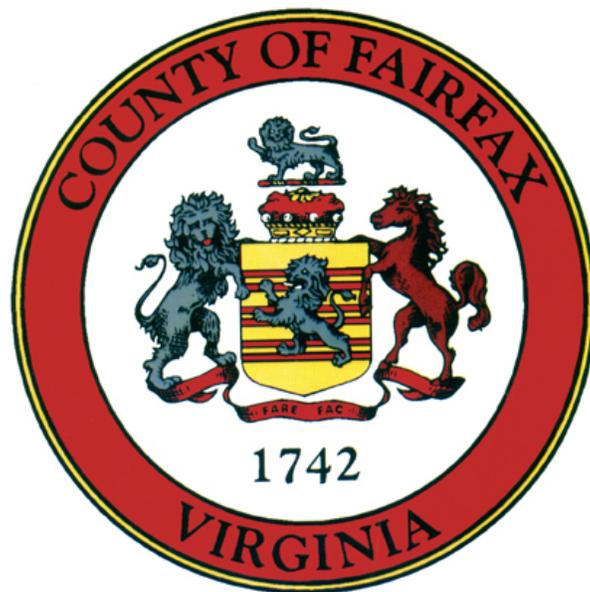


Fairfax County Uniformed Retirement System



Comprehensive Annual Financial Report

For Fiscal Year Ended June 30, 2007

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LETTER OF TRANSMITTAL

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County of Fairfax, Virginia

To protect and enrich the quality of life for the people, neighborhoods and diverse communities of Fairfax County

November 20, 2007

Dear Members of the Board of Trustees:

I am pleased to submit to you the annual report of the Fairfax County Uniformed Retirement System (System) for the fiscal year ended June 30, 2007. This annual report is provided as an aid to understanding the structure and evaluating the status of the System. The System's management is responsible for the accuracy of financial information contained herein.

The annual report for fiscal 2007 consists of five sections: (1) an Introductory Section that contains the organization structure and review of plan provisions; (2) a Financial Section that contains the opinion of the independent auditors, management's discussion and analysis, the financial statements of the System and required supplementary information; (3) an Investment Section that contains investment results; (4) an Actuarial Section that includes the independent actuary's certification letter, a summary of the results of the actuarial valuation, and actuarial procedures and assumptions; and (5) a Statistical Section that contains information regarding the System membership.

History

The Fairfax County Uniformed Retirement System was established on July 1, 1974, as a public employee retirement system providing defined benefit pension plan coverage for uniformed or sworn employees of the Fire and Rescue Department, helicopter pilots, the Sheriff's Department, the animal control division and certain park police officers. There were 2,003 active members and 897 retirees participating in the System as of June 30, 2007.

Benefit Provisions

The benefit provisions of the System are established by County Ordinance. The System provides normal service retirement and early service retirement benefits for members who attain age or service requirements. Coverage for service-connected disability benefits is immediate upon membership in the System. Ordinary (non-service related) disability benefits are provided after the attainment of five years of service. Members are vested after five years of service and are eligible for benefits at the early or normal service retirement date.

Capital Markets and Economic Conditions

Fiscal 2007 was a year of moderate growth in the economy and the domestic equity markets advanced at a remarkable pace. The international equity markets exhibited stunning returns fueled by strong economic growth, thus outpacing the returns in the U.S. market. The S&P 500 Index rose 20.6% during fiscal 2007, outperforming the smaller-capitalization Russell 2000 Index (+16.4%) for the first time in five years. International equity returns were quite a bit higher, with the developed markets index (EAFE) up 27.5% and the emerging markets index up 45.4%. Returns on REITs were also

**BOARD OF TRUSTEES
UNIFORMED RETIREMENT SYSTEM**

10680 Main Street * Suite 280 * Fairfax, VA 22030
Phone: 703-279-8200 * 1-800-333-1633 * Fax: 703-273-3185

<http://www.fairfaxcounty.gov/retbrd/>

satisfactory despite weakness towards year end, with the NAREIT index up 12.6%. After struggling the previous year, bonds posted positive returns over the past year as the Lehman Brothers Aggregate Bond Index advanced 6.1%.

The diversified fund of the Uniformed Retirement System returned 17.8% for fiscal 2007, after management fees. This return placed the fund in the top half of the Mellon Analytical Solutions public fund universe. The returns for the total fund exceeded the policy benchmark for the year by 0.8%. The fund's performance over the latest five-year period exceeded the median return of the public fund universe.

After accounting for all cash flows, including contributions, expenses and benefit payments, the market value of the System's assets increased 17.5%, from \$0.943 billion on June 30, 2006 to \$1.108 billion on June 30, 2007.

Major Initiatives

A multi-year effort to replace our legacy computer systems culminated in the January 1, 2007 installation of PensionGold, a comprehensive system that supports all facets of defined benefit plan administration. The new system interfaces with County and Schools systems for maintaining salary and service records of active members and provides automated benefit calculations and supports retiree recordkeeping and payroll functions. The final phase of installation planned for implementation by first quarter, 2008 will include internet access for inquiry and benefit estimate purposes.

At the request of the Board of Supervisors, the integration of service-connected disability benefits with social security benefits was reviewed. The review culminated in a benefit enhancement by reducing the benefit offset from 64% to 40% of social security benefits.

Several steps were taken to move the investment program toward the strategic asset allocation that was adopted two years ago. The International Equity allocation was improved by replacing Lazard Asset Management with Julius Baer International Equity II Fund. Further enhancement was achieved by replacing the passive BGI Emerging Markets Index Fund with the actively-managed Acadian Emerging Markets Fund. Within the Fixed Income allocation, the Peregrine Positive Return portfolio was closed and the assets were transferred to the Brandywine Global Opportunity portfolio to complete the international fixed income allocation. And finally, a new structure was proposed to replace the small cap equity managers, which will be implemented in fiscal 2008.

Internal and Budgetary Controls

The System's 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 accordance with accounting principles generally accepted in the United States of America.

Funded Status

An actuarial valuation of the System to determine funding requirements is performed annually. The System's funding policy provides for periodic employer contributions at actuarially determined rates which will remain relatively level over time as a percentage of payroll and will accumulate sufficient assets to meet the costs of benefit payments when due. The valuation of the System performed as of July 1, 2006 indicated that the ratio of assets accumulated by the System to total actuarial accrued

liabilities for benefits decreased from 85.3% to 83.6%. The actuarial section contains further information on the results of the July 1, 2006 valuation.

Based on the July 1, 2006 actuarial valuation, the employer contribution rate as determined under the corridor funding policy rose from 25.39% to 26.01% for 2007. With the ordinance change mentioned earlier (reduction in the social security offset to service-connected disability benefits), the final employer contribution rate for FY 2008 will increase to 26.33%.

Investment Policies and Strategies

The Board of Trustees has an adopted Statement of Investment Objectives and Policy. This Statement establishes the investment goals, guidelines, constraints and performance standards that the Board of Trustees uses when exercising its fiduciary duties to manage the investment assets of the System. The Board operates in conformity with the standard of care required in making investments as stated in the Code of Virginia §51.1-803.

The Board receives quarterly reporting to ensure compliance with its stated objectives and policy. Staff and the external investment consultant retained by the Board also monitor the performance of the System and its investment managers. Rate of return information is included in the Investment Section.

Securities of the System except for the pooled and mutual funds and the County's pooled cash and temporary investments are held by Mellon Global Securities Services as agent, in the System's name. Mellon Financial Corporation, the parent company, carries Financial Institution Bond insurance coverage including a Computer Crime Policy. An additional Excess Securities policy covers all risk of physical loss to securities.

Other Information

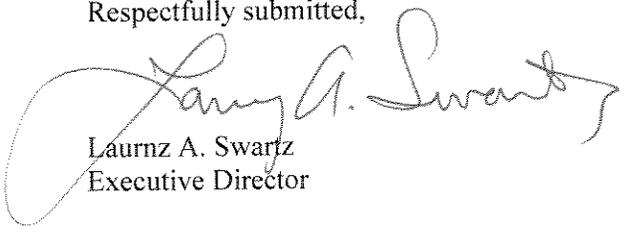
Independent Audit and Actuarial Certifications

The independent auditors' report and certifications from the actuary are included in this report.

Acknowledgements

The annual report of the Uniformed Retirement System was prepared by the System's staff under the leadership of the Board of Trustees. I would like to thank the entire staff who has worked hard throughout the year to provide service to members and to ensure the successful operation of the System. This report is intended to provide complete and reliable information for determining the financial status of the System. It is being submitted to the Board of Supervisors and other interested parties and is available to the public via the County's website located at www.fairfaxcounty.gov/retbrd/.

Respectfully submitted,


Larnz A. Swartz
Executive Director

BOARD OF TRUSTEES

Vincent J. Bollon

Chairman

Board of Supervisors Appointee

Term Expires: August 30, 2008

John R. Niemiec

Vice Chairman

Fairfax County Fire & Rescue Department

Elected Member Trustee

Term Expires: June 30, 2008

Robert L. Mears

Treasurer

Fairfax County Director of Finance

Ex officio Trustee

Kevin L. Kincaid

Fairfax County Fire & Rescue Department

Elected Member Trustee

Term Expires: June 30, 2010

Charles E. Formeck

Office of the Sheriff

Elected Member Trustee

Term Expires: October 31, 2009

Peter J. Schroth

Fairfax County Director of Human

Resources

Ex officio Trustee

Frank Henry Grace

Board of Supervisors Appointee

Term Expires: July 31, 2010

Ronald Orr

Board of Supervisors Appointee

Term Expires: September 30, 2010

Administrative Organization

Administrative Staff

Jeffrey A. Willison <i>Investment Manager</i>	Lauranz A. Swartz <i>Executive Director</i>	John P. Sahn <i>Retirement Administrator</i>
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Professional Services

Actuary
CHEIRON
Actuaries
McLean, VA

Auditor
KPMG LLP
Certified Public Accountants
Washington, DC

Investment Managers

Acadian Asset Management Boston, MA	FrontPoint Partners Greenwich, CT	Pantheon Ventures, Inc. San Francisco, CA
Barclays Global Investors San Francisco, CA	HarbourVest Partners, LLC Boston, MA	Payden & Rygel Investment Counsel Los Angeles, CA
The Boston Company Boston, MA	J.L. Kaplan Associates Boston, MA	PIMCO Newport Beach, CA
Brandywine Global Investment Management LLC Philadelphia, PA	JP Morgan Investment Management Inc. New York, NY	Standish Mellon Asset Management Pittsburgh, PA
Bridgewater Associates Westport, CT	Julius Baer Investment Management New York, NY	Trust Company of the West Los Angeles, CA
Cohen & Steers Capital Management Inc. New York, NY	Marathon Asset Management LLP London, UK	UBS Realty Advisors LLC Hartford, CT
The Dorset Energy Fund Hamilton, Bermuda	OrbiMed Healthcare Fund Management New York, NY	Wasatch Advisors Salt Lake City, UT

