

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

**HOWARD COUNTY POLICE AND FIRE
EMPLOYEES' RETIREMENT PLAN**

JUNE 30, 2008 AND 2007

Howard County Police and Fire
Employees' Retirement Plan

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	3
FINANCIAL STATEMENTS	
STATEMENTS OF PLAN NET ASSETS AVAILABLE FOR BENEFITS	4
STATEMENTS OF CHANGES IN PLAN NET ASSETS AVAILABLE FOR BENEFITS	5
NOTES TO FINANCIAL STATEMENTS	6
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF FUNDING PROGRESS	12
SCHEDULE OF EMPLOYER CONTRIBUTIONS	13

INDEPENDENT AUDITORS' REPORT

Retirement Plan Committee
Howard County Police and Fire Employees'
Retirement Plan

We have audited the accompanying statements of plan net assets available for benefits of the Howard County Police and Fire Employees' Retirement Plan, a pension trust fund of Howard County, Maryland, as of June 30, 2008 and 2007, and the related statements of changes in plan net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of 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 audits provide a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the net assets and changes in net assets of the Plan and are not intended to present the financial position and results of operations of Howard County, Maryland.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Howard County Police and Fire Employees' Retirement Plan as of June 30, 2008 and 2007, and the changes in plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The supplementary information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. Such required supplementary information, except for the information marked unaudited, has been subjected to the auditing procedures applied in the audit of the financial statements, and in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



Baltimore, Maryland
December 3, 2008

Howard County Police and Fire
Employees' Retirement Plan

STATEMENTS OF PLAN NET ASSETS AVAILABLE FOR BENEFITS

June 30, 2008 and 2007

	2008	2007
ASSETS		
Receivables		
Employer contributions	\$ 876,611	\$ 749,540
Employee contributions	307,158	239,602
Interest and dividends	675,139	811,548
Due from sale of investments	181,891	14,579,079
Other	45,599	37,829
	2,086,398	16,417,598
Total receivables		
Investments, at fair value		
Cash	-	466,183
Common stocks	67,889,800	92,756,130
Mutual funds	68,526,008	56,427,819
Money market funds	17,816,849	25,193,995
Fixed income	69,011,879	67,141,582
Real estate	11,023,065	10,051,543
	234,267,601	252,037,252
Total investments		
Prepaid insurance	13,473	12,700
	236,367,472	268,467,550
Total assets		
LIABILITIES		
Foreign currency purchased	-	3,708,781
Investments purchased	10,983,713	31,647,907
Accounts payable	205,367	275,735
Other	74,248	6,623
	11,263,328	35,639,046
Total liabilities		
Net assets held in trust for pension benefits (a schedule of funding progress is presented on page 12)	\$ 225,104,144	\$ 232,828,504

See notes to financial statements

Howard County Police and Fire
Employees' Retirement Plan

STATEMENTS OF CHANGES IN PLAN NET ASSETS AVAILABLE FOR BENEFITS

Years ended June 30, 2008 and 2007

	2008	2007
Additions		
Contributions		
Employer	\$ 14,716,609	\$ 13,549,204
Employee	4,751,858	4,175,977
Total contributions	19,468,467	17,725,181
Investment income		
Net change in fair value of investments	(24,614,449)	24,720,986
Interest	3,775,172	3,835,941
Dividends	5,059,818	4,638,695
Other, net	214,311	113,536
	(15,565,148)	33,309,158
Less investment expense	1,043,098	1,009,759
Net investment (loss) income	(16,608,246)	32,299,399
Total additions	2,860,221	50,024,580
Deductions		
Benefits		
Annuities	9,993,333	7,202,418
Refunds of contributions	383,285	870,789
Total benefits	10,376,618	8,073,207
Administration expenses	207,963	163,787
Total deductions	10,584,581	8,236,994
NET (DECREASE) INCREASE	(7,724,360)	41,787,586
Net assets held in trust for pension benefits		
Beginning of year	232,828,504	191,040,918
End of year	\$ 225,104,144	\$ 232,828,504

