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 2007
July 1, 2006 – June 30, 2007

Prepared by the:
Board of Investment Trustees
101 Monroe Street, 15th Floor
Rockville, Maryland 20850
240-777-8220

MONTGOMERY COUNTY, MARYLAND
EMPLOYEE RETIREMENT PLANS
Fiscal Year Ended June 30, 2007
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INTRODUCTION SECTION

OFFICES OF THE COUNTY EXECUTIVE

Isiah Leggett
County Executive

Timothy L. Firestine
Chief Administrative Officer

December 10, 2007

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, 2007. 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, 2001, 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 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, independent fire/rescue corporations, 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. There were 5,294 active members and 4,997 retirees participating in the System as of June 30, 2007.

The Retirement Savings Plan (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, 2007, there were 4,253 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.

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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 2007, the Board of Investment Trustees (Board) implemented a revised strategic asset allocation for the ERS, which will result in further diversification of the investment portfolio through the addition of new investment strategies and better management of the total portfolio's risk. A gradual rebalancing of assets and the implementation of possible new investment strategies will take place over the next one to two years. The Board expanded the risk management system to analyze, evaluate and monitor the risk of each investment manager and sector versus its contribution both in return and in diversification to the fund. Other initiatives during FY 2007 included expansion of the private equity portfolio, addition of active currency managers, and the use of a portable alpha strategy.

In addition, the Board increased the investment offerings in the RSP and DCP to include specific market sectors and negotiated lower fees for participants in three of the DCP funds offered.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, (GASB 45) addresses how state and local governments should account for and report their costs and obligations related to other postemployment benefits (OPEB). GASB 45 generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB costs for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. The County anticipates implementing GASB 45 as required in FY08.

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 and refunds 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, 2007.

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 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 41.2 percent, private equity 4.1 percent, international equities 20.8 percent, domestic fixed income 23.2 percent, inflation index bonds 9.5 percent, real estate 1.1 percent, and foreign currency 0.1 percent. For the twelve months ended June 30, 2007, the total return achieved by the System's investments was 18.79 percent, compared to the System's benchmark index return of 17.19 percent and the actuarial assumed rate of return of 8.0 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, 2007 valuation, the actuarial value of assets was $2.5 billion. The aggregate actuarial liability was $3.1 billion. 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, 2007 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.

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, 2006. 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 seven 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 Board of Investment Trustees staff in conjunction with staff support from the County's Department of Finance and Office of Human Resources. 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

BOARD OF INVESTMENT TRUSTEES

ADMINISTRATIVE ORGANIZATION

Administrative Staff

Joseph Adler
Director – Office of
Human Resources

Jennifer E. Barrett
Director of Finance

Linda A. Herman
Executive Director
Board of Investment Trustees

Professional Services

Actuary

Mercer Human Resource
Consulting
Washington, DC

Investment Consultant

Wilshire Associates
Pittsburgh, PA

Auditor

KPMG LLP
Certified Public Accountants
Washington, DC

Money Managers-Employees' Retirement System

Gryphon International Investment
Toronto, Canada

Marathon London
United Kingdom

Mondrian Investment Partners Ltd.
United Kingdom

BlackRock Financial Management
New York, NY

JP Morgan Investment Management
New York, NY

Barclays Global Investors
San Francisco, CA

Landmark Partners Inc.
Simsbury, CT

FX Concepts, Inc.
New York, NY

Numeric Investors
Cambridge, MA

Wellington Management
Boston, MA

Goldman Sachs
New York, NY

Fidelity Investments
Hebron, KY

Bridgewater Associates
Westport, CT

HarbourVest Partners
Boston, MA

AEW Partners
Boston, MA

First Quadrant L.P.
Pasadena, CA

Adams Street Partners
Chicago, IL

RhumbLine Advisors
Boston, MA

Systematic Financial Management
Teaneck, NJ

Loomis Sayles & Co. L.P.
Boston, MA

Morgan Stanley Asset Management
New York, NY

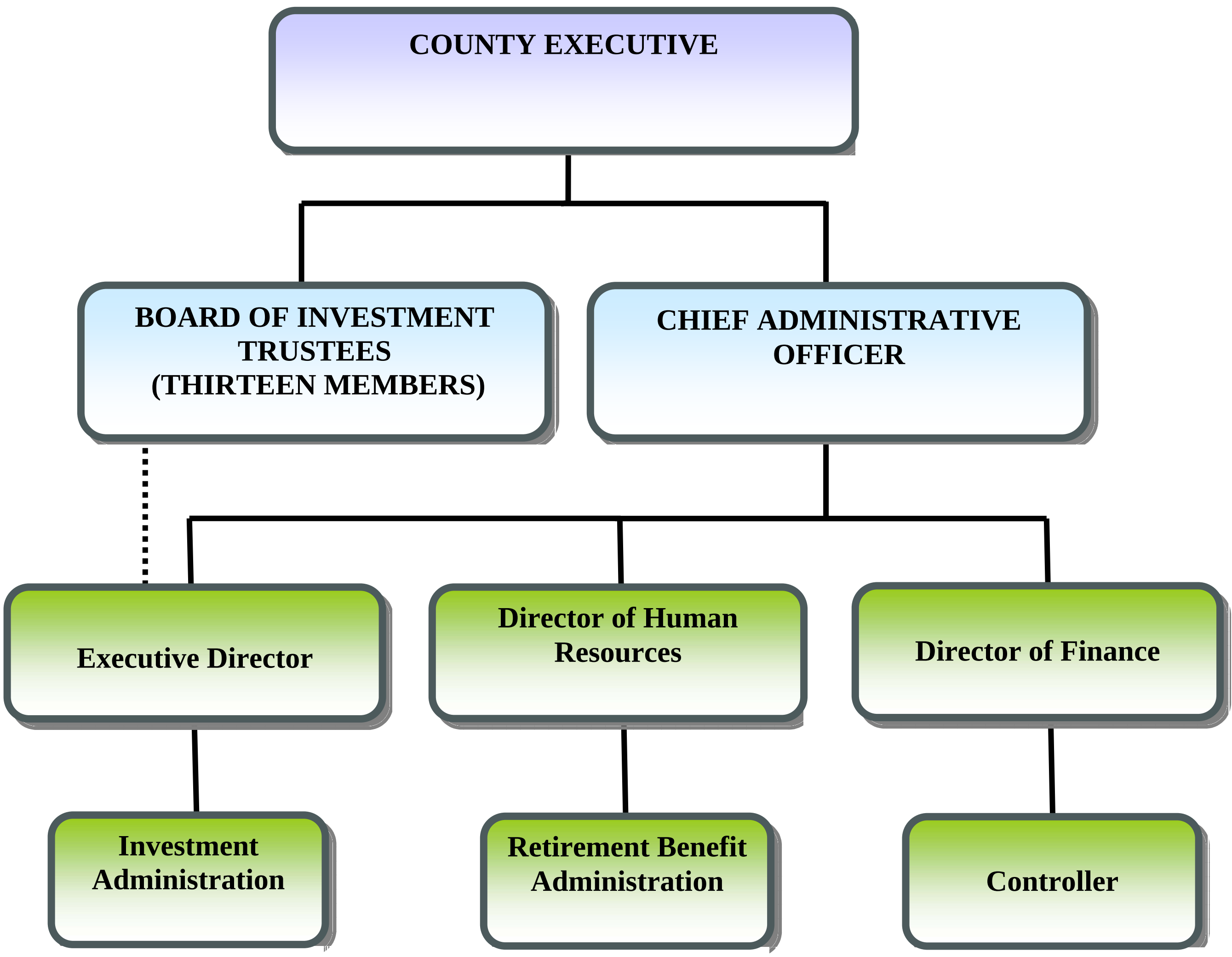
Nomura Corporate Research & Asset
Management
New York, NY

TA Associates Advisors LLC
Boston, MA

Custodial Bank-Employees' Retirement System

The Northern Trust Company
Chicago, IL

Administrative Organization Chart



FINANCIAL SECTION

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

The Honorable County Council
of Montgomery County, Maryland:

The Board of Trustees
Montgomery County Employees' Retirement Plans:

We have audited the accompanying statements of plan net assets of the Montgomery County Employees' Retirement Plans (the Plans) as of June 30, 2007 and the related statements of changes in plan net assets for the year 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 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plans' internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Plans as of June 30, 2007 and the changes in the plan net assets for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2007 on our consideration of the Plans' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 15 through 19 and the schedule of funding progress and notes thereto, on pages 32 and 33, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the 2007 basic financial statements. The introduction section, investment section, actuarial section, and statistical sections, as listed in the table of contents and 2007 supplementary information on pages 34 through 41 is presented for purposes of additional analysis and is not a required part of the 2007 basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the 2007 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2007 basic financial statements taken as whole. The information included 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 express no opinion on them.

We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, the statements of plan net assets of the Plans as of June 30, 2006, and the related statements of changes in plan net assets for the year then ended (none of which is presented herein), and we expressed an unqualified opinion on those financial statements. The supplementary information included on pages 36 through 41 related to the Plans' 2006 financial statements was subjected to auditing procedures applied in the audit of those basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements from which it has been derived.

