ALLEGHENY COUNTY EMPLOYEES' RETIREMENT SYSTEM

DECEMBER 31, 2011 AND 2010

ALLEGHENY COUNTY EMPLOYEES' RETIREMENT SYSTEM
FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES

YEARS ENDED DECEMBER 31, 2011 AND 2010

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PROFESSIONAL ACCOUNTING,
CONSULTING & BUSINESS
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March 27, 2012

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REPORT OF INDEPENDENT AUDITORS

We have audited the accompanying financial statements of the Allegheny County Employees' Retirement System (Retirement System) as of December 31, 2011 and 2010, and for the years then ended, as listed in the table of contents. These financial statements are the responsibility of the Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Allegheny County Employees' Retirement System as of December 31, 2011 and 2010, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the schedule of funding progress and schedule of employer contributions on pages 15 through 17 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Certified Public Accountants

ALLEGHENY COUNTY EMPLOYEES' RETIREMENT SYSTEM

STATEMENTS OF PLAN NET ASSETS
DECEMBER 31,

ASSETS

	2011	2010
Cash and Cash Equivalents	$ 11,728,042	$ 18,106,853
Investments (at fair value):		
Equity:		
U.S. Common and Preferred Stock	79,197,627	103,233,492
American Depositary Receipts	3,376,663	3,612,126
S&P 500 Index Fund	46,825,973	61,321,680
Non-U.S. Stocks and Equity Mutual Funds	150,334,916	177,506,160
Bonds and Notes:		
U.S. Government and Related Agency Debt	28,433,391	32,006,542
Fannie Mae and Freddie Mac Debt	10,449,340	6,818,777
Fixed Income Mutual Funds	103,359,286	85,432,127
U.S. Corporate Debt Instruments	61,179,391	54,311,360
Non-U.S. Government and Corporate Debt	11,413,419	10,348,761
Other Investments:		
Hedge Funds	549,359	959,546
Real Estate Investment Trusts	39,511,818	42,827,571
Commodities Funds	25,277,572	21,247,278
Venture Capital / Private Equity	111,314,260	80,251,928
Receivables:		
Amounts Due from Brokers for Sold Investments	378,237	207,008
Accrued Interest and Dividends	1,447,332	1,242,326
Accrued Employer Contributions	1,151,980	995,180
Accrued Employee Contributions	1,082,542	873,809
Other Assets	374,319	51,077
Total Assets	$ 687,385,467	$ 701,353,601

LIABILITIES AND PLAN NET ASSETS

Liabilities:		
Vouchers Payable	$ 8,775	$ 2,171
Accrued Liabilities	1,767,230	1,635,938
Amounts Due to Brokers for Purchased Investments	446,387	410,396
Due to Other Funds	62,503	-
Other Liabilities	1,069	3,596
Total Liabilities	2,285,964	2,052,101
Plan Net Assets:		
Held in Trust for Pension Benefits	685,099,503	699,301,500
(A schedule of funding progress is presented on page 15)		
Total Liabilities and Plan Net Assets	$ 687,385,467	$ 701,353,601

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

ALLEGHENY COUNTY EMPLOYEES' RETIREMENT SYSTEM

STATEMENTS OF CHANGES IN PLAN NET ASSETS
DECEMBER 31,

	2011	2010
Additions:		
Contributions:		
Employee	$ 23,546,922	$ 20,194,179
Employer	23,406,380	20,115,911
Total Contributions	46,953,302	40,310,090
Investment Income:		
Net Appreciation in Fair Value of Investments	1,331,980	66,699,939
Interest	5,792,559	5,395,742
Dividends	6,539,642	5,988,654
Stock Loan Income	96,218	81,605
	13,760,399	78,165,940
Less: Investment Management Fees	1,733,672	1,693,912
Total Investment Income - net	12,026,727	76,472,028
Miscellaneous Income	105,118	59,654
Total Additions - Net	59,085,147	116,841,772
Deductions:		
Benefit Payments	68,120,680	65,844,509
Refunds of Employee Contributions	4,051,359	3,057,594
Salaries, Wages and Related Expenses	279,124	285,917
Administrative & Miscellaneous Expenses	835,981	994,754
Total Deductions	73,287,144	70,182,774
Net Increase (Decrease) in Plan Net Assets	(14,201,997)	46,658,998
Plan Net Assets at Beginning of Year	699,301,500	652,642,502
Plan Net Assets at End of Year	$ 685,099,503	$ 699,301,500