See notes to financial statements

Howard County Police and Fire
Employees' Retirement Plan

NOTES TO FINANCIAL STATEMENTS

June 30, 2008 and 2007

NOTE 1 - PLAN DESCRIPTION

The Howard County Police and Fire Employees' Retirement Plan (the Plan) is a single-employer defined benefit public employee retirement system established and administered by Howard County (the County), Maryland, to provide defined pension benefits for career firefighters and sworn police officers. The Plan is considered part of the County's financial reporting entity and is included in the County's financial statements as a pension trust fund. The accompanying financial statements present only the operations of the Plan and are not intended to present the financial position and results of operations of the County.

At July 1, 2007 and 2006, the Plan's membership consisted of:

	2007	2006	% Change
Active	731	666	9.8%
Retired and beneficiaries	186	168	10.7%
Disabled and disabled beneficiaries	16	15	6.7%
Terminated vested	15	19	-21.1%
	948	868	9.2%

The Plan was established, is operated, and may be amended under the provisions of the Howard County Code, Sections 1.400 and 1.401A to 1.478A. All of the County's full-time career fire fighters and sworn police officers are eligible to participate in the Plan. The Pension Oversight Commission established by Howard County Section 1.482 provides ongoing assessment and evaluation of the Plan's operations.

The Plan provides retirement benefits as well as death and disability benefits and cost-of-living adjustments. Effective January 1, 2003, employees attaining the age of 62 who have completed five years of eligibility service and employees who have completed 20 years of eligibility service are entitled to a normal retirement benefit. The amount will vary, based on the number of years of creditable service, from 50% (with 20 years of service) to 80% (with 30 years of service) of average compensation for police officers and from 50% (with 20 years of service) to 70% (with 30 years of service) of average compensation for fire fighters. Terminated vested employees with less than 20 years of service will receive 2.5% of average compensation times the number of years of creditable service at age 62.

Howard County Police and Fire
Employees' Retirement Plan

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

Participants become vested after five years of eligibility service and are entitled to a benefit beginning at age 62. If an employee leaves employment or dies before five years of eligibility service prior to July 1, 2008, accumulated employee contributions plus 5% interest are refunded to the employee or the designated beneficiary. If an employee leaves employment or dies before five years of eligibility service after July 1, 2008, accumulated employee contributions plus 2.5% interest are refunded to the employee or designated beneficiary.

A participant who becomes totally and permanently disabled may retire prior to normal retirement and receive a benefit. Both disability and death benefits vary if incurred in the line of duty.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET
MATTERS

Basis of Accounting

The Plan's financial statements are prepared using the accrual basis of accounting. Employer and employee contributions are recognized as revenue in the period in which employee services are performed and expenses and refunds are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Benefits are recorded when the payments are made.

Use of Estimates

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

Method Used to Value Investments

The Plan's investments are reported at fair market value. Short-term investments consisting of money market funds are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate investments is based on the Plan's share of ownership of the co-mingled real estate investment funds (not the fair value of the underlying

Howard County Police and Fire
Employees' Retirement Plan

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

assets held by those funds) adjusted for current market conditions. Fair value of other securities is determined by the mean of the most recent bid and asked prices as obtained from dealers that make markets in such securities.

Concentration of Credit Risk

The Plan's investment policy does not establish any limitation on the percentage that the Plan may have with any one issuer, other than to state that the Plan's assets are to be diversified in accordance with Modern Portfolio Theory. At June 30, 2008, the Plan had 5.2% of its investment in collateralized mortgage obligations, and 10.1% in corporate bonds.

Investments Purchased

Investment transactions are recorded on a trade plus 3 days or less timetable resulting in an amount due to State Street Bank at year end.

Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits.

Income Taxes

The Internal Revenue Service issued a determination letter on November 7, 1996, which stated that the Plan and its underlying trust qualify under the applicable provisions of the Internal Revenue Code and therefore 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 remain qualified under the applicable provisions of the Internal Revenue Code.