KPMG LLP

December 7, 2007

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, 2007. 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, 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 Assets comprise the Plans' assets and liabilities and provide information about the nature and amount of investments, as well as the liabilities distinguished as long-term and other liabilities. The Statements of Changes in Plan Net Assets report the changes of the Plans' net assets, 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 Assets of the Employees' Retirement System (ERS), Retirement Savings Plan (RSP), and Deferred Compensation Plan (DCP) at June 30:

Net Assets
(Millions)

	ERS		RSP		DCP	
	2007	2006	2007	2006	2007	2006
Assets:						
Cash and investments	$ 3,086.0	$ 2,633.0	$ 119.6	$ 89.2	$ 248.9	$ 212.4
Receivables	17.3	14.4	1.0	1.0	1.0	0.9
Total assets	3,103.3	2,647.4	120.6	90.2	249.9	213.3
Liabilities	389.0	339.7	-	-	-	-
Total net assets	$ 2,714.3	$ 2,307.7	$ 120.6	$ 90.2	$ 249.9	$ 213.3

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

Change in Net Assets
(Millions)

	ERS		RSP		DCP	
	2007	2006	2007	2006	2007	2006
Additions:						
Employer contributions	$ 109.4	$ 88.2	$ 11.2	$ 9.4	$ -	$ -
Member contributions	16.4	16.1	6.8	5.9	16.6	16.5
Net investment income	420.8	187.0	17.2	8.2	32.4	20.5
Total additions	546.6	291.3	35.2	23.5	49.0	37.0
Deductions:						
Benefits	136.8	125.9	-	-	-	-
Refunds	0.8	0.6	4.4	4.3	12.4	11.2
Administrative expenses	2.4	1.9	0.3	0.2	-	-
Total deductions	140.0	128.4	4.7	4.5	12.4	11.2
Total change in net assets	$ 406.6	$ 162.9	$ 30.5	$ 19.0	$ 36.6	$ 25.8

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

Employees' Retirement System
Net Assets
(Millions)

	2007	**2006**	**Percentage Change**
Assets:			
Cash and investments	$ 3,086.0	$ 2,633.0	17.2 %
Receivables	17.3	14.4	20.1
Total assets	3,103.3	2,647.4	17.2
Liabilities:			
Benefits payable and other liabilities	4.5	3.1	45.2
Obligations under securities lending agreements	384.5	336.6	14.2
Total liabilities	389.0	339.7	14.5
Total plan net assets	$ 2,714.3	$ 2,307.7	17.6 %

The table shown above reflects an increase in the Employees' Retirement System's net assets of $406.6 million or 17.6 percent during fiscal year (FY) 2007. The increase reflects strong investment market returns over the last twelve months resulting in increased investment earnings. During the previous year net assets increased by $162.9 million.

Retirement Savings Plan Net Assets (Millions)			
	2007	2006	Percentage Change
Assets:			
Cash and investments	$ 119.6	$ 89.2	34.1 %
Receivables	1.0	1.0	-
Total assets	120.6	90.2	33.7
Liabilities	-	-	
Total plan net assets	$ 120.6	$ 90.2	33.7 %

During FY 2007, net assets increased 33.7 percent to $120.6 million. The increase is attributable to increased investment earnings and an increase in contributions. Membership in the Retirement Savings Plan increased from 4,371 at June 30, 2006, to 4,964 at June 30, 2007.

Deferred Compensation Plan Net Assets (Millions)			
	2007	2006	Percentage Change
Assets:			
Investments	$ 248.9	$ 212.4	17.2 %
Receivables	1.0	0.9	11.1
Total assets and plan net assets	$ 249.9	$ 213.3	17.2 %

Net assets of the Deferred Compensation Plan increased 17.2 percent to $249.9 million during FY 2007. The increase is primarily attributable to increased investment earnings.

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 2007 and FY 2006.

Employees' Retirement System Contributions and Investment Income (Millions)			
	2007	2006	Percentage Change
Employer contributions	$ 109.4	$ 88.2	24.0 %
Member contributions	16.4	16.1	1.9
Net investment income	420.8	187.0	125.0
	$ 546.6	$ 291.3	87.6 %

During FY 2007, employer contributions to the Employees' Retirement System increased by 24.0 percent due to an increase in the actuarial required contribution based on covered payroll. Member contributions increased by 1.9 percent due to higher pay levels.

The net investment income for the Employees' Retirement System totaled $420.8 million for FY 2007, comprised of $359.3 million in net appreciation in fair value of investments, $72.7 million in dividends and interest, $18.5 million from securities lending activities, and $29.7 million related to investment expenses. This is compared to net investment income of $187.0 million in FY 2006. The increase in earnings compared to the previous fiscal year is due to strong financial markets.

Retirement Savings Plan
Contributions and Investment Income
(Millions)

	2007	**2006**	**Percentage Change**
Employer contributions	$ 11.2	$ 9.4	19.1 %
Member contributions	6.8	5.9	15.3
Net investment income	17.2	8.2	109.8
	$ 35.2	$ 23.5	49.8 %

Employer contributions to the Retirement Savings Plan were $11.2 million in FY 2007, an increase of 19.1 percent from FY 2006. Member contributions were $6.8 million in FY 2007, an increase of 15.3 percent from FY 2006. The increase in contributions reflects the increase in the number of participants during FY 2007.

Appreciation in investments reflects the financial market conditions during FY 2007.

Deferred Compensation Plan
Contributions and Investment Income
(Millions)

	2007	**2006**	**Percentage Change**
Member contributions	$ 16.6	$ 16.5	0.6 %
Net investment income	32.4	20.5	58.0
	$ 49.0	$ 37.0	32.4 %

Member contributions to the Deferred Compensation Plan were $16.6 million for FY 2007, compared to $16.5 million for FY 2006.

Net investment income for the Deferred Compensation Plan was $32.4 million, compared to the investment income of $20.5 million in the previous fiscal year, which was primarily due to strong financial markets.

DEDUCTIONS

The primary sources of deductions from the Plans include the payment of retiree and survivor benefits, participant refunds, and administrative expenses. The following tables show the use and amount of deductions for each plan during FY 2007 and 2006.

Employees' Retirement System
Deductions by Type
(Millions)

	2007	2006	Percentage Change
Benefits	$ 136.8	$ 125.9	8.7 %
Refunds	0.8	0.6	33.3
Administrative expenses	2.4	1.9	26.3
	$ 140.0	$ 128.4	9.0 %

During FY 2007, benefit payments increased by 8.7 percent over FY 2006 due primarily to an increase in the number of retirees and the annual cost-of-living increase. Refunds increased 33.3 percent in 2007 from $0.6 million in FY 2006. Administrative expenses increased from $1.9 million in FY 2006 to $2.4 million in FY 2007 due to increased professional services.

Retirement Savings Plan
Deductions by Type
(Millions)

	2007	2006	Percentage Change
Refunds and administrative expenses	$ 4.7	$ 4.5	4.4 %

The expenses related to the Retirement Savings Plan are comprised of refunds and administrative costs. Expenses for FY 2007 totaled $4.7 million, an increase of 4.4 percent over FY 2006 levels due primarily to an increase in refunds.

Deferred Compensation Plan
Deductions by Type
(Millions)

	2007	2006	Percentage Change
Refunds	$ 12.4	$ 11.2	10.7 %

During FY 2007, refunds distributed from the Deferred Compensation Plan increased by 10.7 percent over the FY 2006 level.

MONTGOMERY COUNTY, MARYLAND
STATEMENTS OF PLAN NET ASSETS
JUNE 30, 2007

	Employees' Retirement System	Retirement Savings Plan	Deferred Compensation Plan
ASSETS			
Equity in County's pooled cash and investments	$ 290,445	$ 509,850	$ -
Investments:			
U.S. Government and agency obligations	301,386,117	-	-
Asset-backed securities	57,774,486	-	-
Municipal/Provincial bonds	1,174,270	-	-
Corporate bonds	295,897,623	-	-
Collateralized mortgage obligations	13,898,231	-	-
Commerical mortgage-backed securities	64,854,406	-	-
Common and preferred stock	1,643,956,241	-	-
Mutual and commingled funds	1,045,987	119,063,075	248,948,643
Short-term investments	181,339,966	-	-
Cash collateral received under securities lending agreements	384,513,936	-	-
Real estate	30,928,663	-	-
Private equity	108,944,183	-	-
Total investments	3,085,714,109	119,063,075	248,948,643
Dividends receivable and accrued interest	10,001,833	-	-
Contributions receivable	7,282,500	1,086,498	968,981
Total assets	3,103,288,887	120,659,423	249,917,624
LIABILITIES			
Payable for collateral received under securities lending agreements	384,513,936	-	-
Benefits payable and other liabilities	4,507,292	33,250	-
Total liabilities	389,021,228	33,250	-
Net assets held in trust for pension benefits	$ 2,714,267,659	$ 120,626,173	$ 249,917,624

(A schedule of funding progress for the Employees' Retirement System is presented on page 32**.**)

See accompanying notes to financial statements.

MONTGOMERY COUNTY, MARYLAND
STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007

	Employees' Retirement System	Retirement Savings Plan	Deferred Compensation Plan
ADDITIONS			
Contributions:			
Employer	$ 109,436,001	$ 11,227,348	$ -
Members	16,362,462	6,797,447	16,649,114
Total contributions	125,798,463	18,024,795	16,649,114
Investment income	432,055,755	17,204,592	32,393,760
Less investment expenses	12,014,393	30,702	-
Net income from investment activities	420,041,362	17,173,890	32,393,760
Income from securities lending	18,460,425	-	-
Less securities lending expenses	17,654,765	-	-
Net income from securities lending	805,660	-	-
Total additions	546,645,485	35,198,685	49,042,874
DEDUCTIONS			
Retiree benefits	98,652,678	-	-
Disability benefits	32,228,463	-	-
Survivor benefits	5,951,967	-	-
Refunds	792,641	4,454,660	12,409,959
Administrative expenses	2,431,639	293,006	-
Total deductions	140,057,388	4,747,666	12,409,959
Net increase	406,588,097	30,451,019	36,632,915
Net assets held in trust for pension benefits:			
Beginning of year	2,307,679,562	90,175,154	213,284,709
End of year	$2,714,267,659	$ 120,626,173	$ 249,917,624

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.

A. Plan Description and Contribution Information

Membership. At June 30, 2007, the date of the latest actuarial valuation, membership in the System consisted of:

Retirees and beneficiaries receiving benefits	4,997
Terminated plan members entitled to but not yet receiving benefits	498
Active plan members	5,294

Plan Description. The System, a cost-sharing multiple-employer defined benefit pension plan, was established in 1965 and is sponsored by the County. Nine 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. 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.

Funding Policy and Contributions. The System is a contributory plan with employees contributing a percentage of their base annual salary. Contribution rates range from 4 percent to 8.5 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.

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 increase 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.

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, 2007. Fair value for real estate investments is determined using unit values supplied by the issuers, which are based upon the issuers' appraisals of underlying real estate values. Such values involve subjective judgment and may differ from amounts which would be realized if such real estate was actually sold. The fair value for private equity is based on information provided by the fund managers. 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.

C. 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.

D. 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. Investments in real property are limited to a pooled investment arrangement in which the Board has no power or right to manage the real estate property, provided that the pooled arrangement does not invest more than 10 percent of its assets in real property located in Montgomery County.