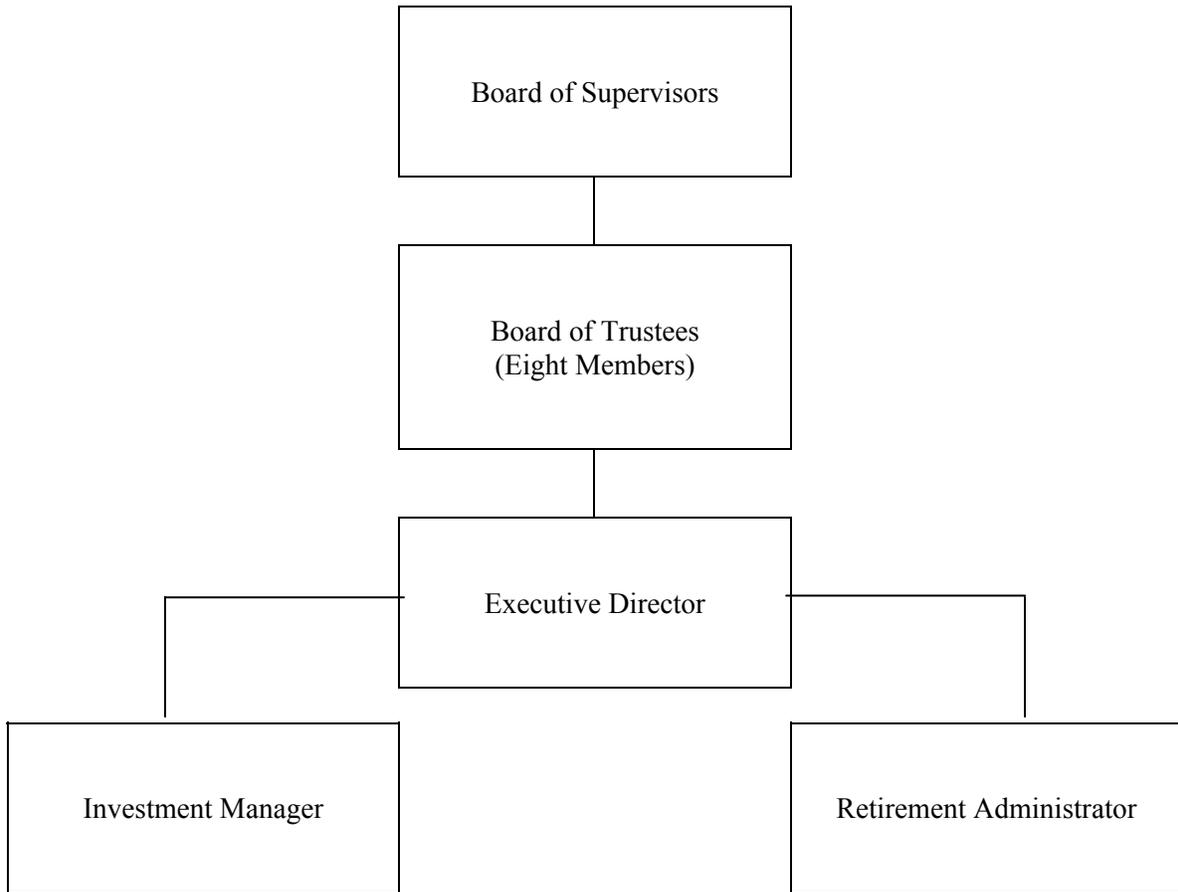
Investment Consultant

New England Pension
Consultants
Cambridge, MA

Custodial Bank

Mellon Global Securities
Services
Pittsburgh, PA

Organizational Chart



Summary of Plan Provisions

Membership in the Fairfax County Uniformed Retirement System includes most uniformed or sworn employees of the Fire and Rescue Department, the Sheriff's Department, the Animal Control Division, the Department of Public Safety Communications, helicopter pilots and former park police officers who elected to remain in the System rather than transfer to the Police Officers Retirement System. The System consists of four Plans, Plan A, Plan B, Plan C and Plan D, which have different employee contribution rates and different benefits. Plan A members were given the opportunity to join Plan B as of July 1, 1981 and to enroll in Plan C as of April 1, 1997. From July 1, 1981 until March 31, 1997, all members were enrolled in Plan B. Plan B members were given the opportunity to enroll in Plan D as of April 1, 1997. From April 1, 1997 forward, all new members are enrolled in Plan D. However, previous members of the Fairfax County Uniformed Retirement System who left their money in the System when their employment was terminated, upon return to service, must rejoin the Plan that they were in during their previous period of membership.

The general provisions of the Uniformed Retirement System follow:

All Plans

Normal Retirement:

is either age 55 with at least 6 years of service or any age with 25 years of service (including sick leave).

Deferred Retirement Option (DROP):

Those eligible for normal retirement may enter DROP, during which time the member continues to work and receive a salary for up to three years. In lieu of continuing to earn service credit, DROP participants accumulate a lump sum, including interest, payable at retirement.

Early Retirement:

20 years of service (including sick leave). Reduction factors are applied to the basic formula for early retirement.

Deferred Vested Retirement:

available for vested members (vesting is at 5 years of creditable service) who leave their contributions in the System when they terminate. These members are entitled to their normal retirement benefit based on service with the County at age 55.

Service-Connected Disability Retirement:

available for members, regardless of their length of service, who become disabled as a result of a job-related illness or injury. Benefits are 40% of their final compensation less workers' compensation and 64% of any Social Security disability award. Benefits for members retired on a severe service-connected disability will be calculated at 90% of salary at the time of retirement less the average monthly workers' compensation benefit and 64% of any Social Security disability benefits.

Ordinary Disability Retirement:

available for vested members who become disabled due to an injury or illness that is not job-related. Normal retirement benefits are paid.

Death Benefits:

Before Retirement – If the member is vested and the spouse is the beneficiary, the spouse may elect to receive 50% of the normal retirement benefit earned as of the date of the member's death. This benefit ceases if the spouse remarries before age 60. If this benefit is not elected, a refund of the member's contributions and interest is payable to the named beneficiary.

After Retirement – Refunds of any of the member's contributions and interest not already paid out in benefits will be paid to the named beneficiary(ies) unless the member has elected the irrevocable Joint and Last Survivor Option which provides a benefit to the member's spouse for life. At retirement, the member may choose to have his or her spouse receive 50%, 66⅔%, 75% or 100% of the member's reduced annuity upon the member's death. The member's annuity is reduced by a percentage based on the difference in age between the member and his or her spouse. If the spouse pre-deceases the member, the annuity is restored to what it would have been if this option had not been elected.

Service-Connected Death Benefit – a \$10,000 lump-sum payment is made to the beneficiary if the member's death is due to a job-related illness or injury.

Normal Retirement Benefit:

Plans A and B – 2.0% of average final compensation (AFC) (highest consecutive three years) multiplied by the number of years of creditable service. The benefit is then increased by 3%.

A **supplemental benefit** is payable up to age 62. The amount of the supplemental benefit is based on the primary Social Security benefit the member would have been entitled to if the member were 65 on the date of retirement. For members hired on or after July 1, 1976, this basic amount is equal to a percentage of the Social Security benefit. That percentage is determined by dividing the member's creditable service by 25. The exact amount of this benefit also depends on the member's age and Plan (see below). The benefit is then increased by 3%.

Plan A Pre-62 Supplemental Benefit – If the member is less than age 55, no supplemental benefit is payable. From age 55 to 62, the full basic amount of the supplement is payable. After age 62, the benefit payable is any excess of the full basic amount which exceeds the member's actual earliest Social Security benefit payable.

Plan B Pre-62 Supplemental Benefit – If the member is less than age 55, one-half of the basic amount of the supplemental benefit is payable. From age 55 to 62, the full basic amount of the supplement is payable. After age 62, the benefit payable is any excess of the full basic amount which exceeds the member's actual earliest Social Security benefit payable.

In addition, a **Pre-Social Security Supplement** is payable to members of Plans A & B until the first month after the member attains the age of eligibility for unreduced Social Security retirement benefits. The amount of the Pre-Social Security Supplement is 0.2% of AFC multiplied by the number of years of creditable service, increased by 3%.

Plans C and D – 2.5% of average final compensation (highest consecutive three years) multiplied by the number of years of creditable service. The benefit is then increased by 3%. No Pre-62 Supplemental Benefits are payable under Plans C or D.

In addition, a **Pre-Social Security Supplement** is payable to members of Plans C & D until the first month after the member attains the age of eligibility for unreduced Social Security retirement

benefits. The amount of the Pre-Social Security Supplement is 0.3% of AFC multiplied by the number of years of creditable service, increased by 3%.

Cost of Living Benefit:

Annual cost-of-living adjustments (COLAs) are provided to retirees and beneficiaries equal to the lesser of 4% or the percentage increase in the Consumer Price Index for the Washington Consolidated Metropolitan Statistical Area. Members of Plan A and C receive COLA increases beginning at age 55. Members of Plan B and D receive COLAs beginning at retirement. COLAs are not applied to the Pre-Social Security Supplements.

Benefit Limits:

Benefits are limited to the maximum amounts for qualified plans as set forth in Section 415 of the Internal Revenue Code. A separate nonqualified benefit restoration plan has been established for the payment of any benefit formula amounts in excess of the Section 415 limit.

Contribution Rates:

Plan A Contribution Rate:

4% of base salary up to the maximum Social Security wage base plus 5.75% of base salary over the wage base.

Plan B Contribution Rate:

7.08% of base salary up to the maximum Social Security wage base plus 8.83% of base salary over the wage base.

Plan C Contribution Rate:

4% of creditable compensation.

Plan D Contribution Rate:

7.08% of creditable compensation.

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KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

The Board of Supervisors
County of Fairfax, Virginia

The Board of Trustees
of the Fairfax County Uniformed Retirement System:

We have audited the statement of plan net assets of the Fairfax County Uniformed Retirement System (the System), a pension trust fund of the County of Fairfax, Virginia, as of June 30, 2007, and the related statement of changes in plan net assets for the year then ended. These basic financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 System's 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 basic financial statements referred to above present fairly, in all material respects, the plan net assets of the System as of June 30, 2007, and the changes in plan net assets for the year then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is 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.

Other required supplementary information is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. Other required supplementary information has been subjected to the auditing procedures applied



in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the System's basic financial statements. The introductory, investment, actuarial, and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in these 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 it.

KPMG LLP

November 20, 2007

Management Discussion and Analysis

This section presents management's discussion and analysis of the Fairfax County Uniformed Retirement System's ("System" or "plan") financial performance and provides an overview of the financial activities for the fiscal year ended June 30, 2007. The information in this section should be reviewed in conjunction with the letter of transmittal provided at the beginning of this report.

Overview of Financial Statements and Accompanying Information

Basic Financial Statements. The System presents Statement of Plan Net Assets as of June 30, 2007 and Statement of Changes of Plan Net Assets for the year then ended. These statements reflect the resources available for the payment of benefits as of year-end and the sources and uses of these funds during the year.