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

ALLEGHENY COUNTY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

NOTE 1 – Significant Accounting Policies

Basis of Accounting

The accompanying financial statements of the Allegheny County Employees' Retirement System (Retirement System) have been prepared on the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Investments

Investments of the Retirement System are presented at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price. Bonds and notes not regularly on a national exchange are valued based on the last reported sale price or mean of the latest bid and ask price. Other investments consist of ownership interests in various private equity funds. These interests are recorded at the latest available book value of Retirement System's ownership interest, generally being December 31, 2011. The book value for these investments approximates fair value due to the requirement for these funds to follow the guidance of Accounting Standards Codification 820-10, *Fair Value Measurements*.

The Retirement System has adopted investment guidelines that summarize the investment policy of the Board and set forth investment targets and performance objectives for the fund. The investment guidelines were last revised November 9, 2006. In 2011, the Board approved changes to the target allocations for investments. The investment policy has not been revised to include these changes. However, since the changes are already in effect for the fund, the new target allocations are included in these notes.

Actuarial Cost Method

The Retirement System Plan (Plan) utilizes the entry age normal method. Under this method, normal cost percent is determined separately for each active participant as the level percent of expected career earnings required to fund expected plan benefits. A dollar nominal cost is computed by applying this percent to the participant's expected earnings for the current plan year. The participant's actuarial accrued liability is the difference between the present value of all future plan benefits expected to be paid on his benefit and the present value of his future nominal costs.

NOTE 2 – Plan Description

The Retirement System is sponsored by the County of Allegheny, Pennsylvania (County). The Retirement System is presented as the Pension Trust Fund (Fund) of the County, within the financial statements of the County as a whole.

The Retirement System is a single-employer, defined benefit, contributory retirement benefit plan covering substantially all employees of the County. Benefit and contribution provisions for the Retirement System are determined under the statutes enacted by the General Assembly of the Commonwealth of Pennsylvania. The Retirement System Board (Board), pursuant to express statutory authority, has the right to increase the employee contributions in the event it is actuarially determined that a contribution increase is required in order for the Board to meet its funding requirements. Any increase in employee contributions imposes a statutory requirement upon the County to match the employee contributions. Also, the obligation of the Fund to pay retirement benefits is further secured by statutory obligation imposed upon the County to utilize its taxing authority to meet the Board's obligation to make monthly benefit payments to retirees.

Monthly benefit payments are determined for each individual according to the retirement option and the age and length of service at retirement. Additionally, the Board, at its discretion, can provide for cost of living allowances to retirees based on meeting certain actuarial funding levels as more fully described in the House Bill 869 of the General Assembly of the Commonwealth of Pennsylvania. Under normal retirement (attainment of age 50 with 20 years of service for police and firefighters; age 55 with 20 years of service for deputy sheriffs, jail guards, and probation officers; age 60 with 20 years of service for non-uniformed employees), the retirement benefit is equal to 50% of the final average salary, plus 1% thereon for each full year of service between 20 and 40 years. Final average salary is the monthly average of the 24 highest months of compensation in the last 48 months of employment preceding retirement.

Employees are required to contribute 7% of covered compensation (6% in 2010). Employee contributions are matched equally by the County, as prescribed by the Second Class County Code of the Commonwealth of Pennsylvania. Employees with at least 24 months of service who terminate prior to satisfying the minimum service requirements for a retirement benefit are entitled to refunds of their contributions plus interest thereon, approximately 2.4% in 2011. Employees with less than 24 months of service who terminate prior to satisfying the minimum service requirements for a retirement benefit are entitled to refunds of their contributions only.

