPLOYEES' RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2013

Investment Management Expenses:	
Aetna Life Insurance Company	$ 3,425
Aberdeen Asset Management Inc	41,461
BlackRock Financial Management	63,854
Bridgewater Associates	3,450,038
CoreCommodity Management LLC	190,481
Eagle Asset Management	569,684
E.I.I. Capital Management	130,686
First Quadrant L.P.	1,800,000
FX Concepts	726,370
GMO, LLC	340,046
Gryphon International Investment	946,778
Jennison Associates LLC	511,147
JP Morgan Investment Management	331,738
Los Angeles Capital Management	425,539
Loomis Sayles	880,878
Marathon London	1,266,843
Mondrian Investment Partners Ltd.	664,122
Nomura Asset Management	811,992
RhumbLine Advisors	19,436
Sands Capital Management	709,104
Schroder Investment Management	757,540
STW	411,444
Systematic Financial Management	406,292
Wellington Management	630,114
The Northern Trust Company	394,729
Albourne America LLC	95,556
Bloomberg Financial Systems	14,243
Flag Capital Management LLC	337,500
Institutional Shareholders Services Inc	8,625
Wilshire Associates	285,700
Abel/Noser Corp.	5,000
Franklin Park	517,979
Total investment management expenses	17,748,344
Securities lending borrower rebates	(653,621)
Securities lending agent fees	367,796
Total securities lending expenses	(285,825)
Total investment expenses	$ 17,462,519

EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF PLAN NET POSITION
JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
Equity in County's pooled cash and investments	$ 1,108,905	$ 814,725
Investments:		
Government and agency obligations	282,344,930	303,907,668
Municipal/Provincial bonds	22,924,377	28,647,969
Asset-backed securities	3,212,480	2,966,713
Corporate bonds	582,765,510	572,946,146
Collateralized mortgage obligations	25,117	2,547,786
Commercial mortgage-backed securities	-	1,196,517
Common and preferred stock	1,356,684,162	1,266,564,139
Mutual and commingled funds	369,851,201	288,967,738
Short-term investments	75,697,933	82,364,316
Cash collateral received under securities lending agreements	291,568,717	303,900,721
Real assets	235,951,453	150,047,987
Private equity	238,964,221	229,073,503
Total investments	3,459,990,101	3,233,131,203
Dividend, interest, and other receivables	14,762,968	6,132,660
Contributions receivable	6,423,088	5,053,707
Total assets	3,482,285,062	3,245,132,295
LIABILITIES		
Payable for collateral received under securities lending agreements	291,568,717	303,900,721
Benefits payable and other liabilities	6,471,134	4,457,880
Total liabilities	298,039,851	308,358,601
Net position held in trust for pension benefits	$ 3,184,245,211	$ 2,936,773,694

EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN PLAN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
ADDITIONS		
Contributions:		
Employer	$ 127,887,620	$ 107,855,595
Members	24,854,331	22,833,310
Total contributions	152,741,951	130,688,905
Investment Income:		
Net appreciation in fair value of investments	249,328,076	58,860,076
Dividends and interest	74,807,660	75,243,141
Total income from investment activities	324,135,736	134,103,217
Less investment expenses	17,748,344	17,585,825
Net income from investment activities	306,387,392	116,517,392
Income from securities lending	1,186,186	787,831
Less securities lending expenses	(285,825)	(386,458)
Net income from securities lending	1,472,011	1,174,289
Total additions	460,601,354	248,380,586
DEDUCTIONS		
Retiree benefits	153,566,262	150,413,170
Disability benefits	46,635,541	44,127,146
Survivor benefits	8,601,914	8,233,185
Refunds	1,925,124	2,495,447
Administrative expenses	2,400,996	3,545,654
Total deductions	213,129,837	208,814,602
Net increase	247,471,517	39,565,984
Net position - beginning of year	2,936,773,694	2,897,207,710
Net position - end of year	$3,184,245,211	$2,936,773,694

RETIREMENT SAVINGS PLAN
STATEMENTS OF PLAN NET POSITION
JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
Equity in County’s pooled cash and investments	$ 556,797	$ 424,839
Investments	234,672,571	196,978,242
Contributions receivable	938,299	794,149
Total assets	236,167,667	198,197,230
LIABILITIES		
Accrued expenses	25,734	83,883
Net position held in trust for pension benefits	$ 236,141,933	$ 198,113,347

RETIREMENT SAVINGS PLAN
STATEMENTS OF CHANGES IN PLAN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
ADDITIONS		
Contributions:		
Employers	$ 15,628,750	$ 11,791,545
Members	8,273,565	8,434,872
Total contributions	23,902,315	20,226,417
Investment income (loss)	23,370,612	(101,271)
Other income	353,400	252,634
Net investment income	23,724,012	151,363
Less investment expenses	7,780	8,370
Total additions	47,618,547	20,369,410
DEDUCTIONS		
Distributions	9,388,909	6,949,898
Administrative expenses	201,052	304,836
Total deductions	9,589,961	7,254,734
Net increase	38,028,586	13,114,676
Net position - beginning of year	198,113,347	184,998,671
Net position - end of year	$ 236,141,933	$ 198,113,347

DEFERRED COMPENSATION PLAN
STATEMENTS OF PLAN NET POSITION
JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
Investments	$ 303,302,906	$ 270,887,077
Contributions receivable	609,861	547,661
Total position and net position held in trust for pension benefits	$ 303,912,767	$ 271,434,738

DEFERRED COMPENSATION PLAN
STATEMENTS OF CHANGES IN PLAN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	**2012**
ADDITIONS		
Contributions - members	$ 18,228,940	$ 14,974,202
Investment income	34,096,559	285,595
Total additions	52,325,499	15,259,797
DEDUCTIONS		
Distributions	19,847,470	17,687,767
Total deductions	19,847,470	17,687,767
Net increase (decrease)	32,478,029	(2,427,970)
Net position - beginning of year	271,434,738	273,862,708
Net position - end of year	$ 303,912,767	$ 271,434,738

INVESTMENT SECTION

Employees' Retirement System

EMPLOYEES' RETIREMENT SYSTEM

INVESTMENT PERFORMANCE, POLICY, STATISTICS AND ACTIVITY

The Board of Investment Trustees (Board), and the investment staff, are responsible for managing the $3.2 billion Employees' Retirement System (the System), invested solely in the interests of its beneficiaries. It is a significant responsibility due to the majority of the average retiree's benefit coming from investment earnings on contributions from members, the County, and participating agencies. According to Wilshire Associates, a national consulting firm, the median return among U.S. public pension plans over $1 billion in size in FY 2013 was a gain of 12.57%, gross of fees. The System's return for the fiscal year was a gain of 10.85% gross of fees, ranking in the bottom quartile of this universe of comparable pension funds due to the lower public equity allocation of the ERS versus its peers. The public domestic equity markets produced the strongest returns of all financial markets in FY13. The same study ranked the System's three-year gain of 12.44% and its five-year return of 6.49% in the top quartile of this universe. The gross returns for the one-year period exceeded the performance benchmark established by the Board by 237 basis points, with returns for the three-year and five-year periods exceeding the performance benchmarks by 130 basis points and 84 basis points, respectively. Returns for the System are calculated on a time weighted basis (except where noted on page 44). The key drivers of the performance for the twelve month period ending June 30, 2013 were the System's U.S. and non-U.S. public equity holdings.

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

Specific investment objectives include:

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

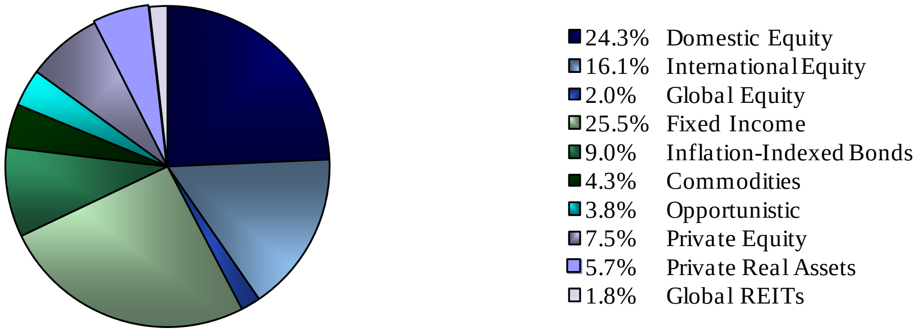
To achieve these objectives, the following investment policies are employed:

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

During FY 2013, the Board continued to implement portfolio adjustments which will result in further diversification of the investment portfolio and better management of the System's risk. Toward this effort, the Board approved new investments in the following sectors: public equities, private equity, private real assets, commodities and global real estate securities. The Board also approved a structural change to the asset allocation that will result in the addition of private debt and additional opportunistic investments to the portfolio.