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 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 organization that represent 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, 2007 are as follows:

Type of Investment	**Quality Rating**	**Fair Value**	**Percentage of Portfolio**
U.S. Government Obligations*	AAA	$ 153,343,540	16.73%
	AA	1,526,456	0.17%
Foreign Government Obligations	AAA	124,112,720	13.54%
	A	14,801,884	1.62%
	BBB	2,011,624	0.22%
	BB	4,659,748	0.51%
	B	400,428	0.04%
	Unrated	529,717	0.06%
Asset-Backed Securities	AAA	54,919,248	5.99%
	AA	355,508	0.04%
	A	679,593	0.07%
	B	140,437	0.02%
	Unrated	1,679,700	0.18%
Commercial Mortgage-Backed Securities	AAA	29,209,946	3.19%
Collateralized Mortgage Obligations	AAA	13,898,231	1.52%
Municipal /Provincial Bonds	AA	881,698	0.10%
	Unrated	292,572	0.03%
Corporate Bonds	AAA	13,356,025	1.46%
	AA	19,083,811	2.08%
	A	23,340,781	2.55%
	BBB	31,873,292	3.48%
	BB	37,755,073	4.12%
	B	71,239,004	7.77%
	CCC	23,618,993	2.58%
	CC	279,000	0.03%
	D	4,291	0.00%
	Unrated	13,572,801	1.48%
Fixed Income Pooled Funds	AA	99,719,669	10.88%
	Unrated	43,164,604	4.71%
Short-term Investments and Other	NA	135,874,705	14.83%
Total Fixed Income Securities		$ 916,325,099	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.

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 up/down by 8 percent. As of June 30, 2007, 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	1.06	$ 154,869,996	16.90%
Foreign Government Obligations	7.41	146,516,121	15.99%
Asset-Backed Securities	0.73	57,774,486	6.30%
Commercial Mortgage-Backed Securities	4.08	29,209,946	3.19%
Collateralized Mortgage Obligations	1.50	13,898,231	1.52%
Municipal /Provincial Bonds	7.41	1,174,270	0.13%
Corportate Bonds	3.80	234,123,071	25.55%
Fixed Income Pooled Funds	2.13	142,884,273	15.59%
Short-term Investments and other	N/A	135,874,705	14.83%
Total Fixed Income Securities		$ 916,325,099	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**
European Currency Unit	$ 158,480,677	$ 46,055,264	$ (42,284,391)	$ 162,251,550
Japanese Yen	104,323,018	-	27,260,744	131,583,762
British Pound Sterling	69,046,942	40,510,225	(26,847,735)	82,709,432
Hong Kong Dollar	25,165,837	-	5,511	25,171,348
New Zealand Dollar	687,925	1,075,204	20,545,897	22,309,026
Philippine Peso	7,029,724	-	-	7,029,724
Malaysian Ringgit	4,464,726	1,175,526	-	5,640,252
South African Rand	5,469,135	-	567	5,469,702
Danish Krone	5,380,322	-	(48,928)	5,331,394
Australian Dollar	4,337,145	-	585,067	4,922,212
Other Currencies	51,411,157	58,999,041	(106,365,610)	4,044,588
Total International Securities	$ 435,796,608	$ 147,815,260	$ (127,148,878)	$ 456,462,990

Derivatives. The System invests in derivative instruments on a limited basis in accordance with the Board's Derivatives Policy. During FY 2007, the System invested directly in various derivatives including asset-backed securities, collateralized mortgage obligations, exchanged-traded futures contracts, forward currency contracts, swaps, and floating rate securities. Investment managers are prohibited from purchasing securities on margin or using leverage unless specifically permitted within the investment manager's guidelines. The System entered into these investments either to increase earnings or to hedge against potential losses. 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 Derivatives Policy 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.

As permitted by the Board's policies, the System holds off-financial statement derivatives in the form of exchange-traded financial futures and options. The futures and options with fair values of approximately $15,445,000 are held for investment purposes and included within the financial statements at June 30, 2007. Gains and losses on futures and options are determined based upon fair market values and recorded in the Statements of Changes in Plan Net Assets.

Interest rate swaps, foreign currency exchange swaps, and forward foreign currency exchange contracts are held for investment purposes. At June 30, 2007, the System had approximately $109,974,000 net exposure in foreign currency exchange and interest rate swaps and $144,450,000 negative net exposure in forward foreign currency exchange contracts.

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 assets. The Board does not restrict the amount of loans the lending agent may make on its behalf. 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, 2007, the fair value of securities on loan was $394,768,927. Cash received as collateral and the related liability of $384,513,936 as of June 30, 2007, is shown on the Statement of Plan Net Assets. 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 $18,460,425 and $17,654,765, 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, 2007:

Securities Lent	**Underlying Securities**	**Non-Cash Collateral Value**	**Cash Collateral Investment Value**
Lent for Cash Collateral:			
U.S. Government Obligations	$ 62,759,833	$ -	$ 63,977,115
Foreign Government Obligations	17,355,965	-	17,784,537
Corporate Bonds	66,555,379	-	68,045,636
Equities	227,554,706	-	234,706,648
Lent for Non-Cash Collateral:			
U.S. Government Obligations	8,654,384	8,838,198	-
Corporate Bonds	5,785,026	5,888,478	-
Equities	6,103,634	6,254,322	-
Total	$ 394,768,927	$ 20,980,998	$ 384,513,936

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, 2007, there were no funds held by a counterparty that was acting as the System's agent in securities lending transactions.

E. 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.

F. Income Taxes

The Internal Revenue Service issued a determination letter in January 2003, which stated that the System 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 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.

A. Plan Description and Contribution Information

Membership. At June 30, 2007 membership in the Plan consisted of:

Active plan members	4,253
Inactive plan members	711

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. Eligible employees covered by the Montgomery County Employees' Retirement System may make an irrevocable decision to transfer to this Plan.

Contributions. Under Section 33-116 of the Code, the Plan requires employees to contribute 3 percent of regular earnings up to the Social Security wage base and 6 percent above the Social Security wage rate. Section 33-117 of the Code requires the County to contribute 6 percent and 10 percent of regular earnings for non-public safety and public safety employees, respectively. In accordance with IRS regulations and the County Code, $470,000 in accumulated revenue was used to reduce employer contributions in FY2007

Benefit Provisions. 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 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 and refunds 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, 2007.

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 Trust 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, 2007, the fair value of the mutual and commingled investment funds was $119,063,075. The fair value of the investments in international mutual funds was $4,903,686.

E. Income Taxes

The Internal Revenue Service issued a determination letter in December 2002, 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 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 and Contributions. 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.

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, 2007.

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, 2007, the fair value of the mutual and commingled investment funds was $248,948,643. The fair value of the investments in international mutual funds included in the County Plan was $22,233,050.

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)
6/30/02	$ 2,036,100,709	$ 2,273,179,216	$ 237,078,507	89.6 %	$ 298,456,852	79.4 %
6/30/03	2,029,314,438	2,411,492,724	382,178,286	84.2	312,057,363	122.5
6/30/04	2,045,098,796	2,561,328,232	516,229,436	79.8	318,815,374	161.9
6/30/05	2,100,532,623	2,775,047,412	674,514,789	75.7	328,459,150	205.4
6/30/06	2,222,724,295	2,918,336,073	695,611,778	76.2	340,333,414	204.4
6/30/07	2,469,933,200	3,100,637,723	630,704,523	79.7	352,636,518	178.9

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
2002	$ 39,168,622	100 %
2003	55,205,855	100
2004	61,927,029	100
2005	74,655,371	100
2006	88,184,159	100
2007	109,436,001	100

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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

Valuation date	June 30, 2007
Actuarial cost method	Projected unit credit
Amortization method	Level dollar amount
Amortization period	The initial period is a closed 40 years. The average remaining period at June 30, 2007 is 24.7 years.
Asset valuation method	5-Year phase-in of market gains/losses
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases depending on age	4.75% - 7.50%
Cost-of-living adjustments	3.5%
Post-Retirement Increases	Consumer Price Index - by Group
Mortality rates after retirement	RP 2000 projected 10 years, separate tables for males and females

The actuarial assumptions used have been recommended by the actuary and adopted by the County's Chief Administrative Officer based on the most recent review of the System's experience, completed as of June 30, 2005.

The rate of employer contributions to the plan is composed of the normal cost, amortization of the unfunded actuarial liability and an allowance for administrative expenses. The normal cost is the actuarial value of the portion of the ultimate benefit that is earned during the current year. Members also contribute toward the normal cost. The actuarial liability is that portion of the present value of projected benefits that will not be paid by future employer normal costs or member contributions. The difference between this liability and the funds accumulated as of the same date is the unfunded actuarial ability.

SCHEDULE OF ADMINISTRATIVE, INVESTMENT AND PROFESSIONAL FEES
EMPLOYEES' RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2007

SCHEDULE OF ADMINISTRATIVE EXPENSES

Personnel Services:	
Salaries and wages	$ 966,309
Retirement contributions	81,358
Insurance	95,767
Social security	71,824
Total personnel services	1,215,258
Professional Services:	
Actuarial	175,852
Independent public accountants	31,563
Outside legal	99,643
Temporary	4,780
Total professional services	311,838
Benefit Processing:	
Disbursement services	495,959
Disability management	230,492
Total benefit processing	726,451
Due diligence and continuing education	21,717
Office Management:	
Office equipment and supplies	152,712
Miscellaneous	3,663
Total office management	156,375
Total administrative expenses	$ 2,431,639

SCHEDULE OF ADMINISTRATIVE, INVESTMENT AND PROFESSIONAL FEES, CONCLUDED
EMPLOYEES' RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2007

SCHEDULE OF INVESTMENT EXPENSES

Investment Management Fees:	
Aetna Life Insurance Company	$ 3,977
The Northern Trust Company	275,500
Marathon London	1,263,713
BlackRock Financial Management	489,601
Wellington Management	779,169
Bridgewater Associates	1,202,611
RhumbLine Advisors	53,378
Systematic Financial Management	661,015
Mondrian Investment Partners Ltd.	560,787
Barclays Global Investors	44,470
Numeric Investors	1,521,539
First Quadrant	545,747
JP Morgan Investment Management	511,592
FX Concepts	1,470,830
Goldman Sachs	1,021,019
Gryphon International Investment	799,962
Loomis Sayles	278,942
Nomura Corporate Research & Asset Management	285,481
Total investment management fees	11,769,333
Other Investment Related Expenses:	
Bloomberg Financial Systems	13,860
Wilshire Associates	231,200
Securities lending borrower rebates	17,372,848
Securities lending agent fees	281,917
Total other investment related expenses	17,899,825
Total investment expenses	$ 29,669,158

EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF PLAN NET ASSETS
JUNE 30, 2007 AND 2006

	2007	2006
ASSETS		
Equity in County's pooled cash and investments	$ 290,445	$ 254,623
Investments:		
U.S. Government and agency obligations	301,386,117	232,995,778
Asset-backed securities	57,774,486	64,293,203
Municipal/Provincial bonds	1,174,270	1,254,177
Corporate bonds	295,897,623	290,400,350
Collateralized mortgage obligations	13,898,231	14,495,328
Commerical mortgage-backed securities	64,854,406	17,596,302
Common and preferred stock	1,643,956,241	1,476,304,775
Mutual and commingled funds	1,045,987	850,557
Short-term investments	181,339,966	147,756,147
Cash collateral received under securities lending agreements	384,513,936	336,590,875
Real estate	30,928,663	5,600,193
Private equity	108,944,183	44,610,809
Total investments	3,085,714,109	2,632,748,494
Dividends receivable and accrued interest	10,001,833	8,361,260
Contributions receivable	7,282,500	6,032,613
Total assets	3,103,288,887	2,647,396,990
LIABILITIES		
Payable for collateral received under securities lending agreements	384,513,936	336,590,875
Benefits payable and other liabilities	4,507,292	3,126,553
Total liabilities	389,021,228	339,717,428
Net assets held in trust for pension benefits	$ 2,714,267,659	$ 2,307,679,562

EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
ADDITIONS		
Contributions:		
Employer	$ 109,436,001	$ 88,184,159
Members	16,362,462	16,084,999
Total contributions	125,798,463	104,269,158
Investment Income:		
Net appreciation in fair value of investments	359,326,888	139,140,738
Dividends and interest	72,728,867	55,214,870
Total income from investment activities	432,055,755	194,355,608
Less investment expenses	12,014,393	7,967,636
Net income from investment activities	420,041,362	186,387,972
Income from securities lending	18,460,425	12,706,126
Less securities lending expenses	17,654,765	12,089,748
Net income from securities lending	805,660	616,378
Total additions	546,645,485	291,273,508
DEDUCTIONS		
Retiree benefits	98,652,678	112,210,585
Disability benefits	32,228,463	12,124,706
Survivor benefits	5,951,967	1,483,035
Refunds	792,641	634,585
Administrative expenses	2,431,639	1,920,238
Total deductions	140,057,388	128,373,149
Net increase	406,588,097	162,900,359
Net assets - beginning of year	2,307,679,562	2,144,779,203
Net assets - end of year	$2,714,267,659	$2,307,679,562

RETIREMENT SAVINGS PLAN
STATEMENTS OF PLAN NET ASSETS
JUNE 30, 2007 AND 2006

	2007	2006
ASSETS		
Equity in County's pooled cash and investments	$ 509,850	$ 611,204
Investments	119,063,075	88,570,836
Contributions receivable	1,086,498	1,019,942
Total assets	120,659,423	90,201,982
LIABILITIES		
Accrued expenses	33,250	26,828
Net assets held in trust for pension benefits	$ 120,626,173	$ 90,175,154

RETIREMENT SAVINGS PLAN
STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
ADDITIONS		
Contributions:		
Employers	$ 11,227,348	$ 9,437,190
Members	6,797,447	5,860,277
Total contributions	18,024,795	15,297,467
Investment income	16,630,901	7,205,725
Less investment expenses	30,702	30,097
Net investment income	16,600,199	7,175,628
Other income	573,691	1,061,073
Total additions	35,198,685	23,534,168
DEDUCTIONS		
Refunds	4,454,660	4,305,879
Administrative expenses	293,006	242,844
Total deductions	4,747,666	4,548,723
Net increase	30,451,019	18,985,445
Net assets - beginning of year	90,175,154	71,189,709
Net assets - end of year	$ 120,626,173	$ 90,175,154

DEFERRED COMPENSATION PLAN
STATEMENTS OF PLAN NET ASSETS
JUNE 30, 2007 AND 2006

	2007	2006
ASSETS		
Investments	$ 248,948,643	$ 212,366,121
Contributions receivable	968,981	918,588
Total assets and net assets held in trust for pension benefits	$ 249,917,624	$ 213,284,709

DEFERRED COMPENSATION PLAN
STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
ADDITIONS		
Contributions - members	$ 16,649,114	$ 16,562,414
Investment income	32,393,760	20,485,777
Total additions	49,042,874	37,048,191
DEDUCTIONS		
Member refunds	12,409,959	11,225,978
Total deductions	12,409,959	11,225,978
Net increase	36,632,915	25,822,213
Net assets - beginning of year	213,284,709	187,462,496
Net assets - end of year	$ 249,917,624	$213,284,709

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 $2.7 billion fund, 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 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 in FY 2007 was 13.38%. The System's one year total return of 18.22%, net of fees, ranked in the top 8th percentile of all public plans in the universe. The study also ranked the System's three-year return of 12.33% in the 21st percentile and its five-year return of 11.65% in the 11th percentile. These returns were well above our actuarially assumed long-term return of 8.0% and exceeded the performance benchmark established by the Board. The key drivers of the strong performance for the twelve month period ending June 30, 2007 were equity markets with domestic equities up 20% and international equities up 30%. The System is now the 397th largest public or private pension system in the United States.

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:

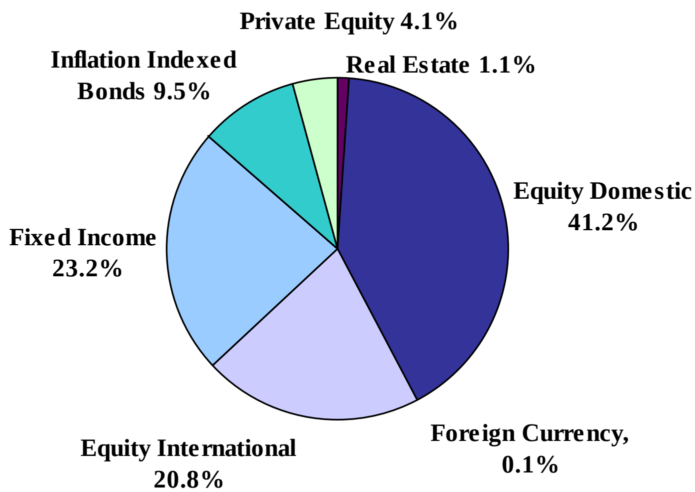
- To realize the actuarial assumed rate of return of 8 percent, annually.
- To manage portfolio risk so as to limit potential downside fluctuations in the value of the total System assets.
- To realize as high a rate of total return as possible consistent with the above.

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 within a +/-3% range.
- Monitor the individual investment manager's 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 2007, the Board conducted an asset/liability study resulting in the implementation of a revised strategic asset allocation over the next few years which will result in further diversification of the investment portfolio. The Board continues to expand its risk management system to track and project risks for individual asset classes, managers and the total fund.

ASSET ALLOCATION – JUNE 30, 2007



INVESTMENT PERFORMANCE SUMMARY

	ANNUALIZED DATA FOR PERIOD ENDING JUNE 30, 2007		
	1 Year	**3 Year**	**5 Year**
Total Fund Time-Weighted Returns			
MCERS	18.79 %	12.76 %	12.11 %
Policy Benchmark	17.19	11.87	11.16
Total Domestic Equities Return			
MCERS	21.48	13.59	12.51
Russell 3000	20.07	12.44	11.53
Total Private Equities Return			
MCERS	22.94*	17.87*	N/A
Russell 3000 + 300 Bpts	21.85*	17.29*	N/A
Total International Equities			
MCERS	33.89	25.12	20.86
MSCI All Country World X US	29.62	24.52	19.45
Total Real Estate			
MCERS	18.57*	N/A	N/A
Policy Benchmark	**	**	**
Total Fixed Income			
MCERS	7.64	5.21	6.60
Policy Benchmark	7.22	5.09	6.18
Total Inflation Index Bonds			
MCERS	2.20	5.17	N/A
Custom IIB Benchmark	2.89	4.77	6.63

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, and are in accordance with the Global Investment Performance Standard (GIPS). 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 computed on dollar-weighted basis.

** Benchmark comparison is not meaningful at this time due to the short investment history of the System real estate program.

PORTFOLIO HIGHLIGHTS

PUBLIC EQUITY

The market value of the total Public Equity Portfolio as of June 30, 2007 represented approximately 62% of the total fund split between Domestic Equity at 41.2% and International Equity at 20.8%. The Domestic Equity Portfolio outperformed the Russell 3000 Benchmark by 1.41% during the fiscal year. Small capitalization stocks contributed the most on a relative return basis.

The International Equity Portfolio was allocated as follows: 81% EAFE, 15% emerging market and 4% passive strategies. The International Equity Portfolio utilizes risk-controlled active currency strategies that attempt to capitalize on currency market inefficiencies by taking long and short currency positions based on their fundamental attractiveness. The notional value of these strategies totaled $500 million as of June 30, 2007. The International Equity Portfolio outperformed the MSCI ACWI ex US Benchmark by 4.27% during the twelve months ending June 30, 2007.

Equity: Top 15 Holdings

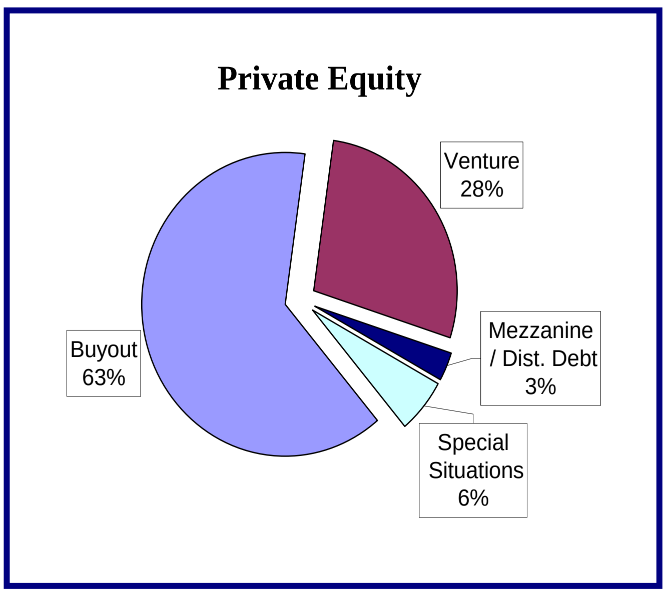
The top 15 holdings in the Public Equity Portfolio comprised 11% of ERS assets at June 30, 2007. In comparison to last year, five companies fell from the list. Chesapeake Energy, Altria Group, Schlumberger LTD, FHLMC, and First Data were dropped, and Morgan Stanley, Merck & Co., Google, and Baker Hughes were added.