NOTE 2 – Plan Description (Continued)

At January 1, 2011 and 2010, the dates of the most recent actuarial reports, participants in the Retirement System were as follows:

	2011	2010
Participants:		
Retirees and beneficiaries	4,414	4,428
Deferred vested	179	174
	4,593	4,602
Current Employees:		
Vested – non-uniform	3,827	3,745
Vested – all others	499	489
Vested – police and fire	152	155
Non-vested – non-uniform	2,974	2,786
Non-vested – all others	189	212
Non-vested – police and fire	98	92
	7,739	7,479
Total	12,382	12,081

NOTE 3 – Contributions Required and Contributions Made

The Retirement System's funding policy requires that the County match all employee contributions on an equal basis and fund those amounts currently. The Board, pursuant to express statutory authority, has the right to increase or decrease the employee's contribution in the event it is actuarially determined that a contribution increase is required in order for the Board to meet its funding requirements. Any increase in employee contributions imposed a statutory requirement upon the County to match the employee contributions. Also, the obligation of the Retirement System to pay retirement benefits is further secured by statutory obligation imposed upon the County to utilize its taxing authority to meet the Retirement System's obligation to make monthly benefit payments to retirees.

NOTE 4 – Cash and Investments

The Retirement System is required to invest no less than 25% of its portfolio in fixed income securities and the remaining portion primarily in stocks or equities; along with hedge funds, venture capital and real estate, which are not to individually exceed 10% of the total portfolio.

The Retirement System is authorized by the Board to invest in obligations of the U.S. government, agencies and instrumentalities, commercial paper rated at least A-2 by Standard & Poor's or P-2 by Moody's Investors Service, Inc. (Moody's), bankers' acceptances, and corporate obligations including mutual funds, rated A by Standard & Poor's or A-2 by Moody's. The securities of any one issuer should not exceed 5% of the market value of the fund. This limitation does not apply to securities issued or guaranteed by the U.S. government or its agencies. In the case of U.S. government agency issues, the securities of any one agency should not exceed 10% of the market value of the fund.

As of December 31, 2011, the Retirement Board had the following cash and investments:

		Investment Maturities from December 31, 2011			
Cash or Investment Type	Fair Market Value	Less than 1 year	1-10 Years	10-20 Years	More than 20 years
Government & related agency debt	$ 28,433,391	$ 2,782,265	$ 17,102,511	$ 5,298,625	$ 3,249,990
Fannie Mae and Freddie Mac debt	10,449,340	-	1,375,917	229,506	8,843,917
Corporate debt	61,179,391	489,100	51,440,695	2,392,357	6,857,239
Non-U.S. gov't and corp. notes	11,413,419	2,066,301	9,041,318	104,094	201,706
Total debt securities	111,475,541	$ 5,337,666	$ 78,960,441	$ 8,024,582	$19,152,852
Cash and cash equivalents	11,728,042				
Bond mutual funds	103,359,286				
Equity mutual funds	150,334,916				
Stocks and ADRs	82,574,290				
Hedge funds	549,359				
Real estate investment trusts	39,511,818				
S&P 500 index fund	46,825,973				
Commodities fund	25,277,572				
Private equity/venture capital	111,314,260				
Total cash and other investments	571,475,516				
Total cash and investments reported on Pension Trust Fund Statement of Net Assets	$ 682,951,057				

Governmental Accounting Standards Board (GASB) Statement No. 40, "*Deposit and Investment Risk Disclosures,*" requires disclosures related to deposit and investment risks. The following is a description of the deposit and investment risks:

NOTE 4 – Cash and Investments (Continued)

Interest Rate Risk –Limiting investment maturities is a means of managing exposure to fair value losses arising from rising interest rates. The Retirement Board's investment guidelines require the effective duration of each Fixed-Income Investment Manager's portfolio to comply with the schedule below:

Fixed-Income Class	Index	Duration Limit
Short-term	Merrill Lynch One-Three-Year Gov't	+/-20%
Government/Credit	Lehman Brothers Gov't/Credit	+/-20%
Core	Lehman Brothers Aggregate	+/-20%

Credit Risk – The risk that an issuer or other counterparty to an investment will not fulfill its obligations is called credit risk. The Pension Fund's Fixed-Income Investment Managers are authorized by the Retirement Board to invest in marketable debt issues of the U.S. Treasury, U.S. Agencies, U.S. corporations, U.S. banks or other financial institutions, mortgage or asset backed securities, Yankee bonds, and cash equivalents. Domestic bonds in the core-fixed income portfolios must be rated Baa/BBB or better by either Moody's or Standard & Poor's.

The investment guidelines allow for two different classifications of fixed-income managers – core fixed income or high-yield fixed income. Core-fixed income portfolios should normally maintain an average market-weighted quality of Aa/AA. High-yield fixed income securities are bonds that are typically below investment grade bonds. These high-yield fixed income securities do not carry credit ratings below BBB by definition.