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

ASSET ALLOCATION – JUNE 30, 2013



INVESTMENT PERFORMANCE SUMMARY

	ANNUALIZED DATA FOR PERIOD ENDING JUNE 30, 2013		
	1 Year	**3 Year**	**5 Year**
Total Fund Time-Weighted Returns			
MCERS	10.85[A] %	12.44[A] %	6.49[A] %
Policy Benchmark	8.48[A]	11.14[A]	5.65[A]
Total Domestic Equities Return			
MCERS	23.29	19.10	7.45
Russell 3000	21.46	18.63	7.25
Total Private Equities Return			
MCERS	9.85[B]	11.87[B]	5.79[B]
Russell 3000 + 300 Bpts	24.51[B]	21.69[B]	11.69[B]
Total International Equities			
MCERS	17.96	10.61	3.61
MSCI All Country World X US	13.63	7.99	(0.80)
Total Private Real Assets			
MCERS	9.32[B]	9.24[B]	(0.76)[B]
CPI + 500 Bpts	6.77[C]	7.24[C]	6.61[C]
Total Fixed Income			
MCERS	3.83	9.33	9.22
Custom Fixed Income Benchmark	1.28	7.86	8.53
Total Opportunistic			
MCERS	10.43[D]	5.47[D]	N/A
HFRI Fund of Funds Composite	7.21	2.98	N/A
Total Commodities			
MCERS	(7.74)	0.84	N/A
DJ UBS Commodities Index	(8.01)	(0.26)	N/A
Total Global Inflation Indexed Bonds			
MCERS	(2.28)	15.97	12.16
Custom IIB Benchmark	(4.36)	8.56	7.06

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

A: Total fund returns utilize lagged valuations for private equity and private real assets investments.
B: Returns computed on dollar-weighted basis and are net of investment management fees.
C: Benchmark comparison is not meaningful at this time due to the short investment history of the System private real assets program.
D: Returns computed net of investment management fees.

PORTFOLIO HIGHLIGHTS

PUBLIC EQUITY

The market value of the total Public Equity Portfolio as of June 30, 2013 represented approximately 42.4% of the total fund, split between Domestic Equity at 24.3%, International Equity at 16.1%, and Global Equity at 2%. The Domestic Equity Portfolio outperformed the Russell 3000 Benchmark by 1.83% for the one year ending June 30, 2013. The U.S. equity markets rallied throughout the fiscal year. Due to strides made towards improving the sovereign debt situation in Europe and additional monetary stimulus, markets recuperated almost all of their losses since falling from the previous highs reached in 2007. The markets posted modest gains during the mid-year, despite investor concerns over the pending tax hikes and spending cuts. Domestic equity indices continued to post strong results during the latter half of the fiscal year as better-than-expected economic data and sustained monetary stimulus boosted investor confidence.

As of June 30, 2013, the International Equity Portfolio was allocated as follows: 82.0% active EAFE and 18.0% active emerging markets. The International Equity Portfolio outperformed the MSCI ACWI ex U.S. benchmark by 4.33% for the fiscal year ending June 30, 2013. International markets trailed their domestic counterparts during the fiscal year, being impacted by Europe's weak performance. Both developed and emerging markets started the fiscal year on a strong note, driven by stimulus from central banks and improving conditions in Europe. The rally continued towards the mid-year as the European Central Bank intervention was welcomed by investors. However, solvency problems in Cyprus pulled down developed market returns during the second half of the fiscal year. Emerging markets were further impacted by fears over a tapering of U.S. monetary policy and a slowdown in overall global growth, particularly in China.

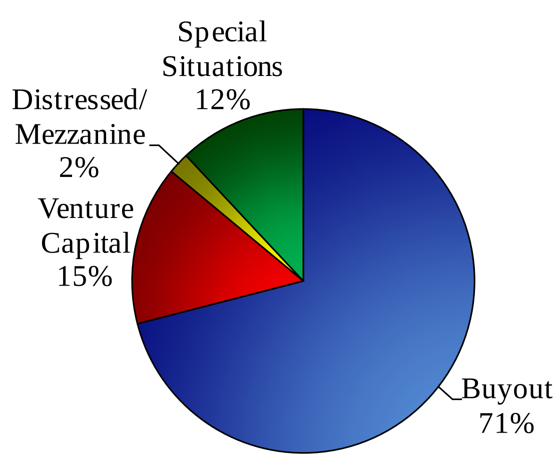
Equity: Top 15 Holdings

The top 15 holdings in the Public Equity Portfolio comprised 8.87% of ERS assets at June 30, 2013. In comparison to the top 15 holdings of last year, Visa, Amazon, Google, Novartis, Fresenius, Salesforce, Inditex, Gemalto, Seven & I Holdings, and BNP Paribas remained and ING Groep, Total, Priceline, and Barclays were added.

Equity	Shares		Value
Google	13,070	$	11,506,436
Visa	60,540		11,063,685
Amazon	36,140		10,035,717
Novartis	128,056		9,081,602
Fresenius	73,408		9,037,171
BNP Paribas	143,497		7,829,369
Salesforce	187,432		7,156,154
Seven & I Holdings	187,500		6,842,377
ING Groep	701,293		6,381,030
Total	129,178		6,297,541
Priceline	7,201		5,956,163
Gemalto	64,013		5,787,900
Barclays	1,323,545		5,589,663
Inditex	44,373		5,470,205
Ericsson	474,358		5,337,841

PRIVATE EQUITY

The System began investing in private equity in 2003 to achieve returns greater than those available in the public equity markets and to gain exposure to diversified alpha sources. At June 30, 2013, the Private Equity Portfolio comprised 7.5% of total fund assets, and approximately 69% of the dollars committed had been called. On a long-term basis, the Private Equity program seeks to outperform the Russell 3000 Index by 3%. System returns are calculated on a dollar-weighted or internal rate-of-return basis, and the annualized return since inception (2003) through June 30, 2013 was 6.82%. By comparison, the dollar-weighted return for the Russell 3000 Index plus 3% for the same period was 9.98%.

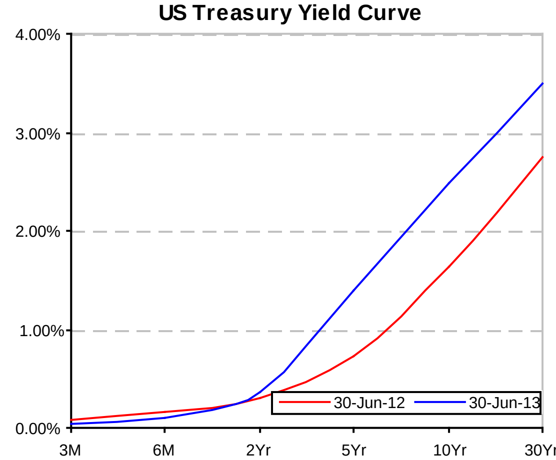


As compared to the prior fiscal year, private equity investment activity was down slightly. Exits from private equity deals saw mixed results, with the number of initial public offerings increasing significantly and the number of corporate acquisitions declining. Purchase valuations were down slightly versus the prior fiscal year.

PORTFOLIO HIGHLIGHTS

FIXED INCOME

The System invests a portion of its portfolio in fixed income securities to reduce total fund volatility, produce income and provide a measure of protection in the event of a slowing economic environment, where these lower volatility assets should provide downside protection. The market value of the Fixed Income Portfolio as of June 30, 2013 represented approximately 25.5% of the total fund. The Fixed Income Portfolio returned 3.83%, outperforming the benchmark return of 1.28% during the fiscal year. Treasury rates rose during the year and interest rate sensitive sectors were poor performers. Positive performance was driven by the high yield allocation, representing approximately 10.0% of total fund assets.



During the fiscal year ending June 30, 2013, the fixed income markets were impacted by signs of economic growth and the potential tapering of quantitative easing. The Federal Reserve kept the Fed Funds Rate at a target range of 0% to 0.25% throughout the year. Federal Reserve Chairman Bernanke, for the first time, tied the Fed's monetary policy to specific economic indicators by announcing the Fed would keep interest rates at its target range until the U.S. unemployment rate fell below 6.5% and the inflation rate exceeded 2.5%. The Fed also continued quantitative easing measures to keep longer interest rates low in an effort to stimulate the economic recovery but signaled they may begin to taper the purchases later this year which resulted in a sharp rise in Treasury rates. The steepening in the U.S. Treasury Yield Curve (see above) reflects signs of an economic recovery and the potential tapering of quantitative easing measures.