Notes to Financial Statements. The Notes to Financial Statements are an integral part of the financial statements and include additional information and schedules to provide a better understanding of the financial statements. The Notes to Financial Statements immediately follow the basic financial statements.

Required Supplementary Information. The Required Supplementary Information and related notes provide information regarding the System's funding progress and employer contributions. The Required Supplementary Information and related notes are immediately following the Notes to Financial Statements.

Financial Analysis

Summary of Plan Net Assets. As indicated in the following Summary Statement of Plan Net Assets, the net assets held in the System increased \$165.4 million or 17.5% during fiscal 2007. These changes were primarily due to increases in the fair value of investments during the fiscal year.

Return on Investments. The System's return on investments net of investment management fees for fiscal 2007 was 17.8%. The System's domestic equities returned 17.3%. The international developed equity portfolios returned 29.4% and emerging markets returned 38.5% for the fiscal year. The System's fixed income investments returned 5.8% for fiscal 2007. The System's real estate portfolios returned 16.7% for the fiscal year. Private equity investments returned 20.2% and the System's hedge fund investments returned 15.4%. Additional investment market commentary is provided in the Investment Section of this document.

Additions. Total additions increased \$71.2 million from fiscal 2006 to 2007 primarily due to higher investment returns. Employer contributions increased \$4.4 million or 13.5% from fiscal 2006 to 2007. The 2007 employer contribution rate of 26.01% of covered payroll increased 1.09 percentage points over the fiscal 2006 adopted rate of 24.92% of covered payroll. Total contributions for fiscal 2007 were also impacted by the increases in covered payroll. The System experienced net investment gains during fiscal 2007. Net appreciation in the fair value of investments was \$149.4 million during fiscal 2007. Interest and dividend income was \$22.6 million for the fiscal year.

Deductions. Benefit payments increased 31.0% during fiscal 2007. More than half of the increase was due to an increase in payments of DROP balances to retirees and the remainder of the increase was due to increases in the number of retirees and beneficiaries collecting benefits and the amount of the average benefit. Retirees received cost of living increases of 3.3% as of July, 2006. Refunds increased \$388 thousand from fiscal year 2006 to 2007. The amount of refunds varies from year to year based on changes in employee turnover rates and decisions of former employees. Administrative

expenses increased \$198 thousand due to investment management fees computed over the increasing investment values. Investment activity expense increased \$63 thousand or 1.3% due to investment management fees computed on the increasing investment values. Net securities lending income decreased \$33 thousand from fiscal 2006 to 2007 due to a slightly less favorable environment for lending securities.

The actuarial valuation performed as of July 1, 2006 showed the System's funded status at 83.6%, a decrease of 1.7 percentage points from the July 1, 2005 funded percentage of 85.3%.

Contacting the System's Financial Management

This financial report is designed to provide our membership, the Board of Trustees and the County's Board of Supervisors with a general overview of the System's financial condition. If you have any questions about this report or need additional information, contact the Fairfax county Retirement Administration Agency, 10680 Main Street, Suite 280, Fairfax, Virginia 22030. This report can also be found on the County's internet site at www.fairfaxcounty.gov/retbrd/.

Summary Statement of Plan Net Assets

Assets	<u>2007</u>	<u>2006</u>	<u>Difference</u>
Total cash and investments	\$1,250,689,101	\$1,050,201,000	\$ 200,488,101
Total receivables	<u>60,864,173</u>	<u>45,575,696</u>	<u>15,288,477</u>
Total Assets	1,311,553,274	1,095,776,696	215,776,578
Liabilities	<u>203,542,098</u>	<u>153,128,422</u>	<u>50,413,676</u>
Net Assets	<u>\$1,108,011,176</u>	<u>\$ 942,648,274</u>	<u>\$ 165,362,902</u>

Summary of Additions and Deductions

Additions	<u>2007</u>	<u>2006</u>	<u>Difference</u>
Contributions			
Employer	\$ 36,486,832	\$ 32,135,984	\$ 4,350,848
Plan members	9,988,515	9,860,429	128,086
Transfer from ERS	0	11,750,084	(11,750,084)
Net investment income	<u>167,240,928</u>	<u>88,814,121</u>	78,426,807
Total additions	<u>213,716,275</u>	<u>142,560,618</u>	<u>71,155,657</u>
Deductions			
Benefit payments	47,194,476	36,023,777	11,170,699
Refunds	737,506	349,572	387,934
Administrative Expense	421,390	223,840	197,550
Total Deductions	<u>48,353,372</u>	<u>36,597,189</u>	<u>11,756,183</u>
Net Change	<u>\$ 165,362,903</u>	<u>\$ 105,963,429</u>	<u>\$ 59,399,474</u>

Statement of Plan Net Assets
as of June 30, 2007

Assets

Cash and short-term investments		
Equity in County's pooled cash and temporary investments	\$ 4,019,370	
Cash collateral received for securities on loan	106,896,663	
Short-term investments	<u>50,128,613</u>	
Total cash and short-term investments		\$ 161,044,646
Receivables		
Prepaid and Other Assets	90	
Contributions	2,326,710	
Accrued interest and dividends	3,054,931	
Securities sold	<u>55,482,442</u>	
Total receivables		60,864,173
Investments, at fair value		
U.S. Government obligations	20,963,611	
Asset-backed securities	140,597,741	
Corporate bonds	82,867,088	
Pooled and mutual funds	534,280,543	
Common and preferred stock	<u>310,935,472</u>	
Total investments		<u>1,089,644,455</u>
Total assets		1,311,553,274

Liabilities

Cash collateral received for securities on loan	106,896,663	
Purchase of investments	95,242,640	
Accounts payable and accrued expenses	<u>1,402,795</u>	
Total liabilities		<u>203,542,098</u>

Net assets held in trust for pension benefits \$ 1,108,011,176

(A schedule of funding progress is presented on page 22.)

See accompanying notes to financial statements.

Statement of Changes in Plan Net Assets

For the Year Ended June 30, 2007

Additions

Contributions		
Employer	\$ 36,486,832	
Plan members	<u>9,988,515</u>	
Total contributions		\$ 46,475,347

Investment income from investment activities		
Net appreciation in fair value of investments	149,422,134	
Interest	16,391,321	
Dividends	<u>6,161,702</u>	
Total investment income	171,975,157	

Investment activity expense		
Management fees	4,580,569	
Custodial fees	95,550	
Consulting fees	174,482	
Allocated administration expense	<u>135,731</u>	
Total investment expense	<u>4,986,332</u>	

Net income from investment activities	166,988,825
---------------------------------------	-------------

From securities lending activities		
Securities lending income	4,957,145	
Securities lending expenses		
Borrower rebates	4,591,869	
Management fees	<u>113,173</u>	
Total securities lending activities expense	<u>4,705,042</u>	

Net income from securities lending activities	252,103
---	---------

Total net investment income	167,240,928
Total additions	<u>213,716,275</u>

Deductions

Annuity benefits	39,729,752	
Disability benefits	6,978,759	
Survivor benefits	485,965	
Refunds	737,506	
Administrative expense	<u>421,390</u>	
Total deductions		48,353,372

Net increase	165,362,903
---------------------	-------------

Net assets held in trust for pension benefits	
Beginning of fiscal year	<u>942,648,273</u>

End of fiscal year	<u>\$ 1,108,011,176</u>
---------------------------	-------------------------

See accompanying notes to financial statements.

Notes to the Financial Statements

For the Year ended June 30, 2007

The Fairfax County Uniformed Retirement System is a single-employer defined benefit pension plan considered part of the County of Fairfax, Virginia’s (“County”) reporting entity and its financial statements are included in the County’s basic financial statements as a pension trust fund.

A. Summary of Significant Accounting Policies

Basis of Accounting. The System’s financial statements have been prepared under the accrual basis of accounting in accordance with accounting principles applicable to governmental units in the United States of America. Member and employer contributions to the plan 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 plan. The cost of administering the plan is paid by the System.

Method Used to Value Investments. Short-term investments are reported at cost, which approximates fair value. All other investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Asset-backed securities are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. Investments in venture capital, alternative investments and real estate are generally illiquid. Because of the inherent uncertainty in valuing these securities, the fair value may differ from the values that would have been used had a ready market for such securities existed. Accordingly, the realized value received upon the sale of the assets may differ from the fair value. The System records investment purchases and sales as of trade date. These transactions are not finalized until the settlement date, which occurs approximately three business days after the trade date. The amounts of trade receivables and payables are shown as receivables and payables on the Statements of Plan Net Assets. 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. The market values of private investments and direct real estate are lagged by one quarter due to the timing of receipt of private market valuations and information.

Equity in County’s pooled cash and temporary investments. The System maintains cash with the County, which invests cash and allocates interest earned, net of a management fee, on a daily basis to the System based on the System’s average daily balance of equity in pooled cash.

B. Plan Description and Contribution Information

Membership. At July 1, 2006, the date of the latest actuarial valuation, membership in the System consisted of:

Retirees and beneficiaries receiving benefits	845
Terminated plan members entitled to but not yet receiving benefits	23
DROP participants	89
Active plan members	<u>1,799</u>
Total	<u><u>2,756</u></u>

Plan Description. The system is a single-employer defined benefit pension plan. The plan covers uniformed employees including non-clerical employees of the Fire and Rescue Department, Office of the Sheriff, park police, helicopter pilots, public safety communications personnel, animal wardens and game wardens who are not covered by other plans of the County or the Virginia Retirement System. Benefit provisions are established and may be amended by County ordinance. All benefits vest at five years of service. To be eligible for normal retirement, an individual must meet the

following criteria: (a) attain the age of 55 with six years of service, or (b) complete 25 years of service. The normal retirement benefit is calculated using average final compensation (i.e., the highest consecutive three years) and years (or partial years) of service at date of termination. The plan provides that unused sick leave credit may be used in the calculation of average final compensation by projecting the final salary during the unused sick leave period. Members eligible for normal retirement have the option of participating in a deferred retirement option program (DROP). In lieu of continuing to earn service credit, DROP members accrue a lump sum benefit payable at retirement. Participating members continue working up to an additional three years after eligibility for normal retirement. To be eligible for early retirement, the employee must have 20 years of service. The benefit for early retirement is actuarially reduced and payable at early termination.

Annual cost-of-living adjustments are provided to retirees and beneficiaries equal to the lesser of 4 percent or the percentage increase in the Consumer Price Index for the Washington-Baltimore Metropolitan Statistical Area.