Equity	Shares	Value
Exxon Mobil	286,937	$ 24,068,276
AT&T	392,695	16,296,843
Bank of America	321,209	15,703,908
Microsoft	499,149	14,709,921
General Electric	335,514	12,843,476
Pfizer	477,047	12,198,092
Cisco	430,716	11,995,441
Wal-Mart	240,720	11,581,039
Citigroup	192,102	9,852,912
Morgan Stanley	109,620	9,194,926
Pepsico	133,589	8,663,247
Merck & Co	173,880	8,659,224
Google	16,440	8,604,367
IBM	81,592	8,587,558
Baker Hughes	98,460	8,283,440

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, 2007, the Private Equity Portfolio comprised 4.1% of total fund assets. Approximately 46% of the dollars committed have been called. Specifically, the program seeks to outperform the Russell 3000 Index by 3.0% per year. System returns are calculated on a dollar-weighted or internal rate-of-return basis, and the return since inception (2003) through June 30, 2007 was 16.22%. By comparison, the dollar-weighted return for the Russell 3000 Index plus 3% for the same time frame was 17.67%.

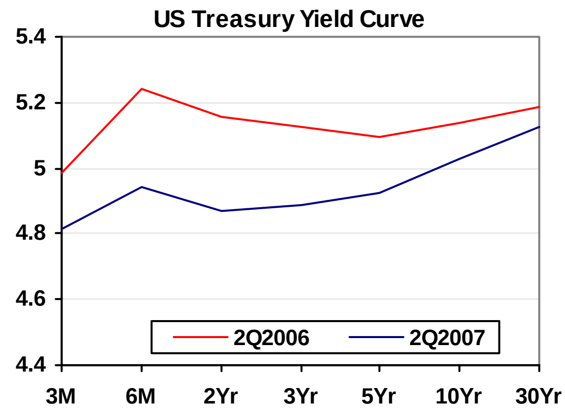
Private equity results to date have been driven predominantly by the strong performance of buyout funds. Global mergers and acquisitions (M&A) activity is near an all-time high and the private equity share of M&A activity continues to grow. However, IPO activity (for both venture and buyout) is still very limited, particularly in comparison to the boom years of 1999-2000.



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 for some protection in the event of a slowing economic environment, where these lower volatility assets provide downside protection. The market value of the Fixed Income Portfolio as of June 30, 2007 represented approximately 23.2% of the total fund. The Fixed Income Portfolio returned 7.64%, outperforming the benchmark return of 7.22% by 0.42% during the fiscal year. Strong returns were driven by the high yield allocations, representing approximately 7.2% of total fund assets.



There was a marked change in fixed income markets over the twelve month period. Following seventeen straight increases in interest rates by the Federal Reserve Bank, interest rates were kept on hold through the entire year. This pause and moderation highlighted a shift in economic outlook. US Treasury yields (see graph above) have declined across the yield curve. Despite the uncertainty of the housing market and concerns about inflation, credit defaults remained low from a long-term average perspective.

Fixed Income: Top 15 Holdings

Fifteen Largest Fixed Income Holdings	Interest Rate	Maturity Date	Fair Value
Federal National Mortgage Assn.			
30 year Pass-Throughs	5.500 %	July 2, 2038	$ 38,816,094
United States Treasury Bonds	4.750	February 15, 2037	13,554,058
Federal National Mortgage Assn.			
Participation Certificate	5.000	July 1, 2038	12,480,533
Federal National Mortgage Assn. Pool 15 year	5.000	May 1, 2036	10,261,565
France Government OATEI	2.250	July 25, 2020	9,604,081
Canada Index Linked Government Bonds	3.000	January 12, 2036	9,548,117
Federal National Mortgage Assn.			
Single Family Mortgage 15 year	6.000	July 1, 2023	8,587,406
Federal National Mortgage Assn.			
Gold Participation Certificate	5.500	August 1, 2037	7,712,496
Federal National Mortgage Assn. Pool 15 year	7.000	April 1, 2037	7,279,041
Federal National Mortgage Assn.			
Single Family Mortgage 15 year	5.500	July 1, 2023	7,190,500
UK Government Inflation Linked Bonds	2.500	July 26, 2016	7,052,561
Canada Index Linked Government Bonds	4.250	January 12, 2026	6,852,486
France Government OAT Index Linked Bonds	3.150	July 25, 2032	6,793,446
United States Treasury Bonds	6.250	August, 15, 2023	6,679,002
Italy Repurchase BTPI Linked	2.150	September 15, 2014	6,616,864

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

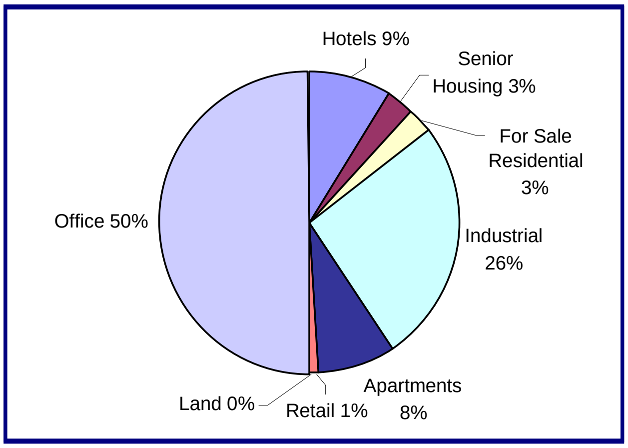
PORTFOLIO HIGHLIGHTS

REAL/INFLATION HEDGE ASSETS

Real Estate

The System began investing in opportunistic real estate in 2006 to attain returns uncorrelated with the broad securities markets. Returns are computed on a dollar-weighted or internal rate-of-return basis, and from inception to June 30, 2007 the investments generated 9.77%. The real estate portfolio comprised 1.1% of the ERS portfolio at June 30, 2007 with approximately 34% of the total capital committed to real estate being contributed.

Although residential real estate has experienced a tough period over the last twelve months, commercial real estate continued to perform strongly. In addition, capital remained largely available and inexpensive for most of the year. However, the collapse of the sub-prime mortgage market had a big impact on borrowing costs and terms as lenders reviewed their requirements. This caused volatility in the debt markets and, during the second quarter of 2007, REIT valuations fell sharply (down over 9%) and traded at a deep discount to their net asset values. Within real estate, our managers continue to pursue opportunistic, value added investment properties.



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 9.5% of the total fund. The Portfolio returned 2.2% during the fiscal year, underperforming the benchmark by 0.69%.

Inflation-indexed bonds performed poorly during the fiscal year due to a combination of real and nominal yield expectations going forward. A marked increase in volatility had a large impact on the fixed income markets towards the end of the year. 10-year Treasuries ended the month of June above 5.0% - hitting 5.25% at one stage, the highest closing level in five years. Rises in the yield curve were more pronounced for longer duration paper and this caused the yield curve to steepen. Although concerns about inflation caused yields to widen, this created more demand for long duration Treasuries (as a flight to quality for investors), helping to push the yield for 10-year Treasuries back down towards the 5.0% level.

Inflation-Indexed Bonds - Country Exposures		
United States	42.9	%
Euroland	20.5	
United Kingdom	17.6	
Sweden	9.9	
Canada	9.1	

PORTFOLIO HIGHLIGHTS

MONEY MANAGERS

The diversified investment structure as of June 30, 2007 is reflected in the following tables, which list MCERS managers by investment sector and style.

Public Equity Managers	Investment Style
Domestic Equity	
BGI Russell 1000 Fund*	Russell 1000 Index
RhumbLine Advisors	Russell 1000 Index
Systematic Financial Mgt.	Large Cap Value
Numeric Investors	Large Cap Core
Goldman Sachs	Large Cap Growth
Wellington	Small Cap Value
Numeric Investors	Small Cap Growth
Fidelity Investments*	Fidelity Managed Income Portfolio
International Equity	
Marathon	EAFE
Gryphon	EAFE
Mondrian*	Emerging Markets
BGI EAFE Fund*	EAFE Index

Foreign Currency Mgrs.	Investment Style
First Quadrant*	Foreign Currency Overlay
FX Concepts*	Foreign Currency Overlay

Private Equity Managers	Investment Style
Adams Street	Fund-of-Funds
HarbourVest	Fund-of-Funds
Landmark	Fund-of-Funds

Real Estate Managers	Investment Style
TA Associates	Opportunistic
AEW Capital	Opportunistic

Fixed Income Managers	Investment Style
JP Morgan	Core Plus
BlackRock	Core Plus
Nomura	High Yield
Loomis Sayles	High Yield
BGI US Debt Fund*	Lehman Aggregate Index

Inflation-Indexed Bond Mgrs.	Investment Style
Bridgewater*	Inflation Indexed Bonds

* Pooled Funds

PUBLIC EQUITY COMMISSIONS

JULY 1, 2006 THROUGH JUNE 30, 2007

Brokers	Commissions (thousands)
Credit Suisse First Boston Corporation	$ 119
Investment Technology Group, Inc.	95
Spear Leeds & Kellogg	80
Liquidnet Inc.	64
Morgan Stanley & Co., Inc.	63
Merrill Lynch Pierce Fenner & Smith, Inc.	61
Autranet Inc.	55
Instinet	30
Lehman Brothers Inc.	28
Citigroup Global Markets	25
Other Brokers (88 brokers)	371
Total	$ 991

ACTUARIAL SECTION

Employees' Retirement System

Douglas L. Rowe, FSA, MAAA, EA
Principal

MERCER

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November 26, 2007

Board of Investment Trustees
Montgomery County Government Retirement System
101 Monroe Street
Rockville, MD 20850

Subject: July 1, 2007 Actuarial Valuation Report

Dear Members of the Board:

Mercer annually performs an actuarial valuation of the Montgomery County Employees' Retirement System for the Montgomery County Government. The most recent actuarial valuation performed was as of July 1, 2007. The purpose of this valuation was to:

- Review experience under the Plan for the year ending June 30, 2007
- Determine the liabilities of the Plan as of June 30, 2007
- Determine the contribution to be paid biweekly during the fiscal year ending June 30, 2009.