Fixed Income: Top 15 Holdings

Fifteen Largest Fixed Income Holdings	Interest Rate	Maturity Date	Fair Value
United States Treasury Bonds	3.125 %	February 15, 2042	$ 28,344,969
United States Treasury Bonds	3.125	November 15, 2041	22,720,313
United States Treasury Bonds	2.750	August 15, 2042	7,120,781
Wachovia Bank	6.600	January 15, 2038	6,690,111
HSBC Bank	7.000	January 15, 2039	6,143,266
JP Morgan Chase	5.600	July 15, 2041	5,531,432
Citigroup Inc	8.125	July 15, 2039	5,127,109
General Electric Capital Corp	6.875	January 10, 2039	4,972,738
Altria Group Inc	9.950	November 10, 2038	4,845,559
United States Treasury Bonds	7.625	February 15, 2025	4,722,412
Metlife	5.875	February 6, 2041	4,678,791
United Mexican States	10.000	May 12, 2024	4,365,836
Bank of America	6.000	October 15, 2036	4,360,007
ConocoPhillips	6.500	February 15, 2039	4,302,370
Caterpillar	3.803	August 15, 2042	3,836,669

A complete list of the portfolio holdings can be obtained by contacting the Board of Investment Trustees office.

PORTFOLIO HIGHLIGHTS

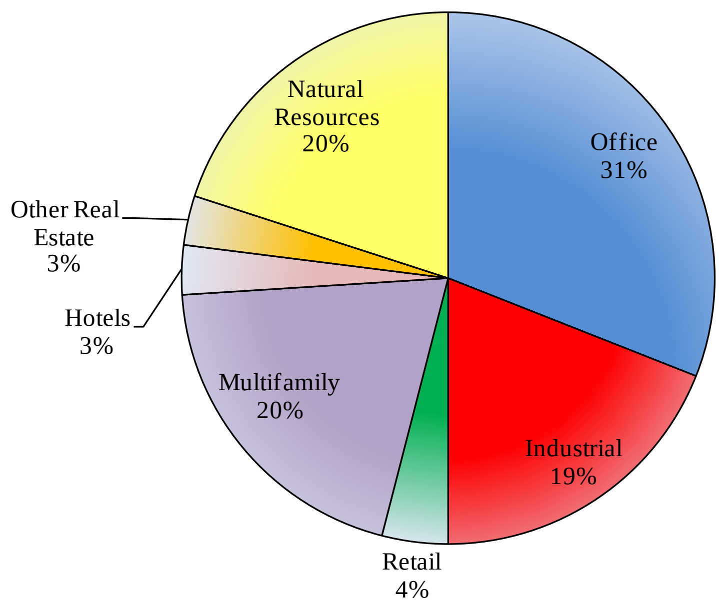
OPPORTUNISTIC

The System invests a portion of its portfolio in absolute return strategies (hedge funds) to enhance returns and reduce total fund volatility. The market value of the Opportunistic Portfolio as of June 30, 2013 represented approximately 3.8% of the total fund. The Portfolio returned 10.43%, outperforming the benchmark return of 7.21% during the fiscal year.

Hedge fund performance was positive during the fiscal year driven primarily by equity long/short and event driven strategies. Directional equity long/short strategies performed well as equity markets rallied. Event driven strategies were strong due to increased corporate transactions and shareholder activist pressures. Global Macro was the worst performing strategy, ending flat for the fiscal year.

PRIVATE REAL ASSETS

The System began investing in value-added and opportunistic private real estate and natural resources in 2006 to attain real returns less correlated with the broad securities markets. Returns are computed on a dollar-weighted or internal rate-of-return basis, and from inception (2006) to June 30, 2013 the investments generated an annualized loss of 0.01%. By comparison, the dollar-weighted return for the benchmark CPI + 5% for the same period was a gain of 6.94%. The Private Real Assets Portfolio comprised 5.7% of the ERS portfolio at June 30, 2013 with approximately 79% of the total capital committed to private real assets being contributed.



During the fiscal year, real estate transaction activity increased significantly versus the prior year, as Europe, Asia, and the Americas all experienced higher deal volume. Energy investment markets saw a slight decrease in the number and dollar volume of transactions, though year-over-year oil and gas price increases were strong.

PUBLIC REAL ASSETS

Global Real Estate Securities

The System began investing in global real estate securities in November 2012 to attain liquid public market exposure to real estate. As of June 30, 2013, the Global Real Estate Securities Portfolio represented 1.8% of the total fund. Since its inception, the portfolio has returned 5.86%, underperforming the benchmark by 1.01%.

During the fiscal year, returns for global real estate securities were strong, driven primarily by Asian and European markets. Within Asian markets, real estate securities were lifted by announcements of stimulative monetary policy in Japan. During May, the asset class in aggregate fell precipitously on the Federal Reserve’s announcement that it may taper its quantitative easing programs, though gains early in the fiscal year were more than sufficient to offset this loss.

PORTFOLIO HIGHLIGHTS

(PUBLIC REAL ASSETS – CONTINUED)

Global Inflation-Indexed Bonds

The System allocates a portion of Fund assets to inflation-indexed bonds which provide protection against inflation risk as well as providing a diversified return stream to manage volatility. The Inflation-Indexed Bond Portfolio represented 9.0% of the total fund at June 30, 2013. The Portfolio, which also includes an absolute return fund, declined 2.28% during the fiscal year, outperforming the benchmark by 2.08%.

The returns on global inflation-indexed bonds were negative during the fiscal year as real yields rose. Performance of the total portfolio benefited from the opportunistic allocations made by the absolute return fund to developed market currencies, U.S. equities, nominal bonds and certain commodity positions.

Inflation-Indexed Bonds - Country Exposures		
United States	40.3	%
Euroland	30.0	
United Kingdom	14.7	
Sweden	5.0	
Canada	10.0	

Commodities

The System began investing in commodities in January 2009 to further diversify the portfolio to reduce risk and to provide a hedge against unexpected inflation. The Commodities Portfolio represented 4.3% of the total fund as of June 30, 2013. The Portfolio declined by 7.74%, outperforming the benchmark by 0.27% for the year ended June 30, 2013.

The commodities markets posted negative results for the fiscal year. Supply concerns within the grains sector, demand from China and India, and potential oil supply interruptions in the Middle East gave commodities markets a strong start. However, at mid-year the commodities outlook changed on improving supply related to better-than-expected weather conditions and suppressed demand due to a lack of policy clarity in China. In addition, the commodities markets declined due to economic concerns in Europe and China, and on indications that central banks could begin tapering monetary stimulus programs.

INVESTMENT MANAGERS

The diversified investment structure as of June 30, 2013 is reflected in the following table, which lists System managers by asset class and style.

Public Equity	Investment Style
Domestic Equity	
BlackRock Financial Mgt.*	Russell 1000 Index
Eagle Asset Management	Small Cap Growth
JP Morgan Investment Mgt.*	Large Cap Core Plus
Los Angeles Capital Management*	Large Cap Alpha
RhumbLine Advisors	Russell 1000 Index
Sands Capital Management	Large Cap Growth
Systematic Financial Mgt.	Large Cap Value
Wellington Management	Small Cap Value
International Equity	
Gryphon	EAFE
Marathon	EAFE
Mondrian*	Emerging Markets
Global Equity	
Aberdeen Asset Management*	ACWI

Fixed Income	Investment Style
BlackRock Financial Mgt.*	BC US Aggregate Index
Loomis Sayles	High Yield
Jennison Associates	Long Duration
Nomura Asset Management	High Yield
Schroder Investment Mgt.	Long Duration

Inflation-Indexed Bonds	Investment Style
Bridgewater*	Inflation Indexed Bonds

Foreign Currency	Investment Style
First Quadrant*	Foreign Currency

Global REIT	Investment Style
E.I.I. Capital Management*	Global Active
BlackRock Financial Mgt.*	FTSE EPRA/NAREIT Dev

Commodities	Investment Style
CoreCommodity Mgt.*	Active
Schroder Investment Mgt.*	Active
Wellington Management*	Active

Opportunistic	Investment Style
GMO*	Global Macro
Grosvenor*	Fund-of-Funds

Private Equity	Investment Style
Adams Street*	Fund-of-Funds
Altus Capital Partners*	Buyouts
Altaris Health Partners*	Buyouts
DW Healthcare Partners*	Buyouts
Franklin Park*	Fund-of-Funds
HarbourVest*	Fund-of-Funds
KPS Capital Partners*	Turnaround
Landmark*	Fund-of-Funds
Mason Wells*	Buyouts
Odyssey Inv. Partners.*	Buyouts
Pomona Capital*	Fund-of-Funds
Riverside Partners*	Buyouts
TA Associates*	Growth Equity
Wicks Group*	Buyouts

Private Real Assets	Investment Style
AEW Capital*	Opportunistic
Carmel Partners*	Value-Added
EnerVest*	Energy
FLAG Capital Mgt.*	Fund-of-Funds
Hampshire Companies*	Value-Added
LBA Realty*	Value-Added
Lime Rock Resources*	Energy
Pearlmark Real Estate Ptrs*	Value-Added
TA Associates Realty*	Value-Added