Contributions. The contribution requirements of the System members are established and may be amended by County ordinances. Plan A members were given the opportunity to join Plan B as of July 1, 1981 and to enroll in Plan C as of April 1, 1997. From July 1, 1981, until March 31, 1997, all new hires were enrolled in plan B. Plan B members were given the opportunity to enroll in Plan D as of April 1, 1997. From April 1, 1997, forward, all new hires are enrolled in Plan D. Plan A requires member contributions of 4 percent up to the Social Security wage base and 5.75 percent of compensation in excess of the wage base. Plan B requires member contributions of 7.08 percent of compensation up to the Social Security wage base and 8.83 percent of compensation in excess of the wage base. Plan C requires member contributions of 4 percent of compensation. Plan D requires contributions of 7.08 percent of compensation. The County is required to contribute at an actuarially determined rate; the rate for the year ended June 30, 2007 was 26.01 percent of covered payroll.

Deductions. The deductions from the System include the payment of retiree and beneficiary payments, the refund of employee contributions to former members and other expenses.

C. Investments

The authority to establish the System is set forth in Section 51.1-800 *Code of Virginia* (Code). Section 51.1-803 of the Code authorizes fiduciaries of the System to purchase investments *with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with the same aims. The Board shall also diversify such investments as to minimize the risk of large losses unless under the circumstances it is clearly prudent not to do so.* While the System is not subject to the provisions of the Employee Retirement Income Security Act (ERISA), the Board of Trustees endeavors to comply with the spirit of ERISA to the extent that it does not conflict with the Code of Virginia.

The System has adopted a Statement of Investment Objectives and Policies whose general investment philosophy is to maintain a well-diversified, high-quality investment program that can meet the long-term needs of the members of the System. The Board of Trustees believes that the retention of experienced money management professionals with proven investment disciplines is the best means of attaining the System's investment goals and that the investment program should be sufficiently flexible to adapt to changes in the financial markets. Investment decisions for these assets are made by the Board of Trustees or investment managers selected by the Board. The overall investment policies do not address specific levels of credit risk, interest rate risk or foreign currency risk. Each individual investment portfolio is managed by an investment management firm selected by the Board. Each investment portfolio has a specific benchmark and investment guidelines. The interest rate risk for the fixed income accounts is controlled by limiting the credit quality of the securities held and the

duration of the portfolio against the duration of the benchmark. While the overall investment guidelines do not specifically address concentration of credit risk, managers have specific quality and concentration limits appropriate for the type of mandate they are managing and that fits within the total risk tolerance of the fund. The System does not have investments (other than U.S. Government and U.S. Government guaranteed obligations) in any one organization that represents 5 percent or more of net assets available for benefits. All investments, except for the pooled and mutual funds, short-term investment fund and a short-term collateral investment pool are held by an unaffiliated custodian. There is no custodial credit risk since the custodian's records establish the System's interest in the securities.

The System's fixed income portfolio shall be, on average, comprised of high-quality issues and limits are imposed on investment manager's below-investment-grade holdings. Unless otherwise specified, if any security has a split rating, the lower of the two ratings is used for the purposes of meeting minimum quality standards.

The System's investment quality ratings at June 30, 2007 are as follows:

<u>Type of Investment</u>	<u>Fair Value</u>	<u>Ratings</u>	<u>Percent of Fixed</u>
U.S. Government obligations	\$ 20,963,611	AAA	8.6%
Corporates and others	37,204,304	AAA	15.2%
	8,713,613	AA	3.6%
	19,055,831	A	7.8%
	5,940,994	BBB	2.4%
	4,511,193	BB	1.8%
	604,993	B	0.2%
	6,836,160	UNRATED	2.8%
Asset-backed	130,799,922	AAA	53.5%
	469,983	AA	0.2%
	400,060	A	0.2%
	390,434	BBB	0.2%
	345,169	BB	0.1%
	<u>8,192,172</u>	UNRATED	<u>3.4%</u>
Total fixed income	244,428,440	AAA	100.0%
Short-term	6,176,068	AAA	
	4,949,303	AA	
	39,003,242	UNRATED	
Cash collateral investment pool	106,896,663	NA	
Common and preferred stock	310,935,472	NA	
Pooled and mutual funds	534,280,543	NA	
Equity in County's pooled cash	<u>4,019,370</u>	NA	
Total Investments	<u>\$ 1,250,689,101</u>		

As of June 30, 2007 the fixed income portfolio exhibited an overall credit quality rating of "AAA", and 2% of the portfolio was invested in below-investment grade securities.

The Lehman Brothers Aggregate Bond Index (LAGG) is the standard benchmark against which the industry and the System's Board measures its portfolio performance and volatility. The System's fixed income managers have discretion, within circumscribed limits, to extend the duration of their portfolios beyond that of the LAGG if they forecast falling interest rates (and thus higher bond prices). Conversely, if managers anticipate that the general level of interest rates will rise, they have the ability to shorten the duration of their portfolio and thus reducing the portfolio's sensitivity to rising rates.

The System's investments' sensitivity to interest rates at June 30, 2007 follow:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration (yrs)</u>	<u>Percentage of Fixed</u>
US Government obligations	\$ 20,963,611	10.7	8.6%
Corporate and other	82,867,088	3.2	33.8%
Asset-backed	<u>140,597,741</u>	<u>8.4</u>	<u>57.6%</u>
Total fixed income	244,428,440	6.8	100.0%
Short-term investments	50,128,613	0.1	
Cash collateral investment pool	106,896,663	0.1	
Common and preferred stock	310,935,472	N/A	
Pooled and mutual funds	534,280,543	N/A	
Equity in County's pooled cash	<u>4,019,370</u>	N/A	
Total investments	<u>\$ 1,250,689,101</u>		

As of June 30, 2007 the System's overall fixed income portfolio duration was 6.8 years compared with 4.7 years duration of the Lehman Brothers Aggregate Bond Index.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the investment. The System's investments at June 30, 2007 held in currencies other than US dollars were as follows:

<u>International Securities</u>	<u>Equity</u>	<u>Fixed Income</u>	<u>Short-Term and Other</u>	<u>Total</u>
Euro Currency Unit	\$57,938,770	\$8,614,277	(\$7,103,393)	\$59,449,654
Japanese Yen	39,792,014	---	9,186,214	48,978,228
British Pound Sterling	44,013,527	5,223,905	(5,014,273)	44,223,159
Australian Dollar	4,755,070	7,936,593	51,319	12,742,982
Swiss Franc	8,901,770	---	152,463	9,054,233
Singapore Dollar	2,322,322	5,213,249	350,886	7,886,457
S African Comm Rand	3,981,802	3,539,280	1,028	7,522,110
Swedish Krona	4,408,364	2,921,018	5,444	7,334,826
Other Currencies	<u>29,019,899</u>	<u>24,069,466</u>	<u>2,068,197</u>	<u>55,157,562</u>
Total International	<u>\$195,133,538</u>	<u>\$57,517,788</u>	<u>\$(302,115)</u>	<u>\$252,349,211</u>

Derivative Financial Instruments. As permitted by the Code described above, the System holds off-financial-statement derivatives in the form of exchange-traded financial futures, interest rate swaps, options on futures and swaps, inverse floating rate notes, and currency forwards in accordance with Board of Trustees' policy. Use of these instruments may involve certain costs and risks, including the risk that a portfolio could not close out a position when it would be most advantageous to do so. Portfolios investing in derivatives could lose more than the principal amount invested.

An exchange-traded financial futures contract is a legally-binding agreement to buy or sell a financial instrument in a designated future month at a price agreed upon by the buyer and seller at initiation of the contract. Futures contracts are standardized according to quality, quantity and delivery time. The System uses Money Market Futures Contracts as a means of managing interest rate exposure at the short end of the yield curve in an efficient manner with low transaction costs. The System also uses Bond Futures Contracts as a substitute for physical securities. The market and interest rate risks of holding exchange-traded futures contracts arise from adverse changes in market prices and interest rates. These risks are equivalent to holding exposure to the underlying security. Counterparty credit risk is modest because the futures clearinghouse becomes the counterparty to all transactions, and the futures exchanges provide multiple layers of protection such as the collection of variation margin on a daily basis and the use of standardized contracts to facilitate liquidity.

An Options Contract is a financial instrument that, in exchange for the option price, gives the option buyer the right, but not the obligation, to buy (or sell) a financial asset at the exercise price from (or to) the option seller within a specified time period, or on a specified date (expiration date). The System employs Options on Treasury Futures as well as Options on Swaps (Swaptions). Options on Treasury Futures are used to manage interest rate and volatility exposure as well as generate income. Swaptions have similar investment characteristics to other options but have the advantage of being more customized instruments that can serve more specific applications in a portfolio. Swaptions are used in an attempt to generate income by writing puts and calls to manage swap rates or swap rate volatility. A most important characteristic of options is that they can cause the effective duration of a portfolio to change with movements in interest rates. To control interest rate risk, the duration change potential of options positions over a wide range of best and worst case interest rate scenarios are measured and controlled. The use of options is aimed at assuring that any subsequent duration change on a total return portfolio will be modest under reasonable worst case scenarios and option strategies will not be employed which have the potential to move the portfolio's duration outside an appropriate range.

An inverse floating rate note is a security whose interest rate moves inversely to its index rate. The variable rate on this type of security falls as its index rate (e.g. LIBOR) rises and vice versa. It performs well if interest rates increase less than market expectations, but suffers if they exceed market expectations. The System generally uses inverse floaters for increased exposure to the short end of the yield curve.

Currency forward contracts are used as a cost effective way to hedge or create foreign currency exposure in the portfolio. The manager monitors its exposure to foreign currency in the context of total contribution to volatility and tracking error. Foreign currency can add significant volatility to a portfolio's return, so any sizeable position will be carefully considered in the context of the portfolio's entire risk budget.

An interest rate swap is a binding agreement between counterparties to exchange periodic interest payments on some predetermined dollar principal, which is called the notional principal amount. Interest rate swaps provide an effective means by which to quickly adjust portfolio duration, maturity mix, and sector exposure. The System also uses interest rate swaps as risk-neutral substitutes for physical securities, or to obtain non-leveraged exposure in markets where no physical securities are available, such as an interest rate index. The market risk is equivalent to holding the exposure to the index. The counterparty credit risk is equal to the amount of profit or loss that has not yet been realized. This risk is controlled by the System's investment guidelines and limited by periodic resets to the swap that allow the unrealized profit and loss to be realized. Counterparty risk is limited by execution under standardized International Swap and Derivatives Association (ISDA) Agreements. These standardized contracts reduce legal risk and increase speed of execution that, in turn, improves liquidity.

The following table shows the derivative instruments the System held at June 30, 2007

<u>Derivative</u>	<u>Notional Value Par or Local Face</u>	<u>Fair Value Dollars</u>	<u>Maturity</u>
Money Market Futures	189,375,000	195,882,791	12/07-12/08
Government Futures	10,000,000	13,227,892	09/07
Options	133,300,000	141,424	07/07- 06/10
Currency Forwards	N/A	2,293,637	07/07- 03/08
Inverse Floaters	81,877	619	---
Swaps	117,500,000	16,005	05/09 - 12/37

Securities Lending. Board of Trustees' policies permit 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 plan's domestic securities for collateral of 102 percent and international securities of 105 percent. The custodian receives cash or securities as collateral from the borrower.