The actuarial information in this letter is provided in detail in our valuation report.

Valuation Results

Sections II through IV of the valuation report detail the results of the 2007 valuation, including a breakdown by employee group and plan. This valuation uses the same demographic assumptions as those used in the 2006 valuation.

County Contributions

Contributions are computed using the Projected Unit Credit method of funding. The objective of this method is to fund each participant's benefits under the Plan, as they would accrue, taking into consideration future salary increases. Thus the total pension to which each participant is expected to become entitled is broken down into units; each associated with a year of past or future credited service.

If all actuarial assumptions are met in the future and if there are no plan changes, the plan contribution as a percentage of the payroll covered by this plan is expected to increase. This

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is because the Optional Plans are closed to new non-public safety members; hence, the average age of active members is expected to increase in the future. Normal cost per active member in the closed groups will increase at roughly the valuation interest rate, which is higher than the assumed salary scale.

The July 1, 2007 actuarial valuation sets the County's contribution rates for the fiscal year ending June 30, 2009. The rates are set separately for public safety and non-public safety employee groups and will be applied to each group's total covered payroll for the fiscal year 2009. Thus, the exact dollar amount of the required contribution will not be known until the end of the fiscal year 2009. The contribution rates for fiscal year 2009 were determined based on the total payroll at July 1, 2007, taking into account the general wage adjustments for FY08 on July 1, 2007 for Group F participants, and on July 8, 2007 for all other membership groups.

Investments

During the 2006-2007 plan year, the rate of return after investment expenses on the market value of assets was 18.3%. On a market value basis, the return was $236.8 million more than the 8% assumed rate of return. This $236.8 million gain is phased in over a five-year period. Gains and losses from 2006-2007 and prior years produced a net gain on an actuarial value of assets basis. As of July 1, 2007, net investment gains of $244.3 million had not yet been recognized in the actuarial value of assets.

The 2007 valuation was based on an actuarial value of assets of $2,469,933,200.

We used the financial information provided by the County without further audit.

Aetna Contract

The value of the Aetna non-participating group-annuity contract is excluded from all calculations.

Actuarial Assumptions and Plan Provisions
There were no changes in actuarial assumptions or plan provisions since the last actuarial valuation as of July 1, 2006.

Participant Data

Between June 30, 2006 and June 30, 2007, there was a 0.9% increase in the number of plan members. However, the number of active members decreased by 1.3%, from 5,362 to 5,294. The total payroll increased by 4.9%, from $357.4 million to $374.8 million.

Aetna provided the retiree data, including benefits. The County provided data on active and terminated vested members. This information would customarily not be verified by a plan's actuary. We have reviewed the information for internal consistency and we have no reason to doubt its substantial accuracy.

Supplementary Information

The July 1, 2007 actuarial valuation report also provides supplemental information, including the schedule of funding progress, for which Mercer is responsible. This schedule is presented in the financial section of the County's Comprehensive Annual Financial Report (CAFR). 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 to provide a means for making comparisons with other public employee retirement systems.

The County extracted the information from the July 1, 2007 valuation report for the following schedules in the actuarial section and the statistical section of County's Comprehensive Annual Financial Report.

- Summary of Results
- System Contribution
- Membership
- Actuarial Assumptions and Methods
- Solvency Test

I have reviewed this information and the Notes to Required Supplementary Information.

Actuarial Certification

All costs, liabilities, and other factors under the Plan were determined in accordance with generally accepted actuarial principles and procedures. The information provided has been

Page 4
November 26, 2007
Board of Investment Trustees
Montgomery County Government Retirement System

determined in accordance with the provisions of Statement Numbers 25 and 27 of the Governmental Accounting Standards Board. The costs are calculated using an actuarial cost method that we believe is appropriate. The actuarial assumptions are reasonable in our opinion and represent our best estimate of the anticipated experience under the Plan.

The undersigned credentialed actuaries meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report.

Respectfully submitted,

Douglas L. Rowe

Douglas L. Rowe, FSA, MAAA, EA

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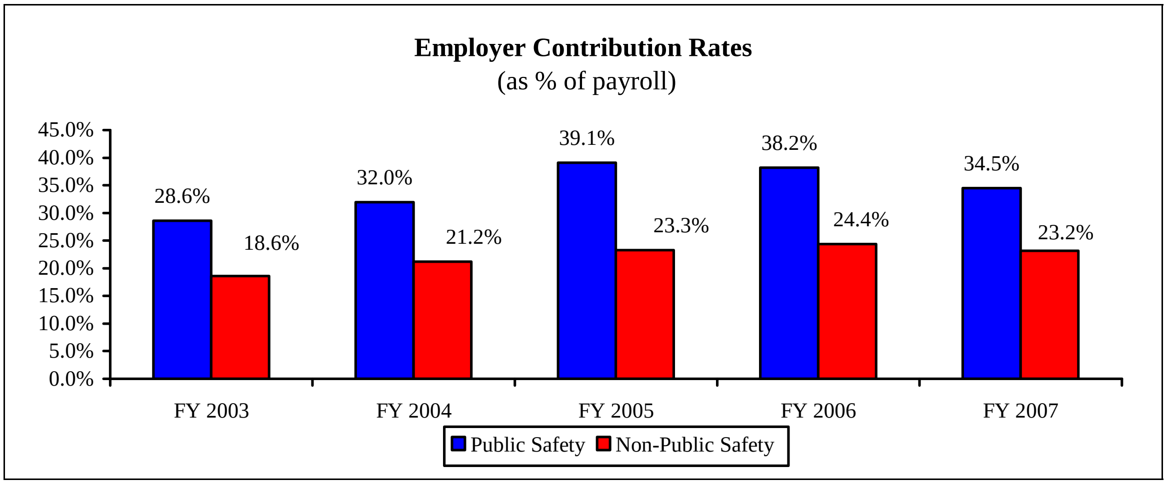
SUMMARY OF VALUATION RESULTS
EMPLOYEES' RETIREMENT SYSTEM

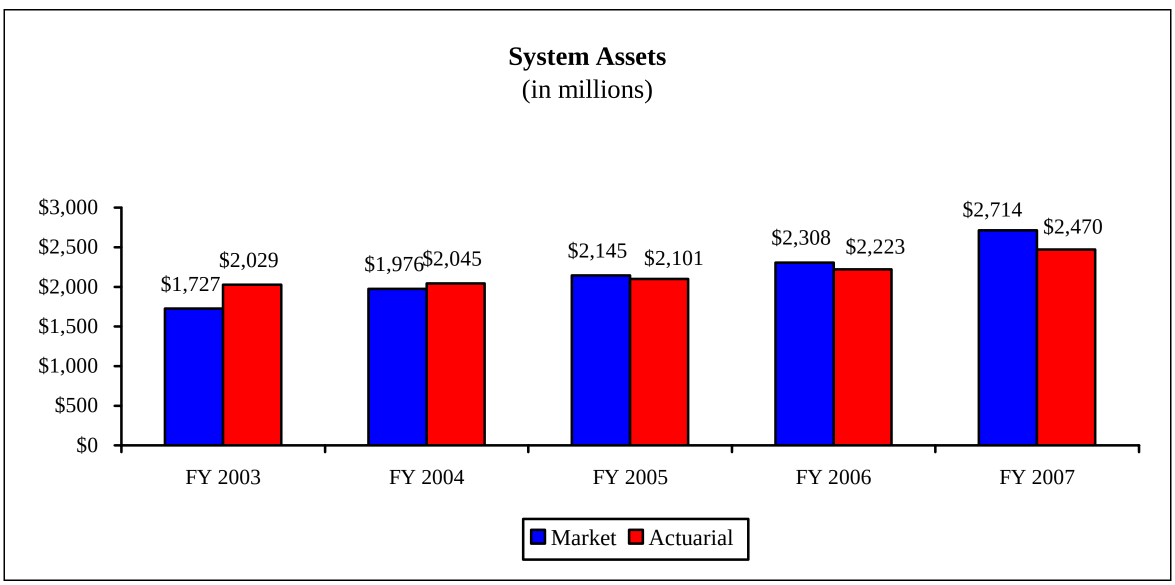
A. Overview

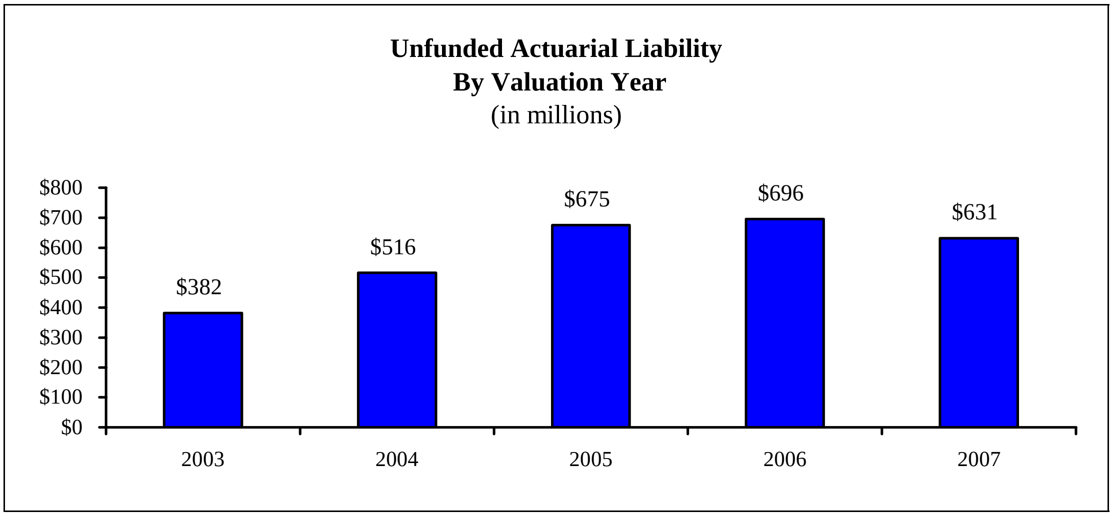
This report presents the results of our June 30, 2007 actuarial valuation of the Montgomery County Employees' Retirement System.