* Pooled Funds

PORTFOLIO HIGHLIGHTS

PUBLIC EQUITY COMMISSIONS

January 1, 2012 THROUGH December 31, 2012

Brokers	Commissions (thousands)
Investment Technology Group	$ 26
Deutsche Bank Securities	23
Merrill Lynch Pierce Fenner & Smith	18
Liquidnet Inc.	17
Bernstein, Stanford & Co.	15
Instinet	14
Credit Suisse First Boston Corporation	13
Goldman Executing & Clearing	13
Society Generale	13
Nomura Securities	13
Other Brokers (129 brokers)	196
Total	**$ 361**

INVESTMENT SUMMARY

	2013 Fair Value	Percent of Total Value	2012 Fair Value	Percent of Total Value
Government and agency obligations	$ 282,344,930	8.16 %	$ 303,907,668	9.40 %
Municipal/Provincial obligations	22,924,377	0.66	28,647,969	0.89
Asset-backed securities	3,212,480	0.09	2,966,713	0.09
Corporate bonds	582,765,510	16.84	572,946,146	17.72
Collateralized mortgage obligations	25,117	0.00	2,547,786	0.08
Commerical mortgage-backed securities	-	0.00	1,196,517	0.04
Common and preferred stock	1,356,684,162	39.21	1,266,564,139	39.17
Mutual and commingled funds	369,851,201	10.69	288,967,738	2.43
Short-term investments	75,697,933	2.19	82,364,316	9.05
Cash collateral received under securities lending agreements	291,568,717	8.43	303,900,721	9.40
Real assets	235,951,453	6.82	150,047,987	4.64
Private equity	238,964,221	6.91	229,073,503	7.09
Total	$ 3,459,990,101	100.00 %	$ 3,233,131,203	100.00 %

ACTUARIAL SECTION

Employees' Retirement System

GRS

Gabriel Roeder Smith & Company
Consultants & Actuaries

20 North Clark Street
Suite 2400
Chicago, IL 60602-5111

312.456.9800 phone
312.456.9801 fax
www.gabrielroeder.com

November 12, 2013

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

Dear Linda:

At your request, we have performed an actuarial valuation of the Montgomery County Employees' Retirement System ("System") as of July 1, 2013. The purpose of this actuarial valuation, which is performed annually, is to determine the funding status and annual contribution requirements of the System. The actuarial valuation was performed specifically at the request of the Executive Director of the Montgomery County Employees' Retirement System and is intended for use by the System and Montgomery County ("County") and those designated by the System and the County. This report may be provided to parties other than the System and County only in its entirety and only with the permission of the System and County. GRS is not responsible for reliance upon this valuation for any other purpose, or by any other party.

Funding Objective

The funding objective for the System is to collect employer and employee contributions sufficient to pay the benefits of the Montgomery County Employees' Retirement System when due and to achieve a funded ratio of 100 percent at the end of the amortization period under the level percentage of pay funding policy with 20-year closed period amortization bases established at each valuation. The total contribution rate is equal to the normal cost rate plus amortization of the unfunded liability as a level percentage of payroll. The unfunded liability as of July 1, 2010, was amortized over an initial closed period of 18 years (15 years remaining at the valuation as of July 1, 2013). The additional unfunded liability from each subsequent valuation is amortized over a 20-year closed period. This funding policy is consistent with generally accepted actuarial standards for the funding of retirement systems. The total contribution rate minus the average employee contribution rate equals the County contribution rate. The valuation as of July 1, 2013, establishes the County contribution rate for fiscal year beginning July 1, 2014.

Actuarial Assumptions and Methods

The actuarial assumptions and the actuarial cost method used in this valuation are the same as those used in the prior actuarial valuation. The actuarial method utilized by the System for Guaranteed Retirement Income Plan ("GRIP") members is the Traditional Unit Credit Cost Method. The actuarial method utilized by the System for non-GRIP members is the Projected Unit Credit Cost Method. The objective of these methods is to finance the benefits of the System as such benefits accrue to each member. The Projected Unit Credit Method reflects future pay increases whereas the Traditional Unit Credit Method does not. Any Unfunded Actuarial

Accrued Liability (UAAL) under this method is separately financed. All actuarial gains and losses under this method are reflected in the UAAL.

The actuarial assumptions and methods used, including the economic and demographic assumptions, the actuarial cost method and asset method, are in accordance with paragraph 36 of GASB Statement Number 25 and are set by the County.

Benefit Provisions
There have been no new plan changes reflected in the valuation as of July 1, 2013, since the actuarial valuation at July 1, 2012.

Participant Data
A total of 5,606 active members (including DRSP and DROP) were included in the valuation as of July 1, 2013. Between the 2012 and 2013 valuations, the number of active employees increased by 52 members, or 0.9 percent. The average annual valuation pay (including DRSP and DROP) decreased by 1.5 percent, from $71,743 to $70,636 between the 2012 and 2013 valuation. The number of benefit recipients increased from 5,824 to 5,961, or 2.4 percent, since the last valuation. The average monthly benefit increased by 1.1 percent, from $2,915 to $2,946.

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

Valuation Assets
On a market value basis, the Plan assets had an investment return of approximately 10.3 percent (net of investment expenses). Final recognition of the fiscal year end 2009 investment loss and continued recognition of the fiscal year end 2012 investment loss, which was partially offset by recognition of investment gains during fiscal years ending 2010, 2011 and 2013, resulted in an estimated net asset rate of return of 6.34 percent on an actuarial basis which compares to the assumed rate of return of 7.50 percent.

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

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

Ms. Linda Herman
Montgomery County Employee Retirement Plans
November 12, 2013

Certification
To the best of our knowledge the information contained in this report is accurate and fairly presents the actuarial position of the Montgomery County Employees' Retirement System as of the valuation date as of July 1, 2013, based on the data and actuarial techniques described above and applicable statutes. All calculations have been made in conformity with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. The undersigned are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

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

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

The signing actuaries are independent of the plan sponsor.