The following represents the balances relating to the securities lending transactions at June 30, 2007.

<u>Securities Lent</u>	<u>Underlying Securities</u>	<u>Securities Collateral Value</u>	<u>Cash Collateral Investment Value</u>
<i>Lent for Cash Collateral</i>			
US Government obligations	\$17,848,279	---	\$18,138,859
Corporate and other bonds	13,833,939	---	14,381,060
Common and preferred stock	71,444,437	---	74,376,744
<i>Lent for Other Collateral</i>			
US Government obligations	8,092,230	\$8,267,551	---
Corporate and other bonds	4,537,594	4,631,589	---
Common and preferred stock	<u>11,120,706</u>	<u>11,965,434</u>	---
Total	<u>\$126,877,186</u>	<u>\$24,864,574</u>	<u>\$106,896,663</u>

The System did not impose any restrictions during fiscal 2007 on the amounts of loans the lending agent made on its behalf. At year end, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts the borrowers owed the System. The custodian provides full indemnification to the System for any losses that might occur in the program due to the failure of a broker/dealer to return a borrowed security or failure to pay the System income earned on the securities while on loan.

All securities loans can be terminated on demand by either the System or the borrower. Cash collateral is invested in the lending agent's collective collateral investment pool which at June 30, 2007 had a weighted-average maturity of 31 days. 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 plans that invest cash collateral in the investment pool.

D. Income Taxes

The Internal Revenue Service issued a determination letter on November 24, 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.

Required Supplementary Information

Seven-year historical trend information about the System is presented here 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 (in thousands) (a)	Actuarial Accrued Liability – AAL Entry Age (in thousands) (b)	Unfunded AAL – UAAL (in thousands) (b-a)	Funded Ratio (a/b)	Covered Payroll (in thousands) (c)	UAAL as a Percentage of Covered Payroll (in thousands) ((b-a)/c)
7/1/2000	\$624,298	\$614,243	\$(10,055)	101.64%	\$87,943	-11.43%
7/1/2001	666,599	651,840	(14,759)	102.26%	93,577	-15.77%
7/1/2002	687,093	720,996	33,903	95.30%	99,200	34.18%
7/1/2003	715,797	795,342	79,545	90.00%	100,749	78.95%
7/1/2004	767,357	881,015	113,658	87.10%	102,960	110.39%
7/1/2005	830,702	974,106	143,404	85.28%	109,067	131.48%
7/1/2006	921,414	1,102,669	181,255	83.56%	127,467	142.20%

Analysis of the dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing plan net assets as a percentage of the actuarial accrued liability provides one indication of the 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

<u>Fiscal Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2001	\$18,818,351	100%
2002	16,834,283	112%
2003	21,548,814	107%
2004	25,186,003	99%
2005	32,320,929	84%
2006	38,629,304	83%
2007	43,009,853	85%

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	July 1, 2006
Actuarial cost method	Entry age
Amortization method	Level percent open
Remaining amortization period	15 years
Asset valuation method	3-year smoothed market
Actuarial assumptions:	
Investment rate of return *	7.5%
Projected salary increases *	5.0% - 12.0%
* Includes inflation at	4.0%
Cost of living adjustments	3.0%

The actuarial assumptions used have been recommended by the actuary and adopted by the System's Board of Trustees based on the most recent review of the System's experience, completed in 2005.

The rate of employer contributions to the plan is composed of normal cost, amortization of the unfunded actuarial accrued liability and an allowance for administrative expenses. The normal cost is a level percent of payroll cost which, along with the member contributions, will pay for projected benefits at retirement for the average plan participant. The actuarial accrued liability is that portion of the present value of projected benefits that will not be paid by future normal employer costs or member contributions. The difference between this liability and the funds accumulated as of the same date is the unfunded actuarial accrued liability. The allowance for administrative costs is based upon the plan's actual administrative expenses.

The actuarial valuation performed as of July 1, 2006 resulted in a contribution rate of 31.56% for fiscal 2008 per the GASB methodology, an increase of 0.90% over the fiscal 2007 rate of 30.66% per the GASB methodology. Beginning with fiscal 2003, the funding policy was revised to further stabilize the contribution rate. The methodology now in place sets the employer contribution rate equal to the normal cost and allowance for administrative expense. Amortization of the unfunded liability is included in the contribution rate only for any benefit and actuarial assumption changes or if the actuarial funding ratio falls outside a corridor of 90% and 120%. Use of the corridor method, with adjustments for plan changes effective after the valuation date, results in an adopted rate of 26.33% for fiscal 2008, an increase of 0.32% over the fiscal 2007 adopted rate of 26.01%.

Capital Markets and Economic Conditions

Fiscal Year 2007 Economic Environment

The U.S. economy grew at a moderate pace during fiscal year 2007. Real gross domestic product increased by 1.6% in the third quarter of 2006, 2.5% in the fourth quarter of 2006, 0.7% in the first quarter of 2007, and 3.4% in the second quarter of 2007. The overall labor market remained robust for the fiscal year, with unemployment holding steady at 4.5%. Federal Reserve Chairman Ben Bernanke remained vigilant about inflation, which crept up slightly in the fiscal year but has remained in check, leading the Federal Reserve to keep the Fed Funds rate at 5.25%. Economic news was largely dominated by the slowdown in the U.S. housing market in the second half of fiscal year 2007. The housing market saw inventories increase to 16-year highs due to the decline in existing home sales as well as tightening in the U.S. mortgage market. Many areas in the country also began to experience depreciation in housing prices for the first time since 1995. In the first half of 2007, trouble in the sub-prime lending market began to show its face. Several mortgage lenders had to declare bankruptcy due to unexpectedly high levels of loan defaults. This, along with the deteriorating housing market and tightened liquidity, added negative pressures to the financial markets, specifically the credit markets, toward the end of the fiscal year.

Equity Markets

Broad U.S. equity benchmarks posted stellar gains for the fiscal year 2007. The S&P 500 Index posted a total return of 20.6%, driven largely by a steady economy and strong merger and acquisition activity. For the first time in five years, large capitalization stocks outperformed small cap stocks. The Russell 1000 Index returned 20.4% versus the Russell 2000 which returned 16.4%. In terms of style benchmarks, there were mixed results across capitalizations. Value outperformed growth in the large cap area, with the Russell 1000 Value returning 21.9% versus the Russell 1000 Growth return of 19.0%. In the mid- and small-cap areas, growth slightly outperformed value by 0.63% and 0.78% respectively. Growth in the markets has been led by commodities and technology oriented businesses. Each sector within the S&P 500 posted double digit gains for the fiscal year. The highest performing S&P sector for the year was Telecommunications (+38.8%) followed by Materials (+29.4%) and Energy (+28.0%) as global demand for energy and commodities continue to drive valuations. Financials was the S&P's worst performing sector, but yet posted a strong gain of 14.7%. Other strong sectors included Utilities (+26.0%) and Technology (+25.9%).

International benchmarks posted exceptional returns for the fiscal year as economic growth outside the US continued to outpace domestic growth. The MSCI EAFE Index, a broad index of international developed countries, returned 27.5% for fiscal 2007, while the commodity-driven MSCI Emerging Markets Free Index returned a stunning 45.4%. Emerging economies were strong across the board with the growing markets of Brazil, Turkey, China and the Philippines leading the way.

Real Estate Markets

Real Estate markets continued their strong performance for the first half of the fiscal year but gave up significant ground in the second half of fiscal 2007 as high valuations, rising interest rates and a more uncertain economy led to widespread price declines. The NAREIT Equity Index of REIT securities still returned 12.6% for the year but declined 9.0% in the final quarter of the

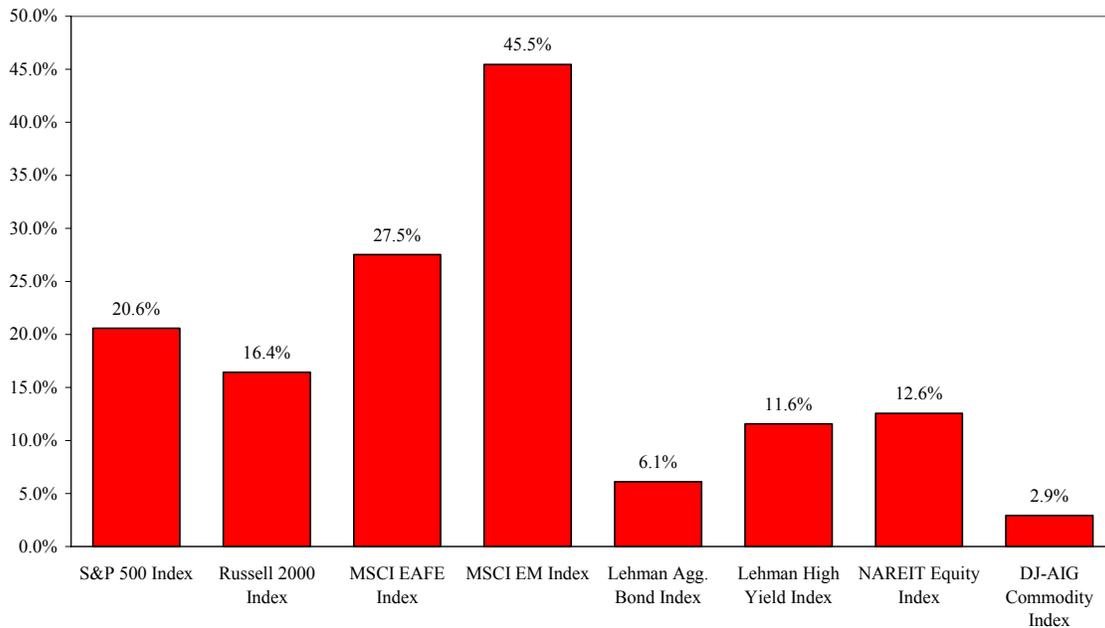
fiscal year. The NCREIF Index which measures the performance of privately held real estate fared better than the public REITs at a 17.4% gain. The success of the private real estate index relative to REITs can be traced to better fundamentals in institutional classes of real estate, a slower repricing of assets because values are based on annual appraisals, and significantly less leverage than in REITs (NCREIF is an unlevered benchmark).

The International REIT market posted strong gains for the fiscal year but did experience a pullback in the second quarter 2007, similar to the domestic REIT market. The S&P/Citigroup World Ex-U.S. Property BMI Index posted a 34.3% return for the fiscal year, but declined 3.3% for the second quarter of 2007.

Fixed Income Markets

Moderate economic growth and a flat yield curve kept fixed income returns in check for the fiscal year. The Lehman Brothers Aggregate Bond Index returned 6.1% for the fiscal year. Corporate and High Yield issues were the primary sources of returns in the market as credit spreads remained at historically tight levels, a trend which began reversing itself amid the sub-prime concerns in June 2007. The Lehman Brothers High Yield Index, which was the best performing domestic fixed income benchmark, returned 11.6% for the fiscal year. Global bonds posted positive returns for the fiscal year but were below the domestic bond market returns due to foreign central banks increasing interest rates during fiscal year 2007.

