

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

HOWARD COUNTY RETIREMENT PLAN

JUNE 30, 2008 AND 2007

Howard County Retirement Plan

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INDEPENDENT AUDITORS' REPORT

Retirement Plan Committee
Howard County Retirement Plan

We have audited the accompanying statements of plan net assets available for benefits of Howard County 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 Plans' 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 plan net assets and changes in plan 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, information regarding the plan net assets of the Howard County Retirement Plan as of June 30, 2008 and 2007, 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.



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.

Reznick Group, P.C.

Baltimore, Maryland
December 3, 2008

Howard County Retirement Plan

STATEMENTS OF PLAN NET ASSETS AVAILABLE FOR BENEFITS

June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Receivables		
Employer contributions	\$ 615,788	\$ 572,028
Employee contributions	135,400	110,148
Interest and dividends	617,530	748,050
Due from sale of investments	166,475	13,420,686
Other	41,734	34,824
	<u>1,576,927</u>	<u>14,885,736</u>
Investments		
Cash	-	429,933
Common stocks	62,136,125	85,386,114
Mutual funds	62,718,414	51,944,300
Money market funds	15,898,604	22,948,279
Fixed income	63,163,107	61,806,792
Real estate	10,088,858	9,252,889
	<u>214,005,108</u>	<u>231,768,307</u>
Prepaid insurance	<u>13,937</u>	<u>16,820</u>
	<u>215,595,972</u>	<u>246,670,863</u>
LIABILITIES		
Foreign currency purchased	-	3,414,097
Investments purchased	10,080,973	29,133,296
Accounts payable	189,094	257,795
Other	67,956	6,096
	<u>10,338,023</u>	<u>32,811,284</u>
Net assets held in trust for pension benefits (a schedule of funding progress is presented on page 13)	<u>\$ 205,257,949</u>	<u>\$ 213,859,579</u>

See notes to financial statements

Howard County Retirement Plan

STATEMENTS OF CHANGES IN PLAN NET ASSETS AVAILABLE FOR BENEFITS

Years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Additions		
Contributions		
Employer	\$ 10,022,075	\$ 9,694,709
Employee	1,980,854	1,781,838
Total contributions	<u>12,002,929</u>	<u>11,476,547</u>
Investment income		
Net change in fair value of investments	(22,728,285)	23,206,936
Interest	3,435,223	3,528,064
Dividends	4,625,487	4,278,747
Other, net	198,983	104,845
	<u>(14,468,592)</u>	<u>31,118,592</u>
Less investment expense	961,911	939,136
Net investment (loss) income	<u>(15,430,503)</u>	<u>30,179,456</u>
Total (reduction) additions	<u>(3,427,574)</u>	<u>41,656,003</u>
Deductions		
Benefits		
Annuities	4,382,414	3,468,480
Death	348,054	99,666
Refunds of contributions	227,538	341,027
Total benefits	<u>4,958,006</u>	<u>3,909,173</u>
Administration expenses	216,050	199,306
Total deductions	<u>5,174,056</u>	<u>4,108,479</u>
NET (DECREASE) INCREASE	(8,601,630)	37,547,524
Net assets held in trust for pension benefits		
Beginning of year	<u>213,859,579</u>	<u>176,312,055</u>
End of year	<u>\$ 205,257,949</u>	<u>\$ 213,859,579</u>

See notes to financial statements

Howard County Retirement Plan

NOTES TO FINANCIAL STATEMENTS

June 30, 2008 and 2007

NOTE 1 - DESCRIPTION OF PLAN

The Howard County Retirement Plan (the Plan) is a single-employer defined benefit public employee retirement system established and administered by Howard County, Maryland (the County), to provide defined pension benefits for those County employees who do not participate in other County and State Plans. The Plan was established on July 1, 1995, at which time approximately 73% of the County's employees transferred from the State Retirement and Pension Systems of Maryland to the Plan. 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 the operations of the County.