Respectfully submitted,
Gabriel, Roeder, Smith & Company

Lance J. Weiss

Lance Weiss, E.A., F.C.A., M.A.A.A.
Senior Consultant

Amy Williams

Amy Williams, A.S.A., M.A.A.A.
Consultant

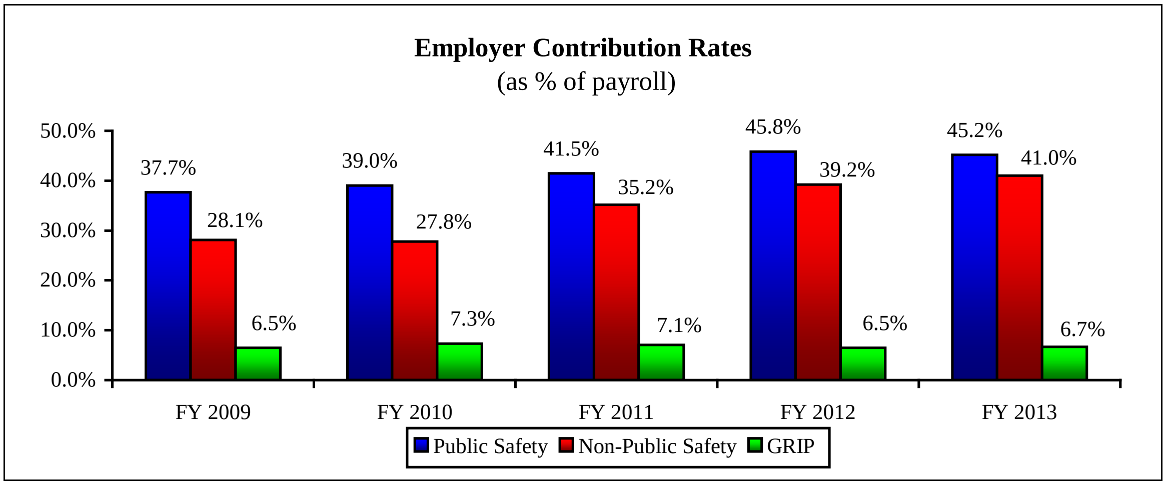
AW:rg

SUMMARY OF VALUATION RESULTS
EMPLOYEES' RETIREMENT SYSTEM

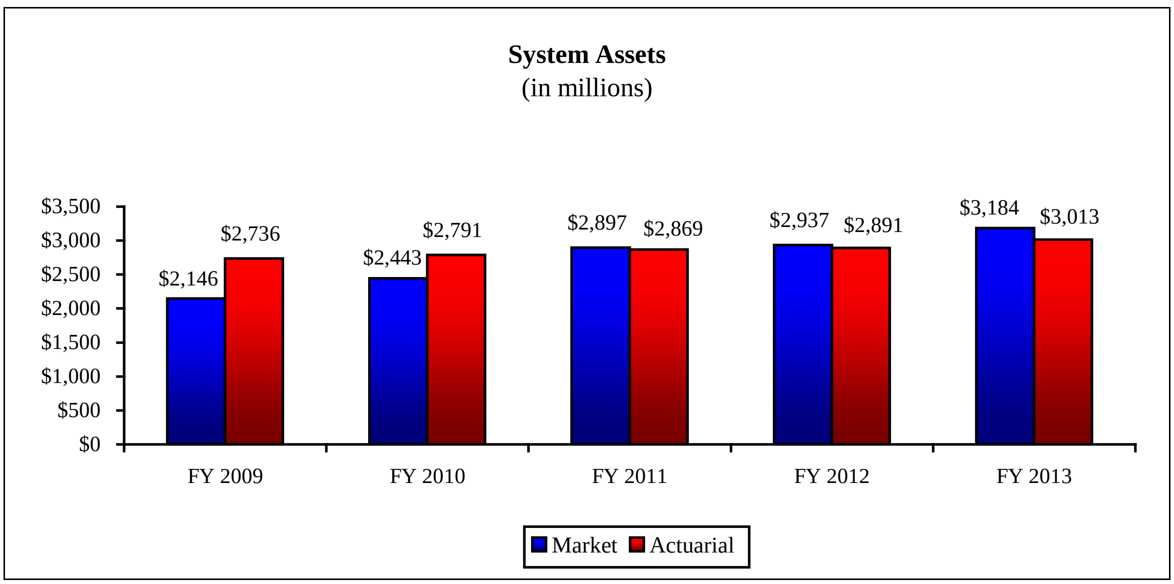
A. Overview

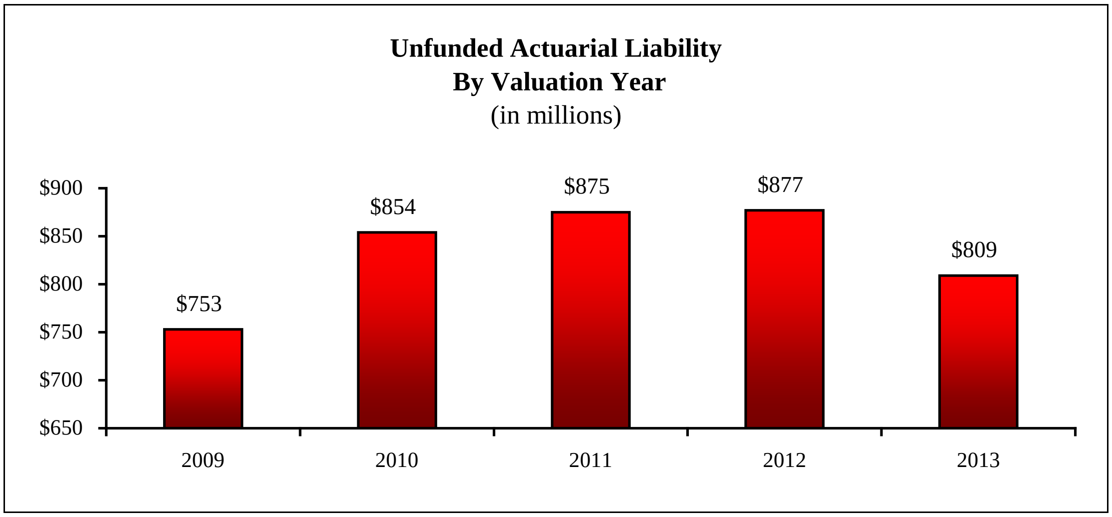
This report presents the results of our June 30, 2013 actuarial valuation of the Montgomery County Employees' Retirement System.

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

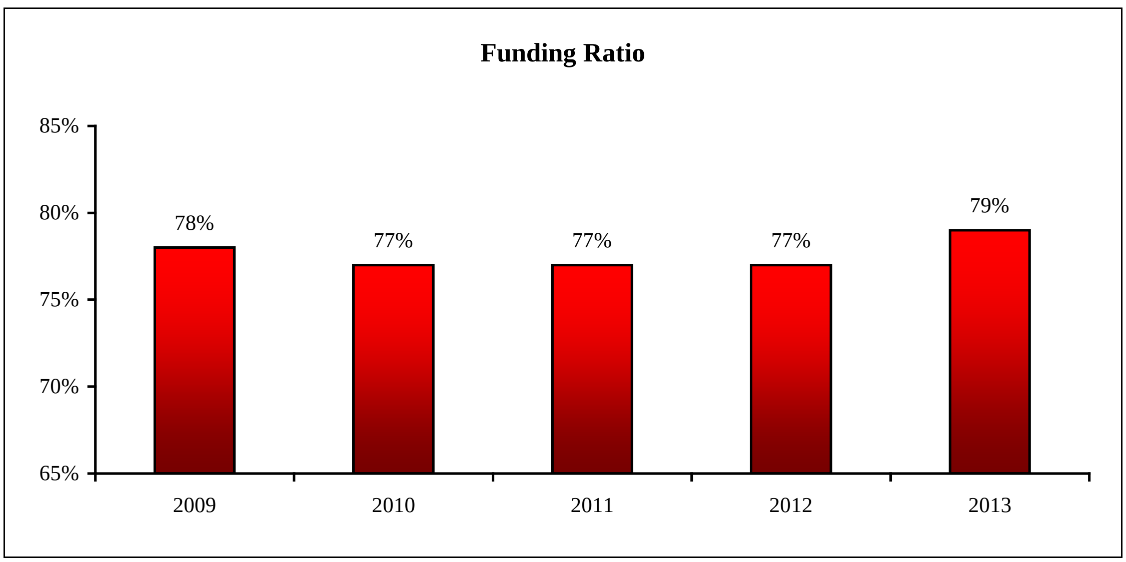


The change in the employer contribution rate in FY 2013 was due to actual System experience versus actuarial assumptions.





The unfunded actuarial liability decreased in FY 2013 primarily due to lower than expected salary increases for active members, lower than expected cost of living increases for retired members, and demographic experience.



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

B. Summary of Results

	July 1, 2012	July 1, 2013
Actuarial Liability		
a. Active Members	$ 1,506,769,849	$ 1,477,910,259
b. Retired Members and Beneficiaries	2,244,507,703	2,321,751,935
c. Vested Former Members	17,468,410	21,718,538
d. Total	$ 3,768,745,962	$ 3,821,380,732
Valuation Assets	$ 2,891,435,563	$ 3,012,547,244
Unfunded Actuarial Liability	$ 877,310,399	$ 808,833,488
Normal Cost		
a. Gross Normal Cost	$ 77,517,343	$ 76,901,082
b. Anticipated Employee Contributions	$ 21,456,899	$ 20,971,463
c. County Normal Cost (a -b)	$ 56,060,444	$ 55,929,619
Amortization Payment	$ 69,161,593	$ 67,898,374
County Contribution Required at Date Shown	$ 125,222,037	$ 123,827,993
County FY 2014/FY 2015 Contribution (as a % of covered payroll)		
Public Safety Employee	45.84%	45.17%
Non-Public Safety Employees	39.17%	41.04%
Guaranteed Retirement Income Plan	6.45%	6.72%

C. Valuation Highlights

1. System Assets

As of June 30, 2013, the System had assets, valued at market, of $3.184 billion, as compared to $2.937 billion at June 30, 2012. The increase of $247 million was attributable to the following:

a. An increase of $152 million from employer and employee contributions;
b. An increase of $308 million from investment gain;
c. A decrease of $213 million due to the payment of benefits to System participants and administrative expenses.

When measured on an actuarial basis, System assets were $3.013 billion at June 30, 2013, and $2.891 billion at June 30, 2012. The asset valuation method smoothes the fluctuations generated by intermittent market gains and losses. This method phases-in investment gains and losses arising during and after the 1994 fiscal year over a five-year period from the date established. Effective July 1, 1997, the calculation of the actuarial value of assets was changed to exclude the present value of estimated accrued contributions.

2. System Liabilities

The Unfunded Actuarial Liability decreased $68 million, from $877 million at July 1, 2012, to $809 million at July 1, 2013, as follows:

Unfunded Actuarial Liability at beginning of year	$	877,310,399
Unfunded Actuarial Liability at end of year		808,833,488
Decrease in Unfunded Actuarial Liability	$	68,476,911

The decrease in Unfunded Actuarial Liability for the year ended June 30, 2013, is comprised of the following:

Increase due to loss on actuarial value of assets	$	(33,134,494)
Decrease due to demographic gain and other factors		88,959,005
Decrease due to amortization payment and contributions		12,652,400
Increase/decrease due to plan changes		0
Decrease in Unfunded Actuarial Liability	$	68,476,911

3. System Contributions

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

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

	Public Safety (non-GRIP)		Non-Public Safety (non-GRIP)		GRIP	
Employer contribution rate - June 30, 2012	45.84	%	39.17	%	6.45	%
Increase/decrease due to loss on actuarial value of assets	0.78		1.02		(0.08)	
Increase/decrease due to actuarial gains & losses	(1.45)		0.85		0.35	
Increase/decrease due to plan changes	0.00		0.00		0.00	
Increase/decrease due to assumption and method changes	0.00		0.00		0.00	
Employer contribution rate - June 30, 2013	45.17	%	41.04	%	6.72	%

4. Membership

The active membership of the System increased from 5,554 at June 30, 2012 to 5,606 at June 30, 2013. The System was closed to all new employees hired after October 1, 1994, except public safety, bargaining unit employees and GRIP participants. Inactive members, including retirees and beneficiaries, increased from 5,824 at June 30, 2012 to 5,961 at June 30, 2013 and the number of former members with vested rights decreased from 413 to 358.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS
EMPLOYEES' RETIREMENT SYSTEM

A. Funding Method

The funding method used for the System's valuation is the "Projected Unit Credit" actuarial cost method. The objective of this method is to allocate the total pension benefit to which each participant is expected to become entitled at retirement to the participant's past and future service. The allocation is accomplished by applying the plan's accrual formula to projected final salary at retirement. An *actuarial liability* is calculated at the valuation date as the present value of benefits allocated to service prior to that date. The *Unfunded Actuarial Liability* at the valuation date is the excess of the actuarial liability over the assets of the System.