Fiscal Year 2007 Market Asset Class Returns



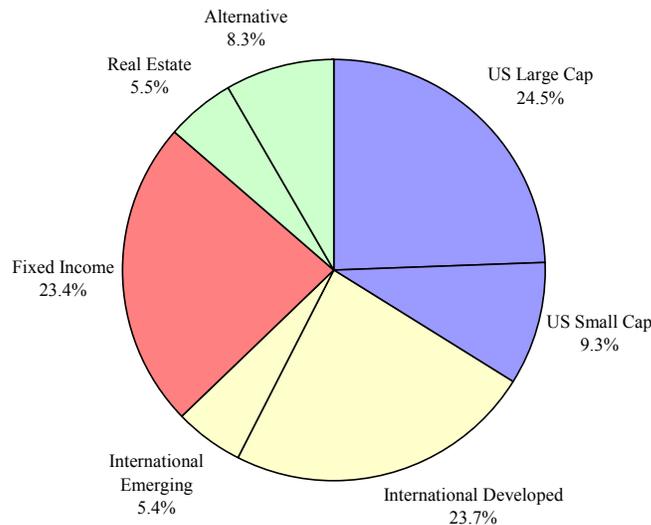
Uniformed System

The Uniformed Retirement System operates a sound and diversified investment program with disciplined asset re-balancing to achieve strategic long-term goals. That disciplined investment process has been effective in achieving a long-term record of consistent asset growth.

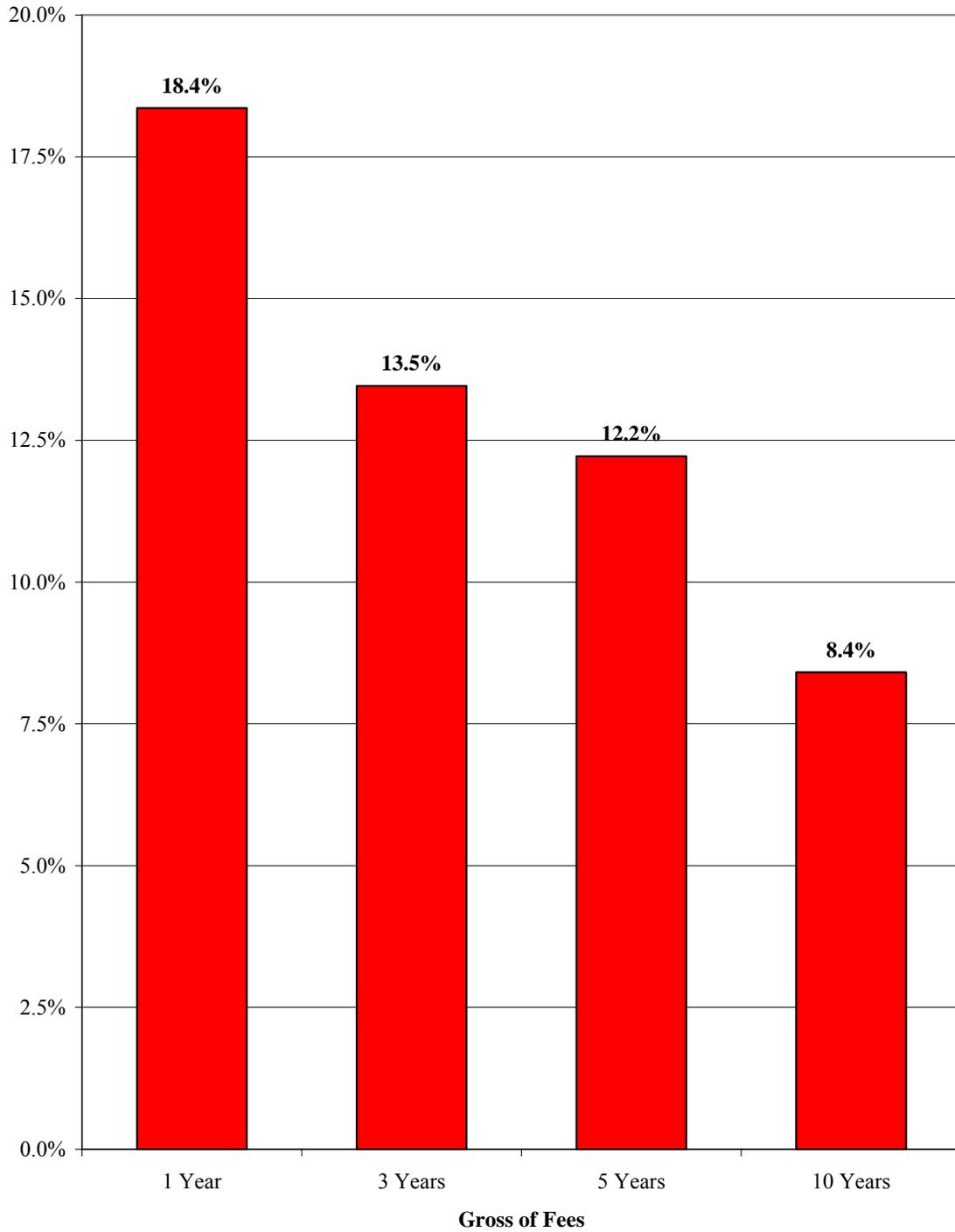
On a market value basis, the total net assets held in trust rose from \$942.6 million at June 30, 2006 to \$1,108.0 million at June 30, 2007. For fiscal 2007, investments provided a return of +17.8%, net of fees, reflecting an expansionary economic environment. The System’s annualized rate of return, net of fees, was +12.9% over the last three years and +11.8% over the last five years. These System returns ranked in the top 50th percentile of the Mellon universe of public plans for the most recent 1- and 3-year periods, and in the second quartile of public plans for the last 5 years. The Uniformed Retirement System’s annualized ten-year net return of 8.0% has surpassed the 7.5% long-term threshold return used for actuarial purposes.

During the past twelve months, changes were made to the asset allocation targets of the System to help further diversify the investment program. The International Equity allocation was improved by replacing Lazard Asset Management with the Julius Baer International Equity II Fund. Further enhancement was achieved by replacing the passive BGI Emerging Markets Index Fund with the actively-managed Acadian Emerging Markets Fund. Within the Fixed Income allocation, the Peregrine Positive Return portfolio was closed and the assets were transferred to the Brandywine Global Opportunity portfolio to complete the international fixed income allocation. And finally, a new structure was proposed to replace the small cap equity managers, which will be implemented in fiscal 2008.

Uniformed Retirement System – Allocation of Market Exposures



Compounded Annual Rates of Return



Investments by Category and Investment Manager
June 30, 2007

Asset Class			% of Total Net
Manager	Investment Style	Total Assets	Assets
<i>Domestic Equities</i>			
BGI Alpha Tilts Fund *	Enhanced S&P 500 Index	\$ 179,322,933	16.2%
J.L. Kaplan	Small Cap value	61,555,318	5.6%
Bridgewater Associates*	Enhanced S&P 500 Index	43,576,226	3.9%
FrontPoint Partners*	Enhanced S&P 500 Index	47,784,245	4.3%
Wasatch Advisors	Small Cap Growth	41,115,146	3.7%
<i>International Equities</i>			
Marathon Asset Mgt.	Developed Markets	143,002,800	12.9%
Boston Company	Developed Mkts. Small Cap	61,179,748	5.5%
Julius Baer Investment Mgt.*	Developed Markets	56,713,875	5.1%
Acadian Asset Mgt.*	Emerging Markets	59,096,048	5.3%
<i>Fixed Income</i>			
Pacific Investment Mgt. Co. (PIMCO)	Total Return Core Bonds	91,606,387	8.3%
Payden & Rygel	Domestic Core Plus Bonds	47,174,665	4.3%
Brandywine Asset Mgt.	Global Bonds	74,507,128	6.7%
Trust Company of the West	Mortgage-Backed Securities	39,256,685	3.5%
<i>Alternative Investments</i>			
Dorest Asset Mgt.*	Equity Long/Short Absolute Return Fund	22,308,762	2.0%
Acadian Asset Mgt.*	Equity Long/Short Absolute Return Fund	19,416,412	1.8%
Orbimed Advisors*	Equity Long/Short Absolute Return Fund	20,961,359	1.9%
Pantheon Private Equity *	Private Equity	11,514,871	1.0%
J.P. Morgan Private Equity *	Private Equity	7,684,858	0.7%
Harbourvest Private Equity *	Private Equity	9,300,939	0.8%
<i>Real Estate</i>			
UBS Realty *	Direct Real Estate	47,990,291	4.3%
Cohen & Steers Capital Mgt.	Real Estate Investment Trusts	12,334,743	1.1%
<i>Short-term</i>			
Standish Mellon	Plan Level Cash Accounts	5,608,965	0.5%
Cash Held at County Treasurer	Operating Cash Account	<u>3,991,954</u>	<u>0.4%</u>
Net Assets		<u>\$ 1,107,004,358</u>	<u>100.0%</u>

* Pooled fund

Largest Holdings for Separately Managed (Non-Pooled) Accounts

Asset Class Manager Security	Market Value	% of Account
<i>Domestic Equities</i>		
J.L Kaplan Associates		
Barnes Group Inc.	\$ 2,851,200	4.59%
FTI Consulting Inc.	\$ 2,300,815	3.70%
Ametek Inc.	\$ 2,243,904	3.61%
Mens Wearhouse Inc.	\$ 2,231,759	3.59%
Cytec Inds Inc.	\$ 2,206,442	3.55%
Wasatch Advisors		
Healthways Inc.	\$ 1,626,686	4.01%
Cognizant Tech Solutions	\$ 1,558,500	3.84%
HDFC Bank Ltd. (ADR)	\$ 1,351,952	3.33%
Arthrocare Corp.	\$ 1,256,924	3.10%
O'Reilly Automotive Inc.	\$ 1,235,756	3.05%
<i>International Equities</i>		
Boston Company		
Inmet Mining Corp.	\$ 728,141	1.20%
Rautaruukki OY 'K'NPV	\$ 720,194	1.19%
Hyundai	\$ 639,788	1.06%
Actelion	\$ 570,757	0.94%
Deutsche Boerse AG	\$ 565,543	0.93%
Marathon Asset Mgt.		
Jardine Matheson Holdings	\$ 1,942,270	1.36%
Rio Tinto	\$ 1,847,015	1.30%
BP PLC	\$ 1,786,918	1.25%
Acciona SA	\$ 1,775,906	1.25%
Ayala Corp.	\$ 1,751,836	1.23%
<i>Real Estate Securities</i>		
Cohen & Steers Capital Mgt.		
Equity Residential	\$ 533,871	4.36%
Apartment Investment & Management Co.	\$ 484,032	3.96%
Simon Property Group Inc.	\$ 437,288	3.57%
Boston Properties Inc.	\$ 428,946	3.50%
Home Properties Inc.	\$ 405,729	3.32%