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

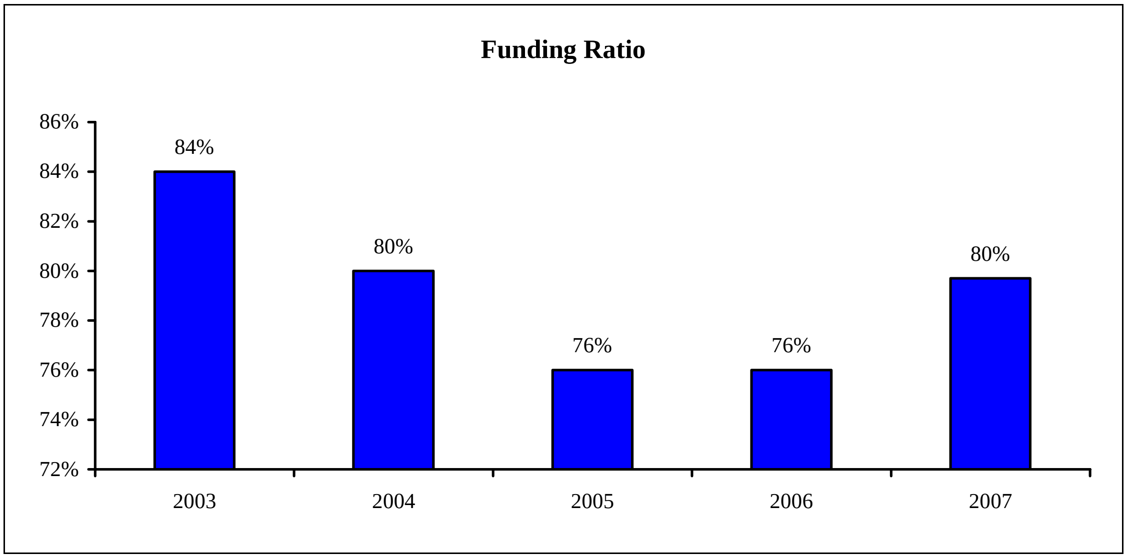


The change in the employer contribution rate in FY 2007 was due to actual System experience versus actuarial assumptions.





The unfunded actuarial liability decreased in FY 2007 due to changes in normal cost, interest, and contributions.



The ratio of actuarial assets to the actuarial accrued liability increased by 4% in FY07 due to strong investment performance.

B. Summary of Results

	July 1, 2006	July 1, 2007
Actuarial Liability		
a. Active Members	$ 1,339,632,483	$ 1,438,945,337
b. Retired Members and Beneficiaries	1,555,403,374	1,635,227,920
c. Vested Former Members	23,300,216	26,464,466
d. Total	$ 2,918,336,073	$ 3,100,637,723
Valuation Assets	$ 2,222,724,295	$ 2,469,933,200
Unfunded Actuarial Liability	$ 695,611,778	$ 630,704,523
Normal Cost		
a. Gross Normal Cost	$ 69,137,093	$ 72,230,659
b. Anticipated Employee Contributions	$ 16,098,352	$ 17,442,875
c. County Normal Cost (a -b)	$ 53,038,741	$ 54,787,784
Amortization Payment	$ 59,259,804	$ 54,868,357
County Contribution at date shown	$ 112,298,545	$ 109,656,141
County FY 2008/FY 2009 Contribution (as a % of covered payroll)		
Public Safety Employee	38.17%	34.46%
Non-Public Safety Employees	24.41%	23.17%

C. Valuation Highlights

1. System Assets

As of June 30, 2007, the System had assets, valued at market, of $2.714 billion, as compared to $2.308 billion at June 30, 2006. The increase of $406 million was attributable to the following:

a. An increase of $125 million from employer and employee contributions;
b. An increase of $421 million from investment income; and
c. A decrease of $140 million due to the payment of benefits to System participants and administrative expenses.

When measured on an actuarial basis, System assets were $2.470 billion at June 30, 2007, and $2.223 billion at June 30, 2006. 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 $65 million, from $696 million at July 1, 2006, to $631 million at July 1, 2007, as follows:

Actual Unfunded Liability at beginning of year	$	695,611,778
Actual Unfunded Liability at end of year		630,704,523
Decrease in Actual Unfunded Liability	$	64,907,255

The decrease in Actual Unfunded Liability for the year ended June 30, 2007, is comprised of the following:

Decrease due to gain on actuarial value of assets	$	84,209,271
Decrease due to demographic gain and other factors		3,366,411
Increase due to normal cost, interest and contributions		(22,668,427)
Decrease in Actual Unfunded Liability	$	64,907,255

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 in the employer contribution rate is attributable to the following:

	Public Safety		Non-Public Safety	
Employer contribution rate - June 30, 2006	38.17	%	24.41	%
Decrease due to gain on actuarial value of assets	(6.17)		(1.61)	
Increase due to actuarial gains & losses	2.46		0.37	
Employer contribution rate - June 30, 2007	34.46	%	23.17	%

4. Membership

The active membership of the System decreased from 5,362 at June 30, 2006 to 5,294 at June 30, 2007. The System was closed to all new employees hired after October 1, 1994, except public safety bargaining unit employees. Inactive members, including retirees and beneficiaries, increased from 4,848 at June 30, 2006 to 4,997 at June 30, 2007 and the number of former members with vested rights increased from 485 to 498.

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 10 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	11	9
25	0	0	70	19	16
30	0	0	75	33	26
35	1	0	80	58	43
40	1	1	85	103	73
45	1	1	90	176	128
50	2	1	95	262	191
55	3	3	100	341	235
60	6	5	105	398	293

2. Termination of Employment (prior to retirement eligibility)

Annual Terminations per 1,000 Members

Years of Service	Non-Public Safety	Public Safety
0 – 4	35	80 – 29
5 – 9	35	22 – 14
10 – 14	17	13 – 6
15 – 19	17 – 11	5 – 3
20 – 25	11 – 6	2
26+	6	NA

It is assumed that 15% 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 when they terminate employment.

3. Disability

	Annual Disabilities per 1,000 Members			
	Non-Public Safety Employees		Public Safety Employees	
Age	Male	Female	Male	Female
20	1	1	1	1
25	2	1	3	3
30	2	2	6	8
35	3	3	8	12
40	3	3	10	16
45	6	3	19	22
50	7	5	32	29
55	5	6	39	31
60	9	6	47	32
65	0	0	0	0

4. Deaths

	Annual Deaths per 1,000 Disabled Members	
Age	Male	Female
20	0	0
25	0	0
30	1	0
35	1	1
40	2	1
45	2	2
50	4	3
55	7	5
60	13	10
65	22	17

5. Retirement

Age	Non-Public Safety Employees	Public Safety Employees Other than Group G
Under 40	0%	3%
41	0%	3%
42	0%	3%
43	0%	3%
44	0%	3%
45	1%	3%
46	1%	20%
47	1%	20%
48	1%	20%
49	1%	20%
50	5%	30%
51	5%	30%
52	5%	30%
53	5%	30%
54	5%	30%
55	20%	75%
56	20%	75%
57	20%	75%
58	20%	75%
59	20%	75%
60	15%	100%
61	15%	100%
62	15%	100%
63	15%	100%
64	15%	100%
65	50%	100%
66	50%	100%
67	75%	100%
68	100%	100%
69	100%	100%
70	100%	100%

Note: Rates apply only when an employee is eligible to retire based on age and service.

6. Sick Leave Credit

Sick leave: Service credit is increased by 2.5% 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**.**

8. Assumption Changes

In October 2005, the System's actuary, Mercer Human Resource Consulting completed an experience study of the actuarial assumptions used for the five-year period ending June 30, 2005. All recommended assumptions were approved by management at that time.

B. Economic Assumptions

1. Investment Return: 8.0% compound per annum
2. Cost-of-Living Increases: 3.5% compound per annum
3. Increase in Social Security Wage Base: 4.5% compound per annum
4. Expense load: Anticipated administrative expense equal to the average of the prior three years of administrative expenses adjusted for anticipated changes (which equates to a $320,000 increase for FY2009). FY2009, this figure is $2,070,000.
5. Salary Increase: Merit and promotional increases assumed to be based on age as shown below:

Age	**Salary Scale**
18 – 34	7.50%
35 – 44	6.50%
45 onwards	4.75%

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	2004	2005	2006	2007
Investment loss	$ (107,257,715)	$ (80,722,008)	$ (20,801,336)	$ 84,209,271
Combined liability experience	(23,042,239)	(57,173,555)	(62,484,214)	(27,653,662)
Loss during year	$ (130,299,954)	$ (137,895,563)	$ (83,285,550)	$ 56,555,609

SOLVENCY TEST

Aggregate Accrued Liability

Valuation Date	(1) Active Members Contributions	(2) Retirees, Vested Terms, Beneficiaries	(3) Active Members (Employer Financed Portion)	Reported Assets	Portion of Accrued Liabilitities Covered by Reported Assets (1)	(2)	(3)
6/30/2001	$ 143,356,036	$ 1,029,982,653	$ 938,607,764	$ 1,990,882,017	100 %	100 %	87 %
6/30/2002	146,500,545	1,125,070,362	1,001,608,309	2,036,100,709	100	100	76
6/30/2003	155,686,014	1,247,359,872	1,008,446,838	2,029,314,438	100	100	62
6/30/2004	160,523,789	1,354,272,329	1,046,532,114	2,045,098,796	100	100	51
6/30/2005	166,078,802	1,426,030,001	1,182,938,609	2,100,532,623	100	100	43
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

SCHEDULE OF RETIREES AND SURVIVORS
During Years Ended June 30

	New Retirees and Disableds	Survivors	Total
July 1, 2001	**3,677**	**312**	**3,989**
New retirements & disabilities	244	0	244
Deaths with beneficiaries	(28)	28	0
Deaths/benefits ended	(108)	(10)	(118)
July 1, 2002	**3,785**	**330**	**4,115**
New retirements & disabilities	336	0	336
Deaths with beneficiaries	(30)	30	0
Deaths/benefits ended	(71)	(10)	(81)
July 1, 2003	**4,020**	**350**	**4,370**
New retirements & disabilities	304	0	304
Deaths with beneficiaries	(26)	26	0
Deaths/benefits ended	(99)	(16)	(115)
July 1, 2004	**4,199**	**360**	**4,559**
New retirements & disabilities	216	0	216
Deaths with beneficiaries	(20)	20	0
Deaths/benefits ended	(99)	(11)	(110)
July 1, 2005	**4,296**	**369**	**4,665**
New retirements & disabilities	266	0	266
Deaths with beneficiaries	(22)	22	0
Deaths/benefits ended	(57)	(26)	(83)
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**