B. Actuarial Value of Assets

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

ACTUARIAL ASSUMPTIONS AND METHODS
EMPLOYEES' RETIREMENT SYSTEM

A. Demographic Assumptions

1. Mortality

RP2000 projected 30 years, separate tables for males and females
Annual Deaths per 1,000 Members

Age	Male Deaths	Female Deaths	Age	Male Deaths	Female Deaths
20	0	0	65	8	8
25	0	0	70	14	14
30	0	0	75	25	22
35	1	0	80	48	37
40	1	0	85	90	65
45	1	1	90	163	120
50	1	1	95	252	183
55	2	2	100	334	230
60	4	4	105	398	293

2. Termination of Employment (prior to retirement eligibility)

Annual Terminations per 1,000 Members (non-GRIP)

Years of Service	Non-Public Safety	Public Safety
0 – 4	52	80 – 35
5 – 9	43	31 – 22
10 – 14	33	20 – 10
15 – 19	31 – 20	9 – 6
20 – 25	17 – 9	6
26+	9	NA

It is assumed that 25% of all vested participants who terminate elect to receive a refund of their contributions with interest instead of a deferred benefit regardless of their age at termination.

Annual Terminations per 1,000 Members (GRIP)

Years of Service	Non-Public Safety
0 – 1	95
2 – 3	60
4	50
5	43
6 – 7	30
8+	25

3. Disability

Annual Disabilities per 1,000 Members

	Non-Public Safety Employees		Public Safety Employees					
			Group E		Group F		Group G	
Age	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**
20	1	0	1	1	1	1	1	2
25	2	1	2	2	3	3	2	4
30	2	2	4	5	6	8	4	11
35	3	3	5	7	8	12	5	16
40	3	3	6	10	10	16	7	23
45	6	3	11	13	19	44	13	31
50	7	5	19	18	40	59	22	41
55	5	6	23	19	48	62	27	43
60	9	6	28	19	59	63	47	44

4. Deaths

	Annual Deaths per 1,000 Disabled Members	
Age	**Male**	**Female**
25	0	0
30	1	0
35	1	1
40	1	1
45	2	1
50	3	3
55	6	5
60	11	9
65	19	16

5. Retirement

Age	Non-Public Safety Employees	Public Safety Employees		
		Group E	Group F	Group G
Under 40	0%	3.5%	15%	20%
41	0%	3.5%	15%	20%
42	0%	3.5%	15%	20%
43	0%	3.5%	15%	20%
44	0%	3.5%	15%	20%
45	0%	3.5%	15%	20%
46	0%	15%	15%	20%
47	0%	15%	15%	20%
48	0%	15%	15%	20%
49	0%	15%	15%	20%
50	0%	20%	15%	20%
51	0%	20%	15%	20%
52	0%	20%	15%	30%
53	0%	20%	15%	30%
54	0%	20%	15%	30%
55	20%	50%	45%	40%
56	20%	50%	45%	40%
57	20%	50%	45%	40%
58	20%	50%	45%	40%
59	20%	50%	45%	40%
60	15%	100%	100%	100%
61	15%	100%	100%	100%
62	15%	100%	100%	100%
63	15%	100%	100%	100%
64	15%	100%	100%	100%
65	50%	100%	100%	100%
66	50%	100%	100%	100%
67	75%	100%	100%	100%
68	100%	100%	100%	100%
69	100%	100%	100%	100%
70	100%	100%	100%	100%

6. Sick Leave Credit

Service credit is increased by 2% for non public safety employees, 2.4% for Group E employees, 4.5% for Group F employees and 3.2% for Group G employees to account for additional credit from unused sick leave. Sick leave is capped at 2 years.

7. Marital assumption

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

B. Economic Assumptions

1. Investment Return:	7.5% compound per annum
2. Cost-of-Living Increases:	3% on credited service earned prior to June 30, 2011 2.3% on credited service thereafter, reflecting the 2.5% cap
3. Increase in Social Security Wage Base:	4.0% compound per annum
4. Expense load:	Anticipated administrative expense equal to the average of the prior three years of administrative expenses. For FY 2015 this figure is $3,008,701.
5. Salary Increase:	Merit and promotional increases assumed to be based on service as shown below:

Service	Non Public Safety *	Public Safety
0 – 4	6.00%	9.25%
5 – 9	6.00%	8.25%
10 – 14	6.00%	6.25%
15 – 19	6.00%	5.50%
20 – 24	4.25%	5.00%
25 – 29	4.00%	4.50%
30+	4.00%	4.25%

** Includes GRIP*

ANALYSIS OF FINANCIAL EXPERIENCE

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

Type of Activity	2010	2011	2012	2013
Investment loss	$ (155,831,291)	$ (73,632,309)	$ (110,314,254)	$ (33,134,494)
Combined liability experience	84,758,321	2,351,277	102,955,793	93,060,972
Loss during year	$ (71,072,970)	$ (71,281,032)	$ (7,358,461)	$ 59,926,478

SOLVENCY TEST

	Aggregate Accrued Liability				Portion of Accrued Liabilities Covered by Reported Assets		
Valuation Date	(1) Active Members Contributions	(2) Retirees, Vested Terms, Beneficiaries	(3) Active Members (Employer Financed Portion)	Reported Assets	(1)	(2)	(3)
6/30/2006	177,391,695	1,578,703,590	1,162,240,788	2,222,724,295	100	100	40
6/30/2007	187,104,227	1,661,692,386	1,251,841,110	2,469,933,200	100	100	50
6/30/2008	186,171,030	1,847,516,034	1,307,862,361	2,701,119,470	100	100	51
6/30/2009	200,669,572	1,892,331,796	1,396,056,191	2,736,010,044	100	100	46
6/30/2010	213,191,851	2,054,949,883	1,377,434,607	2,791,144,974	100	100	38
6/30/2011	236,934,960	2,181,816,842	1,325,970,792	2,869,422,276	100	100	34
6/30/2012	210,537,737	2,465,714,392	1,092,493,833	2,891,435,563	100	100	20
6/30/2013	248,331,006	2,526,844,154	1,046,205,572	3,012,547,244	100	100	23

SCHEDULE OF RETIREES AND SURVIVORS
During Years Ended June 30

	New Retirees and Disableds	Survivors	Total
July 1, 2006	**4,483**	**365**	**4,848**
New retirements & disabilities	242	0	242
Deaths with beneficiaries	(22)	22	0
Deaths/benefits ended	(67)	(26)	(93)
July 1, 2007	**4,636**	**361**	**4,997**
New retirements & disabilities	382	0	382
Deaths with beneficiaries	(28)	28	0
Deaths/benefits ended	(64)	(9)	(73)
July 1, 2008	**4,926**	**380**	**5,306**
New retirements & disabilities	186	0	186
Deaths with beneficiaries	(24)	24	0
Deaths/benefits ended	(95)	(18)	(113)
July 1, 2009	**4,993**	**386**	**5,379**
New retirements & disabilities	328	0	328
Deaths with beneficiaries	(22)	22	0
Deaths/benefits ended	(88)	(28)	(116)
July 1, 2010	**5,211**	**380**	**5,591**
New retirements & disabilities	282	0	282
Deaths with beneficiaries	(20)	20	0
Deaths/benefits ended	(154)	(7)	(161)
July 1, 2011	**5,319**	**393**	**5,712**
New retirements & disabilities	201	0	201
Deaths with beneficiaries	(47)	47	0
Deaths/benefits ended	(87)	(2)	(89)
July 1, 2012	**5,386**	**438**	**5,824**
New retirements & disabilities	269	0	269
Deaths with beneficiaries	(38)	38	0
Deaths/benefits ended	(104)	(28)	(132)
July 1, 2013	**5,513**	**448**	**5,961**