Largest Holdings for Separately Managed (Non-Pooled) Accounts

(continued)

Asset Class Manager Security	Market Value	% of Account
Core Fixed Income		
Brandywine Asset Mgt.		
US Treasury Bonds, 5.375%, 02/15/2031	\$ 8,499,997	11.60%
US Treasury Bonds, 5.250%, 02/15/2029	\$ 5,554,653	7.58%
Government of Poland Bonds, 5.750%, 06/24/2008	\$ 5,246,242	7.16%
Government of Singapore Bonds, 4.375%, 01/15/2009	\$ 4,541,338	6.20%
MEXICO UTD, 8.000%, 12/19/2013	\$ 3,414,073	4.66%
Payden & Rygel		
FNMA Mortgage Pool TBA, 5.500%, 07/01/2037	\$ 3,770,706	6.58%
FNMA Discount Note, 08/07/2007	\$ 2,117,996	3.70%
FNMA Mortgage Pool TBA, 5.500%, 07/01/2022	\$ 1,920,750	3.35%
FNMA Mortgage Pool TBA, 5.000%, 07/01/2021	\$ 1,603,975	2.80%
FNMA Mortgage Pool, 5.666%, 02/01/2037	\$ 1,333,756	2.33%
Pacific Investment Mgt.		
FNMA Mortgage Pool TBA, 5.500%, 07/01/2037	\$ 21,216,800	17.93%
FNMA Mortgage Pool, 5.000%, 03/01/2036	\$ 4,404,011	3.72%
FNMA Mortgage Pool TBA, 6.000%, 07/01/2037	\$ 3,956,400	3.34%
UBS Financial Inc. Discount Note, 09/04/2007	\$ 3,549,744	3.00%
Danske Corp. Discount Note, 08/20/2007	\$ 2,656,627	2.24%
TCW Asset Mgt.		
FHLMC Multiclass Mortgage, 5.000%, 04/15/2033	\$ 2,065,819	5.29%
FHLMC Multiclass Mortgage, 6.500%, 02/15/2032	\$ 1,867,396	4.78%
FHLMC Multiclass Mortgage, Variable Rate, 07/15/2033	\$ 1,648,138	4.22%
FNMA GTD REMIC, Variable Rate, 05/25/2033	\$ 1,447,178	3.70%
FHLMC Multiclass Mortgage, Variable Rate, 12/15/2032	\$ 1,326,441	3.39%

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Classic Values, Innovative Advice

December 22, 2006

Board of Trustees
Fairfax County Uniformed
Retirement System
10680 Main Street, Suite 280
Fairfax, Virginia 22030-3812

Dear Members of the Board:

At your request, we have conducted our annual actuarial valuation of the Fairfax County Uniformed Retirement System as of July 1, 2006. The results of the valuation are contained in this report.

Funding Objective

The funding objective of the System is to establish contribution rates which, over time, will remain level as a percent of payroll. In order to achieve a more stable contribution rate the County implemented a Corridor Funding Method on July 1, 2002 (based on the July 1, 2001 valuation results). Under this approach the contribution rate is based on the normal cost rate and expense rate on July 1, 2001, adjusted for subsequent plan changes, including a 15 year amortization of any UAL impact. The rate will otherwise remain at this level as long as the actuarial funded ratio remains within a corridor of 90% to 120%. This funding objective is currently being realized.

Assumptions

The actuarial assumptions used in performing the July 1, 2006 valuation were recommended by the actuary and adopted by the Board of Trustees based on our most recent review of the System's experience for the five year period ending June 30, 2006. The assumptions reflect our understanding of the likely future experience of the System and the assumptions as a whole represent our best estimate for the future experience of the System. The results of this report are dependent upon future experience conforming to these assumptions. To the extent that future experience deviates from these assumptions, the true cost of the System could vary from our results.

The assumptions and methods used in performing this valuation meet the parameters set by Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contributions Plans*.

Reliance on Others

In preparing our report, we relied without audit, on information (some oral and some written) supplied by the System's staff. This information includes, but is not limited to, plan provisions, employee data, and financial information. The census data provided was reviewed for reasonableness and for consistency with prior year's data.



December 22, 2006
Fairfax County Uniformed Retirement System
Page 2

Supporting Schedules

We are responsible for all supporting schedules to be found in the Actuarial Section.

We are responsible for the 2004 through 2006 information in the Schedule of Funding Progress, Schedule of Employer Contributions and Notes to Trend Data shown in the Financial Section.

Compliance with Code of Virginia §51.1-800

Code of Virginia §51.1-800 requires that the benefits provided to a retiree at age 65 from a local retirement system equal or exceed two-thirds of the allowance to which the employee would be entitled under the provisions of the Virginia Retirement System (VRS). The Board of Trustees of the VRS is to determine whether a local system satisfies this condition, taking into account differences in member contributions between the local system and the VRS.

Although there is no formal procedure for making this comparison, we compared the least valuable rate under the Uniformed System to the most valuable accrual rate under the VRS, making adjustments for the fact that employee contributions are required in excess of the VRS 5% rate. The employer provided accrual rates do exceed two-thirds of the employer provided accrual rates under the VRS plan.

I certify that, to the best of my knowledge and understanding, the Fairfax County Uniformed Retirement System satisfies the requirements of the Code of Virginia §51.1-800.

Certification

I, Fiona Liston, am a consulting actuary for Cheiron. I am also a member of the American Academy of Actuaries and meet their Qualification Standards to render the actuarial opinion contained herein.

I hereby certify that, to the best of my knowledge, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board, and that as a Member of the American Academy of Actuaries, I meet the Qualification Standards to render the opinions contained herein.

Sincerely,
Cheiron



Fiona E. Liston, FSA
Consulting Actuary

Summary of Valuation Results

Overview

This report presents the results of the July 1, 2006 actuarial valuation of the Fairfax County Uniformed Retirement System. The primary purposes of performing the annual actuarial valuation are to:

- Measure and disclose, as of the valuation date, the financial condition of the Plan;
- Indicate trends in the financial progress of the Plan;
- Determine the contribution rate to be paid by the County for Fiscal Year 2008;
- Provide specific information and documentation required by the Governmental Accounting Standards Board (GASB).

This section of the report presents a summary of the above information in the form of:

- The actuary's comments;
- The prior year's experience of the System's assets, liabilities, contributions, and membership;
- A series of graphs which highlight key trends experienced by the System; and
- A summary of all principal results from this year's valuation, compared to last year's, in a single table, intended for quick reference purposes.

General Comments

Fairfax County's annual contribution to this System is determined by using a Corridor Funding Method. Under this funding approach, the County's contribution rate is based on the normal cost rate determined as of the implementation date of the corridor method (July 1, 2002) 17.55% of payroll, plus an expense rate, currently 0.25% of payroll. This rate is adjusted for plan and assumption changes, but otherwise will remain the same as long as the System's actuarial funded ratio remains within a corridor of 90% to 120%.

The County's contribution rate will change when benefits are increased or modified or assumptions are changed. The new rate will reflect the change in normal cost rate and the change in actuarial liability amortized over 15 years. Since the inception of the Corridor Funding Method, benefit changes have added 7.12% to the contribution rate and assumption changes have added 1.09% to the contribution rate, for a total Corridor Funding Contribution of 26.01% of payroll. The normal cost rate and actuarial accrued liability will continue to be measured using the entry age funding method. If the funded status falls outside the corridor, a credit (if above 120%) or charge (if below 90%) will be established based on a 15-year amortization equal to the amount necessary to re-enter the corridor. Once the funded status is within the corridor, the contribution rate will return to normal cost rate plus expense rate, and any remaining amortization for benefit or assumption changes.

The valuation as of July 1, 2006 shows that the actuarial funded ratio (including a credit for the amortization piece of prior benefit increases) remains within the corridor and so there is no required increase in the rate at this time.

The calculated contribution rate for Governmental Accounting Standards Board (GASB) purposes is based on a rolling 15-year amortization of the actuarial unfunded liability.

Trends

The financial markets performed above expectation during the fiscal year ending in 2006, which produced an actuarial gain on the asset side of the System. The actual return on a market value basis was approximately 10.51%. On an actuarial value basis, the assets returned 8.77% compared with an assumed rate of return of 7.5%. The gain recognized for funding purposes was \$11 million.

The measurement of liabilities produced a loss this year in the amount of \$41 million. This loss was due to increases in pay which exceeded those assumed (loss of \$29 million), the plan experience (loss of \$11 million), and due to the base COLA being more than 3% (loss of \$1 million).

Finally, there was an increase in liability due to the transfer of Department of Public Safety Communication (DPSC) members into this System in the amount of \$21 million which is partially offset by an asset transfer from the Employees' Retirement System of \$12 million.

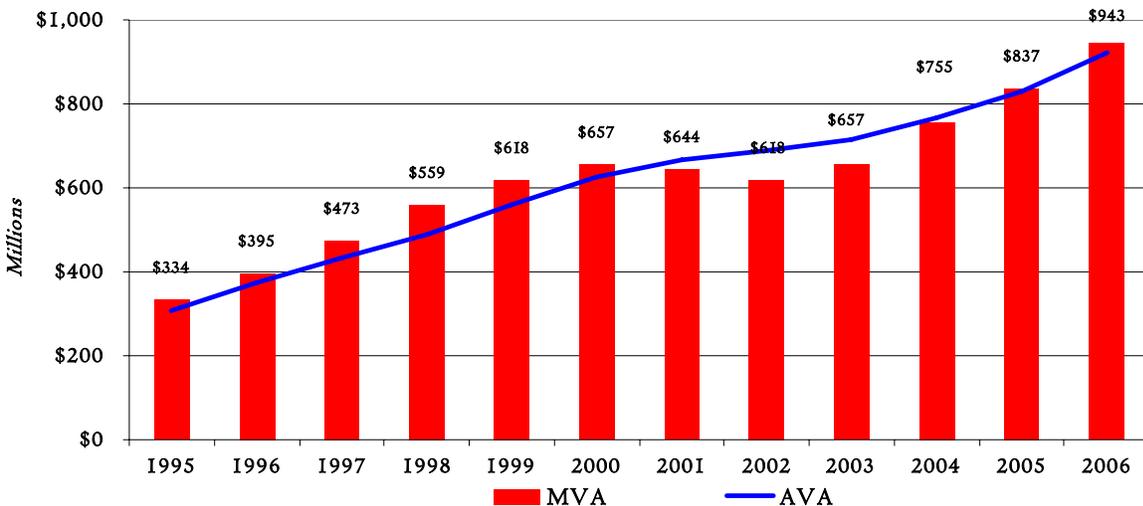
The combination of liability and investment experience and the DPSC transfer over the last year produced a deterioration in the System's funding ratio (actuarial value of assets over actuarial accrued liability) from 85.3% at July 1, 2005 to 83.6% at July 1, 2006. For purposes of measuring whether the System remains within the funding corridor, an adjusted funding ratio is used. In this ratio there is an additional asset recognized in the amount of the unfunded actuarial liability (UAL) payments being made by the County to pay for benefit increases and assumption changes. On this basis, the System's actuarial funded ratio also decreased from 92.3% at July 1, 2005 to 91.2% at July 1, 2006.