SCHEDULE OF ANNUAL ALLOWANCE
During Years Ended June 30

	New Retirees and Disableds	Survivors	Total
July 2001	**$ 89,528,214**	**$ 3,745,695**	**$ 93,273,909**
Average Annual Allowance	24,348	12,005	23,383
Annual Allowance Added	8,191,629	499,438	8,691,067
Annual Allowance Removed	(1,908,620)	(231,142)	(2,139,762)
July 2002	**$ 95,811,223**	**$ 4,013,991**	**$ 99,825,214**
Average Annual Allowance	25,313	12,164	24,259
Annual Allowance Added	11,401,243	551,410	11,952,653
Annual Allowance Removed	(1,479,300)	(159,196)	(1,638,496)
July 2003	**$ 105,733,166**	**$ 4,406,205**	**$ 110,139,371**
Average Annual Allowance	26,302	12,589	25,204
Annual Allowance Added	11,570,789	572,318	12,143,107
Annual Allowance Removed	(2,180,663)	(308,637)	(2,489,300)
July 2004	**$ 115,123,292**	**$ 4,669,886**	**$ 119,793,178**
Average Annual Allowance	27,417	12,972	26,276
Annual Allowance Added	10,396,825	797,535	11,194,360
Annual Allowance Removed	(1,963,577)	(313,742)	(2,277,319)
July 2005	**$ 123,556,540**	**$ 5,153,679**	**$ 128,710,219**
Average Annual Allowance	28,761	13,967	27,591
Annual Allowance Added	14,424,755	305,259	14,730,014
Annual Allowance Removed	(1,611,828)	(127,575)	(1,739,403)
July 2006	**$ 136,369,467**	**$ 5,331,363**	**$ 141,700,830**
Average Annual Allowance	30,419	14,606	29,229
Annual Allowance Added	10,498,059	580,630	11,078,089
Annual Allowance Removed	(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**

Schedule of Active Member Valuation Data

Valuation Date	Number	Annual Payroll [a]	Annual Average Pay	% Increase in Average Pay
July 1, 2001	6,023	$318,682,907	$52,911	4.887%
July 1, 2002	5,983	$333,449,862	$55,733	5.333%
July 1, 2003	5,876	$336,019,788	$57,185	2.606%
July 1, 2004	5,670	$341,629,327	$60,252	5.363%
July 1, 2005	5,628	$355,105,993	$63,096	4.721%
July 1, 2006	5,362	$357,361,131	$66,647	5.627%
July 1, 2007	5,294	$374,792,608	$70,796	6.225%

(a) Total payroll for active participants under retirement age was used for years prior to July 1, 2002. Beginning July 1, 2002 payroll for all active participants was used.

STATISTICAL SECTION

Employees' Retirement System

MONTGOMERY COUNTY, MARYLAND
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF CHANGE IN NET ASSETS
JUNE 30, 2007
LAST TEN FISCAL YEARS
(dollars in thousands)

	1998	1999	2000	2001	2002
Additions					
Member contributions	$ 10,520	$ 10,477	$ 10,924	$ 11,292	$ 12,944
Employer contributions	51,098	47,463	44,347	43,345	39,168
Investment income (net of expenses)	270,973	165,710	135,338	(81,375)	(124,177)
Total additions	332,591	223,650	190,609	(26,738)	(72,065)
Deductions					
Benefit payments	67,656	71,473	76,387	78,434	85,323
Refunds	1,058	828	861	1,067	681
Administrative expenses	1,177	1,297	1,220	1,689	2,092
Total deductions	69,891	73,598	78,468	81,190	88,096
Change in net assets	$ 262,700	$ 150,052	$ 112,141	$ (107,928)	$ (160,161)

MONTGOMERY COUNTY, MARYLAND
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF BENEFIT AND REFUND DEDUCTIONS FROM NET ASSETS BY TYPE
JUNE 30, 2007
LAST TEN FISCAL YEARS
(dollars in thousands)

	1998	1999	2000	2001	2002
Type of Benefit					
Service benefits:					
Retirees	$ 46,448	$ 49,533	$ 53,463	$ 58,415	$ 64,030
Survivors	2,840	3,100	3,188	3,785	4,041
Disability benefits	12,940	13,624	14,717	16,234	17,251
Total benefits	$ 62,228	$ 66,257	$ 71,368	$ 78,434	$ 85,322
Refund of Contributions	$ 1,058	$ 828	$ 861	$ 1,067	$ 681

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

2003	2004	2005	2006	2007
$ 14,770	$ 14,762	$ 15,326	$ 16,085	$ 16,362
55,206	61,927	74,655	88,184	109,436
82,174	286,895	197,433	187,004	420,847
152,150	363,584	287,414	291,273	546,645
100,381	111,646	115,635	125,818	136,833
739	796	762	635	793
2,007	2,066	1,857	1,920	2,431
103,127	114,508	118,254	128,373	140,057
$ 49,023	$ 249,076	$ 169,160	$ 162,900	$ 406,588

2003	2004	2005	2006	2007*
$ 77,009	$ 87,123	$ 102,641	$ 112,210	$ 98,653
4,811	5,032	2,087	1,483	5,952
18,560	19,491	10,907	12,125	32,228
$ 100,380	$ 111,646	$ 115,635	$ 125,818	$ 136,833
$ 739	$ 796	$ 762	$ 635	$ 793

MONTGOMERY COUNTY, MARYLAND
EMPLOYEES' RETIREMENT SYSTEM
PRINCIPAL PARTICIPATING EMPLOYERS
CURRENT YEAR AND TWO YEARS AGO
JUNE 30, 2007

	2007*		2005*	
Participating Government	**Covered Employees**	**Percentage of Total System**	**Covered Employees**	**Percentage of Total System**
Montgomery County	5,102	96.2%	5,419	96.2%
Town of Chevy Chase	5	0.1%	5	0.1%
Strathmore Hall	7	0.1%	7	0.1%
Housing Opportunities Commission	147	2.8%	159	2.8%
Revenue Authority	15	0.3%	17	0.3%
Washington Suburban Transit Commission	1	0.1%	2	0.1%
Montgomery County Employees Federal Credit Union	8	0.2%	8	0.2%
State Department of Assessment and Taxation	5	0.1%	6	0.1%
District Court	4	0.1%	5	0.1%
Total	5,294	100%	5,628	100%

*The information for principal participating employers is not available for 2004 and prior.

MONTGOMERY COUNTY, MARYLAND
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF RETIRED MEMBERS BY BENEFIT TYPE
JUNE 30, 2007

Fiscal Year	Retiree	Disability	Survivor	Total
1998	2,675	648	262	3,585
1999	2,763	694	278	3,735
2000	2,831	734	304	3,869
2001	2,918	759	312	3,989
2002	3,002	783	330	4,115
2003	3,203	817	350	4,370
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

*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, 2007

Fiscal Year	Retiree	Disability	Survivor	Total
1998	$ 17,364	$ 19,968	$ 10,841	$ 17,358
1999	17,927	19,632	11,152	17,740
2000	18,885	20,050	10,488	18,446
2001	20,019	21,389	12,132	19,663
2002	21,329	22,031	12,247	20,734
2003	24,043	22,717	13,747	22,970
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

*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, 2007

Amount of Monthly Benefit	Number of Retired Members	Type of Retirement [a]			Option Selected [b]					
		1	2	3	1	2	3	4	5	6
Deferred	498									
$ 1 – $ 250	200	171	24	5	108	47	29	3	9	4
251 – 500	293	225	60	8	158	68	58	-	3	6
501 – 750	257	202	44	11	126	65	45	5	7	9
751 – 1,000	323	242	51	30	148	69	66	13	8	19
1,001 – 1,250	309	227	41	41	143	74	61	8	8	15
1,251 – 1,500	281	196	38	47	96	78	61	12	13	21
1,501 – 1,750	275	193	21	61	120	70	48	17	5	15
1,751 – 2,000	272	195	22	55	98	77	42	17	7	31
Over 2,000	2,787	2,010	60	717	949	954	206	245	75	358
Total	5,495	3,661	361	975	1,946	1,502	616	320	135	478

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 Percentage

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

	Years Credited Service						
	0 – 5	**5 – 10**	**10 – 15**	**15 – 20**	**20 – 25**	**25 – 30**	**30 +**
Retirement Effective Dates							
Period 7/1/2000 to 6/30/2001							
Average monthly benefit*	$ 2,418	$ 481	$ 1,651	$ 1,756	$ 2,418	$ 3,109	$ 4,082
Average final valuation pay**	$ 38,508	$ 52,243	$ 58,018	$ 51,584	$ 59,523	$ 62,719	$ 67,932
Number of retired members***	1	3	25	21	33	40	32
Period 7/1/2001 to 6/30/2002							
Average monthly benefit*	$ -	$ 1,206	$ 1,622	$ 1,534	$ 2,196	$ 3,587	$ 3,676
Average final valuation pay**	$ -	$ 42,726	$ 52,332	$ 59,283	$ 58,039	$ 72,284	$ 67,564
Number of retired members***	-	7	22	24	28	58	39
Period 7/1/2002 to 6/30/2003							
Average monthly benefit*	$ 2,701	$ 1,623	$ 1,413	$ 1,737	$ 1,833	$ 3,490	$ 3,750
Average final valuation pay**	$ 44,695	$ 44,840	$ 56,082	$ 59,937	$ 56,253	$ 71,048	$ 68,955
Number of retired members***	1	7	29	35	28	91	79
Period 7/1/2003 to 6/30/2004							
Average monthly benefit*	$ 1,156	$ 915	$ 1,809	$ 1,420	$ 2,549	$ 3,406	$ 4,337
Average final valuation pay**	$ 37,309	$ 45,048	$ 55,552	$ 60,530	$ 65,550	$ 65,919	$ 72,119
Number of retired members***	2	4	15	43	34	69	79
Period 7/1/2004 to 6/30/2005							
Average monthly benefit*	$ 2,521	$ 1,984	$ 1,479	$ 1,870	$ 2,573	$ 3,371	$ 4,392
Average final valuation pay**	$ 48,620	$ 50,470	$ 59,743	$ 63,910	$ 64,026	$ 72,618	$ 75,577
Number of retired members***	2	4	21	37	23	35	66
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

* 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.

SCHEDULE OF PARTICIPATING AGENCIES AND POLITICAL SUBDIVISIONS

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
Independent Fire/Rescue Corporations

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