SCHEDULE OF ANNUAL ALLOWANCE
During Years Ended June 30

	New Retirees and Disableds	Survivors	Total
July 2006	**$ 136,369,467**	**$ 5,331,363**	**$ 141,700,830**
Average Annual Allowance	30,419	14,606	29,229
Annual Allowances Added to the Rolls	10,498,059	580,630	11,078,089
Annual Allowances Removed From the Rolls	(2,335,705)	(478,216)	(2,813,321)
July 2007	**$ 144,531,821**	**$ 5,433,777**	**$ 149,965,598**
Average Annual Allowance	31,176	15,052	30,011
Annual Allowances Added to the Rolls	20,518,024	1,056,444	21,574,468
Annual Allowances Removed From the Rolls	(2,344,133)	(422,864)	(2,766,997)
July 2008	**$ 162,705,712**	**$ 6,067,357**	**$ 168,773,069**
Average Annual Allowance	33,030	15,467	31,808
Annual Allowances Added to the Rolls	4,887,240	453,616	5,340,856
Annual Allowances Removed From the Rolls	(3,242,232)	(370,344)	(3,612,576)
July 2009	**$ 164,350,720**	**$ 6,150,629**	**$ 170,501,349**
Average Annual Allowance	32,916	15,934	31,698
Annual Allowances Added to the Rolls	13,218,960	304,035	13,522,995
Annual Allowances Removed From the Rolls	(1,306,672)	(419,291)	(1,725,963)
July 2010	**$ 176,263,008**	**$ 6,035,373**	**$ 182,298,381**
Average Annual Allowance	33,825	15,883	32,606
Annual Allowances Added to the Rolls	14,287,432	580,328	14,867,760
Annual Allowances Removed From the Rolls	(868,937)	(103,095)	(972,032)
July 2011	**$ 189,681,503**	**$ 6,512,606**	**$ 196,194,109**
Average Annual Allowance	35,661	16,572	34,348
Annual Allowances Added to the Rolls	8,947,253	1,102,270	10,049,523
Annual Allowances Removed From the Rolls	(2,498,388)	(34,529)	(2,532,917)
July 2012	**$ 196,130,368**	**$ 7,580,347**	**$ 203,710,715**
Average Annual Allowance	36,415	17,307	34,978
Annual Allowances Added to the Rolls	11,709,284	867,622	12,576,906
Annual Allowances Removed From the Rolls	(5,027,794)	(572,950)	(5,600,744)
July 2013	**$ 202,811,859**	**$ 7,875,019**	**$ 210,686,878**
Average Annual Allowance	**36,788**	**17,578**	**35,344**

Schedule of Active Member Valuation Data

Valuation Date	Number	Annual Payroll	Annual Average Pay	% Increase in Average Pay
July 1, 2006	5,362	$357,361,131	$66,647	5.63%
July 1, 2007	5,294	$374,792,608	$70,796	6.23%
July 1, 2008	5,060	$376,002,333	$74,309	4.96%
July 1, 2009	5,012	$376,014,994	$75,023	0.96%
July 1, 2010	5,786	$431,226,155	$74,529	-0.66%
July 1, 2011	5,515	$405,336,529	$73,497	-1.38%
July 1, 2012	5,554	$398,460,248	$71,743	-2.39%
July 1, 2013	5,606	$395,988,026	$70,636	-1.54%

STATISTICAL SECTION

Employee Retirement Plans

STATISTICAL SECTION

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

The schedules beginning on page 72 are designed to show financial trend information to assist users in understanding and assessing how the Employee Retirement Plans' financial position has changed over the past ten years. The financial trend schedules presented are:

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

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

The schedules beginning on page 78 display demographic, economic, and operating information. The demographic and economic information is intended to assist users in understanding the environment in which the Employee Retirement Plans operate. The operating information is intended to provide contextual information about the Employee Retirement Plans' operations to assist readers in using financial statement information. The demographic and economic information and the operating information presented include:

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

MONTGOMERY COUNTY, MARYLAND
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF CHANGE IN NET POSITION
JUNE 30, 2013
LAST TEN FISCAL YEARS
(dollars in thousands)

	2004	2005	2006	2007	2008
Additions					
Member contributions	$ 14,762	$ 15,326	$ 16,085	$ 16,362	$ 18,851
Employer contributions	61,927	74,655	88,184	109,436	117,686
Transfer of member account asset balances	-	-	-	-	-
Investment income (loss) (net of expenses)	286,895	197,433	187,004	420,847	(81,746)
Total additions	363,584	287,414	291,273	546,645	54,791
Deductions					
Benefit payments	111,646	115,635	125,818	136,833	147,027
Refunds	796	762	635	793	673
Administrative expenses	2,066	1,857	1,920	2,431	2,557
Total deductions	114,508	118,254	128,373	140,057	150,257
Change in net position	$ 249,076	$ 169,160	$ 162,900	$ 406,588	$ (95,466)

MONTGOMERY COUNTY, MARYLAND
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF BENEFIT AND REFUND DEDUCTIONS FROM NET POSITION BY TYPE
JUNE 30, 2013
LAST TEN FISCAL YEARS
(dollars in thousands)

	2004	2005	2006	2007*	2008
Type of Benefit					
Service benefits:					
Retirees	$ 87,123	$ 102,641	$ 112,210	$ 98,653	$ 105,369
Survivors	5,032	2,087	1,483	5,952	6,723
Disability	19,491	10,907	12,125	32,228	34,935
Total benefits	$ 111,646	$ 115,635	$ 125,818	$ 136,833	$ 147,027
Refund of Contributions	$ 796	$ 762	$ 635	$ 793	$ 673

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

2009	2010	2011	2012	2013
$ 18,245	$ 20,431	$ 18,592	$ 22,833	$ 24,854
109,567	113,958	109,344	107,855	127,888
-	31,530	-	-	-
(428,525)	304,185	510,018	117,692	307,859
(300,713)	470,104	637,954	248,380	460,601
168,618	169,089	178,792	202,773	208,804
668	1,415	1,568	2,495	1,925
2,803	2,907	3,079	3,546	2,401
172,089	173,411	183,439	208,814	213,130
$ (472,802)	$ 296,693	$ 454,515	$ 39,566	$ 247,471

2009	2010	2011	2012	2013
$ 123,560	$ 122,861	$ 129,941	$ 150,413	$ 153,566
7,333	7,620	7,944	8,233	8,602
37,725	38,608	40,907	44,127	46,636
$ 168,618	$ 169,089	$ 178,792	$ 202,773	$ 208,804
$ 668	$ 1,415	$ 1,568	$ 2,495	$ 1,925

MONTGOMERY COUNTY, MARYLAND
RETIREMENT SAVINGS PLAN
SCHEDULE OF CHANGE IN NET POSITION
JUNE 30, 2013
LAST TEN FISCAL YEARS
(dollars in thousands)

	2004	2005	2006	2007	2008
Additions					
Member contributions	$ 4,208	$ 4,820	$ 5,860	$ 6,798	$ 8,118
Employer contributions	6,468	8,758	9,437	11,227	13,583
Transfer of member account asset balances	-	-	-	-	-
Investment income (loss) (net of expenses)	6,354	4,668	8,237	17,174	(8,383)
Total additions	17,030	18,246	23,534	35,199	13,318
Deductions					
Distributions	1,382	2,441	4,306	4,455	5,216
Administrative expenses	247	231	243	293	258
Total deductions	1,629	2,672	4,549	4,748	5,474
Change in net position	$ 15,401	$ 15,574	$ 18,985	$ 30,451	$ 7,844

MONTGOMERY COUNTY, MARYLAND
RETIREMENT SAVINGS PLAN
SCHEDULE OF DISTRIBUTION DEDUCTIONS FROM NET POSITION
JUNE 30, 2013
LAST TEN FISCAL YEARS
(dollars in thousands)

	2004	2005	2006	2007	2008
Distributions	$ 1,382	$ 2,441	$ 4,306	$ 4,455	$ 5,216

2009	2010	2011	2012	2013
$ 11,263	$ 8,871	$ 8,686	$ 8,435	$ 8,274
20,625	16,401	16,072	11,792	15,629
-	(31,530)	-	-	-
(26,722)	14,191	32,877	143	23,716
5,166	7,933	57,635	20,370	47,619
3,669	3,902	5,854	6,950	9,389
300	237	244	305	201
3,969	4,139	6,098	7,255	9,590
$ 1,197	$ 3,794	$ 51,537	$ 13,115	$ 38,029

2009	2010	2011	2012	2013
$ 3,669	$ 3,902	$ 5,854	$ 6,950	$ 9,389

MONTGOMERY COUNTY, MARYLAND
DEFERRED COMPENSATION PLAN
SCHEDULE OF CHANGE IN NET POSITION
JUNE 30, 2013
LAST TEN FISCAL YEARS
(dollars in thousands)