Howard County Police and Fire
Employees' Retirement Plan

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

NOTE 3 - CONTRIBUTIONS AND RESERVES

The Plan is authorized to establish or amend the obligations to make contributions under the provisions of the Howard County Code, Sections 1.423A and 1.465A. The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Fire participants are required to contribute 7.7% of their annual compensation to the Plan. Police participants are required to contribute 11.6% of their annual compensation to the Plan. After 30 years of creditable service, participant contributions are no longer required. The County funds the remainder of the cost of employees' participation in the Plan which was 29.9% of covered payroll in fiscal year 2008 and 31.3% of covered payroll in fiscal year 2007. Expenses incurred in the administration and operation of the Plan are funded by the Plan.

The Plan has not established any legally required reserves; therefore, the net assets are held in trust to fund current and future benefit obligations.

NOTE 4 - FUNDED STATUS AND FUNDING PROGRESS

The funded status of the Plan as of July 1, 2007, the most recent actuarial valuation date, is as follows (dollar amounts in millions):

Actuarial Valuation Date of July 1,	(1) Actuarial Value of Plan Assets	(2) Actuarial Accrued Liability (AAL)	(3) Percentage Funded (1)/(2)	(4) Unfunded Actuarial Accrued Liability (2) - (1)	(5) Annual Covered Payroll	(6) UAAL as a % of Covered Payroll
2007	\$ 210.8	\$ 270.5	77.9%	\$ 59.7	\$ 43.6	136.9%

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

Howard County Police and Fire
Employees' Retirement Plan

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

Additional information as of the latest actuarial valuation follows:

Actuarial cost method	Projected unit credit cost method
Amortization method	Level percentage of payroll that increases 3.0% a year
Remaining amortization period	No more than 15 years to 30 years, except for actuarial gains and losses and changes in Plan assumptions which are amortized over 15 years, with payments increasing 3.0% a year
Asset valuation method	5 year smoothed market
Actuarial assumptions	
Investment rate-of-return	8%, compounded annually, gross of investment expenses
Projected salary increases	4% to 8.5%*
Cost-of-living adjustments	2%, compounded annually

*Includes inflation at 3.0%.

REQUIRED SUPPLEMENTARY INFORMATION

Howard County Police and Fire
Employees' Retirement Plan

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS
(Dollar amounts in millions)
(Unaudited)

June 30, 2008

Actuarial Valuation Date of July 1,	(1) Actuarial Value of Plan Assets	(2) Actuarial Accrued Liability (AAL)	(3) Percentage Funded (1)/(2)	(4) Unfunded Actuarial Accrued Liability (2) - (1)	(5) Annual Covered Payroll	(6) UAAL as a % of Covered Payroll
2002	\$ 124.4	\$ 166.1	74.9%	\$ 41.7	\$ 33.3	125.2%
2003	\$ 132.0	\$ 182.5	72.3%	\$ 51.0	\$ 34.6	147.4%
2004	\$ 142.2	\$ 202.9	70.1%	\$ 60.6	\$ 36.2	167.4%
2005	\$ 157.9	\$ 224.5	70.4%	\$ 66.6	\$ 39.3	169.5%
2006	\$ 180.1	\$ 245.4	73.4%	\$ 65.3	\$ 41.8	156.3%
2007	\$ 210.8	\$ 270.5	77.9%	\$ 59.7	\$ 43.6	136.9%

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

Howard County Police and Fire
Employees' Retirement Plan

REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED

SCHEDULE OF EMPLOYER CONTRIBUTIONS
(Unaudited)

June 30, 2008

<u>Fiscal Years</u>	<u>Annual Contributions</u>	<u>Percentage Contributed</u>
2003	\$ 7,082,754	100%
2004	\$ 7,923,146	100%
2005	\$ 9,401,187	100%
2006	\$ 12,217,230	100%
2007	\$ 13,549,204	100%
2008	\$ 14,716,609	100%