The Pension Trust Fund's December 31, 2011 investments in fixed income investments have received the following ratings:

Rating Standards & Poors'	Other Government Securities	FNMA & FHLMC	Corporate Bonds	Non-US Gov't & Corporate Debt
AAA	$ 8,618,298	$ 10,449,340	$ 3,249,844	$ -
AA	-	-	4,620,478	264,327
A	-	-	15,495,481	1,966,307
BBB	-	-	7,240,304	516,088
BB	-	-	3,481,741	999,037
B	-	-	15,694,669	651,925
CCC	-	-	7,705,235	-
CC	-	-	-	-
D	-	-	-	-
Not Rated	19,815.093	-	3,691,639	7,015,735
Totals	$ 28,433,391	$ 10,449,340	$ 61,179,391	$ 11,413,419

NOTE 4 – Cash and Investments (Continued)

Rating Moody's	Other Government Securities	FNMA & FHLMC	Corporate Bonds	Non-US Gov't & Corporate Debt
Aaa	$ 27,083,637	$ 10,449,340	$ 4,586,069	$ 237,928
Aa	-	-	6,067,546	943,578
A	394,454	-	12,196,777	1,264,764
Baa	-	-	6,878,004	482,130
Ba	-	-	2,161,180	360,962
B	-	-	16,935,546	789,450
Caa	-	-	8,443,448	500,550
Ca	-	-	-	-
C	-	-	-	
Not Rated	955,300	-	3,910,821	6,834,057
Totals	$ 28,433,391	$ 10,449,340	$ 61,179,391	$ 11,413,419

The credit ratings for the Pension Fund's mutual fund investments are unknown.

Custodial Credit Risk – Cash and cash equivalents – For deposits, custodial credit risk is the risk that in the event of bank failure, the fund's deposits may not be returned to it. As of December 31, 2011, the book value of the Pension Trust Fund's cash and deposits was $2,126,928 and the bank balance was $2,480,414. Of the $2,480,414 bank balance, $500,000 was covered by federal depository insurance. $1,980,414 is uninsured and subject to custodial credit risk and is collateralized in accordance with ACT 72. An additional $9,601,114 in cash or cash equivalents was held by the Fund's investment managers in temporary investment vehicles. The investment guidelines state cash equivalent investments may be U.S. Treasury Bills, U.S. Government repurchase agreements (with a minimum of 102% collateral), money market funds, or commercial paper. If commercial paper is used for short-term investments, it must be rated at least A-1 or A by Moody's or Standard & Poor's.

Custodial Credit Risk – Investments – For investments, custodial credit risk is the risk that in the event of the failure of the counterparty, the Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside entity. The Pension Trust Fund does not have a formal investment policy to mitigate custodial credit risk. However, to reduce investment risks, the Board's investment guidelines do set target and range asset allocations for all investments.

NOTE 4 – Cash and Investments (Continued)

The total plan targets are as follows:

Asset Allocation	Target
Cash/Fixed-income	27.0%
Diversified Equity	40.0%
Real Estate	10.0%
Venture Capital / Private	15.0%
Commodities	8.0%
Total	100.0%

Concentration of Credit Risk – The Retirement Board's investment guidelines do not set total fund diversification guidelines. However, they do attempt to minimize the impact of substantial loss in any specific industry or issue by establishing specific limits for the portfolios of each of the investment managers. For the equity investment managers, no more than 5% of each manager's equity portfolio may be invested in any one company (valued at cost), and no more than 10% of each manager's equity portfolio may be invested in any one company (valued at market). In addition, equity investments may not exceed the benchmark index by 20% of the GICS economic sector allocation.

For the core fixed-income managers, except for U.S. Treasury and Agency obligations, each manager's fixed-income portfolio may not contain more than 10% (valued at market) of a given domestic issuer; no more than 10% of each portfolio's market value may be in Yankee bonds. If an investment manager chooses to invest in SEC Rule 144A securities without registration rights, such securities may not consist of more than 10% of the portfolio.

As of December 31, 2011, four investments exceeded 5% of the net assets of the Fund – the Pyramis Select International Mutual Fund had a market value of $39,472,673; the Oaktree Capital Management High Yield Fixed Income Mutual Fund had a market value of $54,893,186; the Prime Property Fund had a market value of $38,772,301,and the S&P 500 Index Fund had a market value of $46,592,245.