	2004	2005	2006	2007	2008
Additions					
Member contributions	$ 21,610	$ 19,929	$ 16,562	$ 16,649	$ 17,294
Investment income (loss) (net of expenses)	29,456	14,587	20,486	32,394	(9,378)
Total additions	51,066	34,516	37,048	49,043	7,915
Deductions					
Distributions	9,634	10,216	11,226	12,410	15,714
Administrative expenses	6	16	-	-	-
Total deductions	9,640	10,232	11,226	12,410	15,714
Change in net position	$ 41,426	$ 24,284	$ 25,822	$ 36,633	$ (7,799)

MONTGOMERY COUNTY, MARYLAND
DEFERRED COMPENSATION PLAN
SCHEDULE OF DISTRIBUTION DEDUCTIONS FROM NET POSITION
JUNE 30, 2013
LAST TEN FISCAL YEARS
(dollars in thousands)

	2004	2005	2006	2007	2008
Distributions	$ 9,634	$ 10,216	$ 11,226	$ 12,410	$ 15,714

2009	2010	2011	2012	2013
$ 18,058	$ 17,029	$ 17,029	$ 14,974	$ 18,229
(44,479)	19,411	42,988	286	34,096
(26,421)	36,440	60,017	15,260	52,325
13,391	8,723	16,178	17,688	19,847
-	-	-	-	-
13,391	8,723	16,178	17,688	19,847
$ (39,812)	$ 27,717	$ 43,839	$ (2,428)	$ 32,478

2009	2010	2011	2012	2013
$ 15,714	$ 8,723	$ 16,178	$ 17,688	$ 19,847

MONTGOMERY COUNTY, MARYLAND
EMPLOYEES' RETIREMENT SYSTEM
PRINCIPAL PARTICIPATING EMPLOYERS
CURRENT YEAR AND EIGHT YEARS AGO
JUNE 30, 2013

	2013*		2005**	
Participating Government	**Covered Employees**	**Percentage of Total System**	**Covered Employees**	**Percentage of Total System**
Montgomery County***	5,437	97.0%	5,419	96.3%
Town of Chevy Chase	3	0.1%	5	0.1%
Strathmore Hall	7	0.1%	7	0.1%
Housing Opportunities Commission	141	2.5%	159	2.8%
Revenue Authority	6	0.1%	17	0.3%
Washington Suburban Transit Commission	-	-	2	0.0%
Montgomery County Employees Federal Credit Union	9	0.2%	8	0.2%
State Department of Assessment and Taxation	2	0.0%	6	0.1%
District Court	1	0.0%	5	0.1%
Total	5,606	100%	5,628	100%

* Includes GRIP participants
**The information for principal participating employers is not available for 2004 and prior.
***Includes Independent Fire/Rescue Corporations

MONTGOMERY COUNTY, MARYLAND
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF RETIRED MEMBERS BY BENEFIT TYPE
JUNE 30, 2013

Fiscal Year	Retiree	Disability	Survivor	Total
2004	3,348	851	360	4,559
2005	3,443	853	369	4,665
2006	3,564	919	365	4,848
2007*	3,661	975	361	4,997
2008	3,905	1,021	380	5,306
2009	3,957	1,036	386	5,379
2010	4,132	1,079	380	5,591
2011	4,245	1,074	393	5,712
2012	4,309	1,077	438	5,824
2013	4,412	1,101	448	5,961

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

MONTGOMERY COUNTY, MARYLAND
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF AVERAGE BENEFIT AMOUNTS
JUNE 30, 2013

Fiscal Year	Retiree	Disability	Survivor	Total
2004	$ 26,022	$ 22,904	$ 13,978	$ 24,489
2005	29,812	12,786	5,655	24,788
2006	31,484	13,193	4,063	25,953
2007*	26,947	33,055	16,487	27,383
2008	26,983	34,216	17,692	27,710
2009	31,226	36,414	18,997	31,347
2010	29,734	35,781	20,052	30,243
2011	30,610	38,088	20,214	31,301
2012	34,907	40,972	18,797	34,817
2013	34,807	42,357	19,201	35,028

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

MONTGOMERY COUNTY, MARYLAND
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF RETIRED MEMBERS BY TYPE OF RETIREMENT
AS OF JUNE 30, 2013

Amount of Monthly Benefit	Number of Retired Members	Type of Retirement [a]			Option Selected [b]						
		1	2	3	1	2	3	4	5	6	7
Deferred	358										
$ 1 – $ 250	193	169	23	1	89	50	11	2	16	4	21
251 – 500	301	246	50	5	158	62	15	6	22	14	24
501 – 750	297	223	67	7	124	62	25	10	20	18	38
751 – 1,000	300	230	57	13	128	67	12	8	25	26	34
1,001 – 1,250	329	244	47	38	124	80	11	9	25	20	60
1,251 – 1,500	302	213	49	40	108	76	22	10	15	24	47
1,501 – 1,750	279	202	35	42	97	63	12	18	14	22	53
1,751 – 2,000	263	196	21	46	104	56	13	16	6	17	51
Over 2,000	3,697	2,689	99	909	1,178	976	50	201	122	474	696
Total	6,319	4,412	448	1,101	2,110	1,492	171	280	265	619	1,024

Notes:

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

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

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

	Years Credited Service						
Retirement Effective Dates	**0 – 5**	**5 – 10**	**10 – 15**	**15 – 20**	**20 – 25**	**25 – 30**	**30 +**
Period 7/1/2005 to 6/30/2006							
Average monthly benefit*	$ 2,491	$ 2,801	$ 1,752	$ 2,356	$ 2,928	$ 3,649	$ 4,594
Average final valuation pay**	$ 43,375	$ 55,641	$ 55,619	$ 67,299	$ 68,683	$ 73,731	$ 77,143
Number of retired members***	2	6	28	58	49	55	50
Period 7/1/2006 to 6/30/2007							
Average monthly benefit*	$ 2,760	$ 2,115	$ 2,163	$ 2,425	$ 3,100	$ 3,744	$ 4,438
Average final valuation pay**	$ 48,664	$ 58,211	$ 72,411	$ 74,925	$ 80,599	$ 79,607	$ 76,689
Number of retired members***	1	4	18	40	27	37	39
Period 7/1/2007 to 6/30/2008							
Average monthly benefit*	$ 2,994	$ 3,061	$ 1,180	$ 2,287	$ 2,927	$ 3,466	$ 4,330
Average final valuation pay**	$ 50,803	$ 66,024	$ 62,986	$ 73,335	$ 78,696	$ 74,908	$ 74,647
Number of retired members***	1	8	18	58	60	57	87
Period 7/1/2008 to 6/30/2009							
Average monthly benefit*	$ -	$ -	$ 2,821	$ 2,760	$ 3,560	$ 4,309	$ 5,425
Average final valuation pay**	$ -	$ -	$ 77,385	$ 77,304	$ 88,521	$ 87,167	$ 98,906
Number of retired members***	-	-	5	20	21	16	12
Period 7/1/2009 to 6/30/2010							
Average monthly benefit*	$ -	$ 3,212	$ 2,747	$ 2,815	$ 3,548	$ 4,008	$ 5,289
Average final valuation pay**	$ -	$ 63,839	$ 82,064	$ 83,152	$ 85,524	$ 83,495	$ 86,947
Number of retired members***	-	6	6	43	49	39	68
Period 7/1/2010 to 6/30/2011							
Average monthly benefit*	$ 1,965	$ 3,412	$ 2,674	$ 3,091	$ 3,303	$ 4,136	$ 5,079
Average final valuation pay**	$ 46,807	$ 65,268	$ 65,263	$ 85,031	$ 82,627	$ 88,067	$ 84,544
Number of retired members***	1	4	5	37	80	50	57
Period 7/1/2011 to 6/30/2012							
Average monthly benefit*	$ -	$ -	$ 1,738	$ 1,840	$ 3,020	$ 5,064	$ 5,546
Average final valuation pay**	$ -	$ -	$ 56,551	$ 61,633	$ 80,696	$ 98,400	$ 90,742
Number of retired members***	-	-	3	14	30	34	57
Period 7/1/2012 to 6/30/2013							
Average monthly benefit*	$ -	$ 331	$ 1,595	$ 2,147	$ 3,063	$ 4,641	$ 5,845
Average final valuation pay**	$ -	$ 50,497	$ 56,936	$ 72,901	$ 76,904	$ 90,509	$ 94,904
Number of retired members***	-	1	5	17	46	38	69

* Based on current benefits only. Does not take into account any future benefits.
** Pay used for last valuation (when member was an active employee).
*** Only includes participants who changed from active to retiree status.
Beginning with periods after 7/1/2011, counts include members that were in DRSP or DROP in the previous valuation and were retired in the current valuation.

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

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

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

Prepared by:
Montgomery County Employee Retirement Plans
101 Monroe Street, 15th Floor
Rockville, Maryland 20850
240-777-8220