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

	<u>2007</u>	<u>2006</u>	<u>% Change</u>
Active	1,441	1,393	3.4%
Retired and beneficiaries	273	216	26.4%
Disabled and disabled beneficiaries	9	12	-25.0%
Terminated vested	<u>158</u>	<u>154</u>	2.6%
Total	<u><u>1,881</u></u>	<u><u>1,775</u></u>	6.0%

The Plan was established, is operated, and may be amended under the provisions of the Howard County Code, Sections 1.400 and 1.401 to 1.478. Substantially all of the County's full-time benefited and part-time benefited employees are eligible to participate in the Plan, except as provided for in Howard County Code Section 1.406. The Pension Oversight Commission established by Howard County Code 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. Participants attaining the age of 62 who have completed two years of eligibility service and the sum of attained age in whole years and years of eligibility service equal at least 67, or participants who have completed 30 years eligibility service, are entitled to a normal retirement benefit. After July 1, 2005, normal retirement is also defined as 20

Howard County Retirement Plan

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

years of service for participating Corrections employees. For non-Corrections participants, the benefit is 1.55% of the participant's average compensation times the participant's creditable service.

The Plan permits early retirement for participants who attain the age of 55 and have completed 15 years of eligibility service. The benefit is reduced by .50% for each month the benefit commencement date precedes the first day of the month coincident with or next following the date the participant attains age 62. For participants who reach a termination after August 31, 2002, early retirement is also provided to participants who achieve 25 years of eligibility service. This benefit is reduced by .50% for each month the benefit commencement date precedes 30 years of eligibility service; or .50% for each month the retiree's age precedes age 62, if less.

Participating Corrections employees who retire on or after July 1, 2005 are entitled to receive a normal retirement benefit of 2.5% of average compensation multiplied by years of creditable service (up to 20 years) plus 1% of average compensation multiplied by service greater than 20 years but less than 30 years (excluding sick leave, which is always credited at 1% of average compensation). Prior to July 1, 2005, other rules applied. The benefit was 2.0% of average compensation multiplied by post-1997 creditable service. The benefit for pre-1998 creditable service is 1.55% or 2%, depending on phase-in rules.

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 eligible service, after July 1, 2008, accumulated 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.

Howard County Retirement Plan

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

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 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.

Howard County Retirement Plan

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

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 plan net assets available for benefits.

Income Taxes

The Internal Revenue Service issued a determination letter on December 1, 1995, 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.

NOTE 3 - CONTRIBUTIONS AND RESERVES

The Plan is authorized to establish or amend the obligation to make contributions under the provisions of the Howard County Code, Sections 1.423 and 1.465. 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. Participant contributions are 8.5% of base pay for participating Corrections employees with less than 20 years of creditable service, 0% for participating Correction employees with greater than 20 years of creditable service and are 2.0% of base pay for other participants. In fiscal year 2008, the County's contribution to The Plan was 12.8% of covered payroll for all participants. In fiscal year 2007, the County's contribution to the Plan was 13.6% of covered payroll for all participants. Expenses incurred in the administration and operation of the Plan are funded by the Plan.

Howard County Retirement Plan

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

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 Liability (2) - (1)	(5) Annual Covered Payroll	(6) UAAL as a % of Covered Payroll
2007	\$ 193.0	\$ 199.7	96.6%	\$ 6.7	\$ 76.6	8.8%

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.

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 which are amortized over 15 years and 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	4.0% to 7.0%*
Cost-of-living adjustments	3%, compounded annually
*Includes inflation at 3.0%.	

REQUIRED SUPPLEMENTARY INFORMATION

Howard County 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	\$ 111.5	\$ 113.9	97.9%	\$ 2.4	\$ 56.3	4.3%
2003	\$ 119.6	\$ 127.4	93.9%	\$ 7.8	\$ 58.4	13.4%
2004	\$ 130.9	\$ 147.4	88.8%	\$ 16.5	\$ 61.5	26.8%
2005	\$ 145.7	\$ 165.8	87.9%	\$ 20.1	\$ 66.5	30.2%
2006	\$ 165.9	\$ 181.2	91.5%	\$ 15.3	\$ 71.4	21.5%
2007	\$ 193.0	\$ 199.7	96.6%	\$ 6.7	\$ 76.6	8.8%

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.

See notes to required supplementary information

Howard County Retirement Plan

REQUIRED SUPPLEMENTARY INFORMATION – CONTINUED

SCHEDULE OF EMPLOYER CONTRIBUTIONS
(Unaudited)

June 30, 2008

<u>Years Ended June 30,</u>	<u>Annual Required Contributions</u>	<u>Percentage Contributed</u>
2003	\$ 4,949,142	100%
2004	\$ 6,431,970	100%
2005	\$ 7,163,386	100%
2006	\$ 9,253,198	100%
2007	\$ 9,694,709	100%
2008	\$ 10,022,075	100%