Foreign Currency Risk –For cash and investments, foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. At December 31, 2011, the Retirement Board held $183,798 in foreign cash, $33,437,349 in common stock investments, and $11,413,419 in fixed income investments, all in various non-U.S. dollar denominations.

NOTE 5 – Commitments and Contingencies

The Retirement System is subject to asserted and unasserted potential claims encountered in the normal course of business. In the opinion of management and legal counsel, the resolution of these claims will not have a material adverse effect on the Retirement System's net assets or results of operations.

Certain other investments of the Retirement System consist of the Retirement System entering into agreements as limited partners in private equity funds. These agreements generally provide for the Retirement System to make commitments as to the amount of funds the Retirement System will contribute to these funds. The decision as to when these funds are required to be contributed and the amounts of any particular contribution are determined by the general partners of these funds. As of December 31, 2011, the Retirement System has approximately $32 million in outstanding commitments under these agreements.

NOTE 6 – Funded Status and Funding Progress

The funded status of the Retirement System as of January 1, 2011, the most recent actuarial valuation date is as follows: (Dollar amounts in thousands)

Actuarial Value of Assets	Actuarial Accrued Liability (AAA) Entry Age	Excess of Assets Over (Under) AAL	Funded Ratio	Covered Payroll	Excess (Deficiency as a Percentage of Covered Payroll
$699,302	$1,191,102	$(491,800)	58.7%	$357,290	(137.7)%

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 follows:

Actuarial valuation date	1/1/2011
Amortization	Rolling 15-year period
Actuarial cost method	Entry Age Normal
Asset valuation method	Market Value

NOTE 6 – Funded Status and Funding Progress

Actuarial assumptions:

Projected salary increases	5.75% for age <25 5.25% for age 25-29 4.25% for age 30-34 3.75% for age 35-39 3.25% for age >40
Investment rate of return	7.75%
Cost of Living Adjustment	2.75%
Contribution rate	7% of salary

NOTE 7 – Tax Status

The Internal Revenue Service has determined and informed the Retirement System by a letter dated December 15, 1997 that the Retirement System is designated in accordance with the applicable sections of the Internal Revenue Code (Code). The plan document has been amended since receiving the determination letter. The Retirement System administrator and the Retirement System's tax counsel believe that the plan remains designated and is currently being operated in compliance with the applicable requirements of the Code.

ALLEGHENY COUNTY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS
(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Excess of Assets Over (Under) AAL	Funded Ratio	Covered Payroll	Excess (Deficiency) as a Percentage of Covered Payroll
1/1/2005	$ 705,892	$ 831,067	$ (125,175)	84.94%	$ 266,043	(47.05%)
1/1/2006	707,475	863,695	(156,220)	81.92%	277,004	(56.40%)
1/1/2007	757,476	915,208	(157,732)	82.80%	291,731	(54.10%)
1/1/2008	798,203	979,599	(181,396)	81.50%	317,380	(57.20%)
1/1/2009	582,099	1,067,015	(484,916)	54.60%	326,803	(148.40%)
1/1/2010	652,643	1,119,326	(466,683)	58.30%	340,879	(136.90%)
1/1/2011	699,302	1,191,102	(491,800)	58.70%	357,290	(137.70%)

See accompanying note to supplemental schedules.

ALLEGHENY COUNTY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS
(Dollar amounts in thousands)

Year Ended December 31,	Annual Required Contribution	Percentage Contributed
2005	$ 22,582	73%
2006	26,636	66%
2007	26,549	69%
2008	28,662	65%
2009	62,952	31%
2010	60,760	33%
2011	59,490	39%

See accompanying note to supplemental schedules.

ALLEGHENY COUNTY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO SUPPLEMENTARY SCHEDULES

FOR THE PLAN YEAR ENDED DECEMBER 31, 2011

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Actuarial valuation date	1/1/2011
Amortization	Rolling 15-year period
Actuarial cost method	Entry Age Normal
Asset valuation method	Market Value
Actuarial assumptions:	
Projected salary increases	5.75% for age <25 5.25% for age 25-29 4.25% for age 30-34 3.75% for age 35-39 3.25% for age >40
Investment rate of return	7.75%
Cost of living adjustments	2.75%
Contribution rate	7% of salary