It is important to take a step back from the latest results and view them in the context of the System's recent history. On the next two pages we present a series of charts which display key factors in the valuations over the last ten years. After the historical review we present a few projection graphs, showing the possible condition of the System over the next 15 years under various market return scenarios.

The following is a key to the abbreviations used in the actuarial graphs:

- PVAB** – Present Value of accrued benefits
- PSL** – Past service liability
- PVFB** – Present value of future benefits
- AAL** – Accrued Actuarial Liability
- MVA** – Market value of assets
- AVA** – Actuarial value of assets
- DROP** – Deferred Retirement Option Program

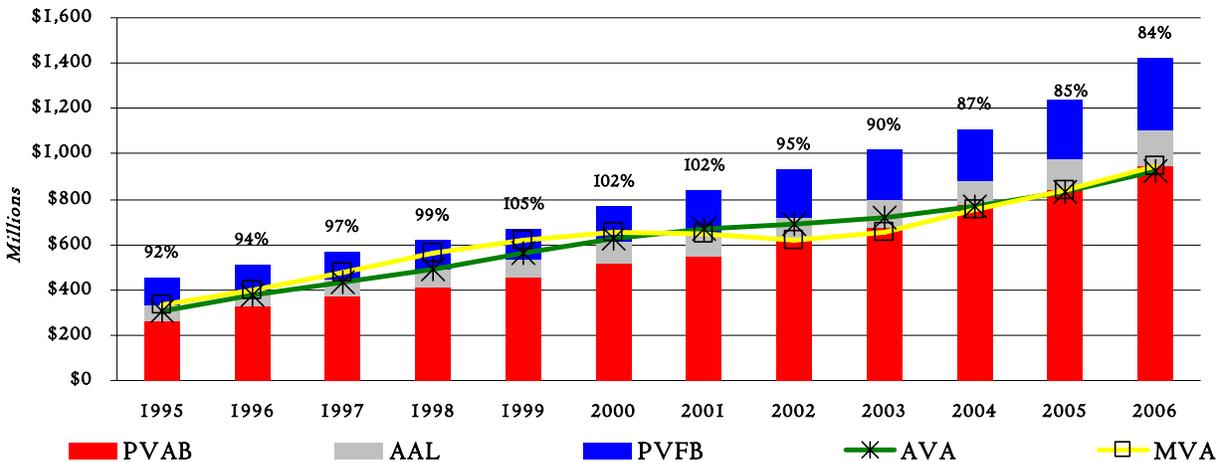
Growth of Assets



The positive growth in the market value of assets continued this year with a return of over 10%. Due to the asset smoothing method in place, the actuarial value of assets (AVA) did not increase by as much as the market value, since a portion of this year's excess investment return is being held for future recognition.

Over the period July 1, 1995 to June 30, 2006 the System's assets returned approximately 8.74% per year measured at Actuarial Value, compared to a valuation assumption of 7.5% per year.

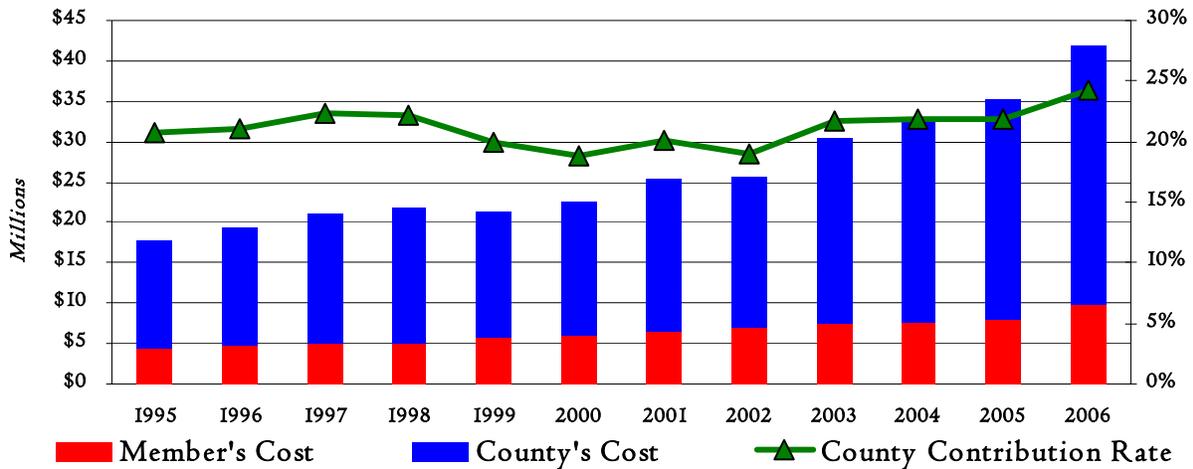
Assets and Liabilities



The three colored bars represent the three different measures of liability mentioned in this report. For funding purposes, the target amount is represented by the top of the gray bar. We compare the actuarial value of assets to this measure of liability in developing the funded percent. These are the percentages shown in the graph labels.

As you can see, the System had its highest funded percentage (105%) at July 1, 1999, before a combination of benefit improvements and the three-year market slide at the start of the decade. The amount represented by the top of the blue bars, the Present Value of Future Benefits (PVFB), is the amount needed to provide all benefits for the current participants and their beneficiaries. If the System had assets equal to the PVFB no contributions would, in theory, be needed for the current members.

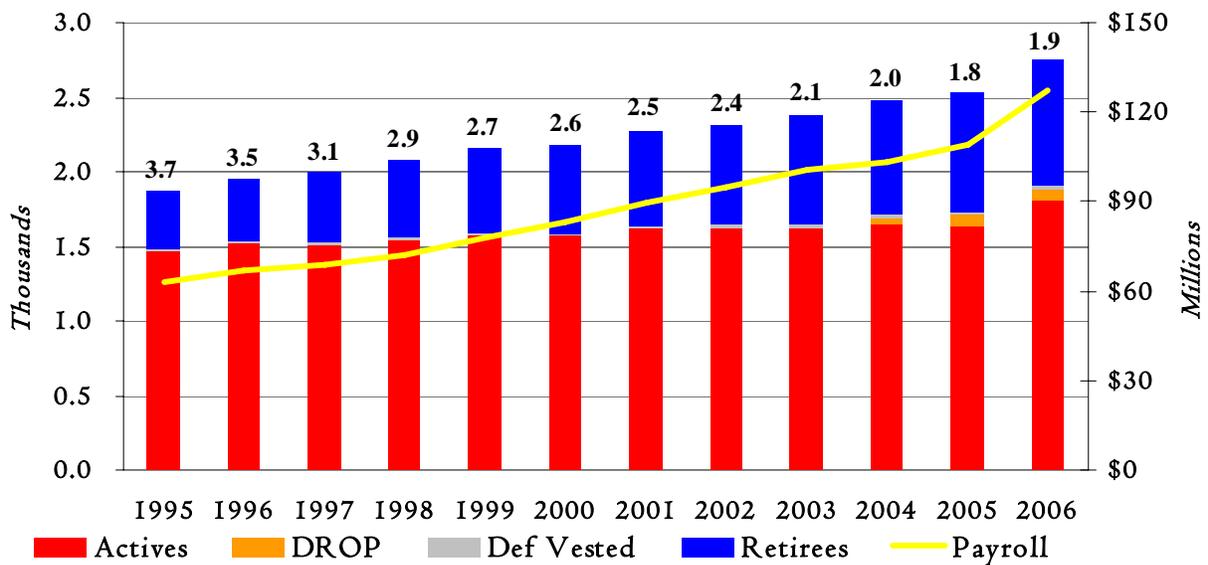
Contribution Rates



The stacked bars in this graph show the contributions made by both the County and the members (left hand scale). The green line shows the County contribution rate as a percent of payroll (right hand scale).

The member contribution rate is set by the County Ordinance, depending on which plan the member participates in. The County contribution rate is set by the actuarial process, as constrained by the Corridor Method. Please note there is a lag in the rate shown. For example, the 2006 value is the rate prepared by the 2004 valuation and implemented for the period July 1, 2005 to June 30, 2006

Participant Trends



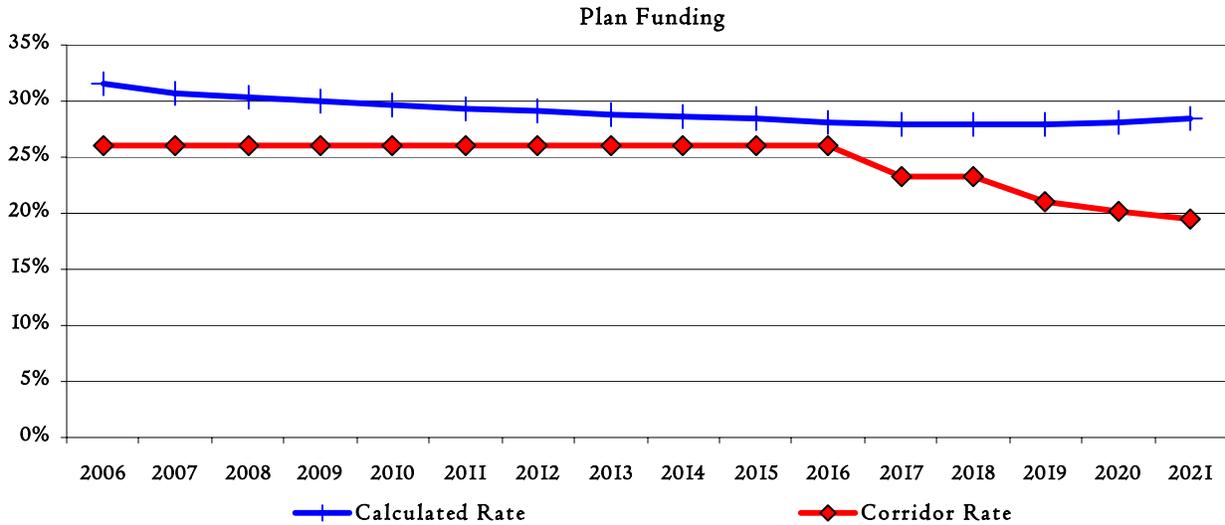
As with many funds in this country, there has been a steady growth in the number of retired members as the System has matured. The active-to-inactive ratio has decreased from 3.7 actives to each inactive in 1995 to 1.9 actives for each inactive today. While this would be an alarming trend in a pay-as-you-go system, the pool of invested assets has been established in anticipation of this development.

Starting in 2004, the chart also shows the number of DROP participants. Neither County nor member contributions are made on their behalf, which leads to a slightly lower growth in effective covered payroll for this System. The DROP participants are expected to remain active for a 3-year period until eventually retiring to receive their monthly benefits and DROP account balance.

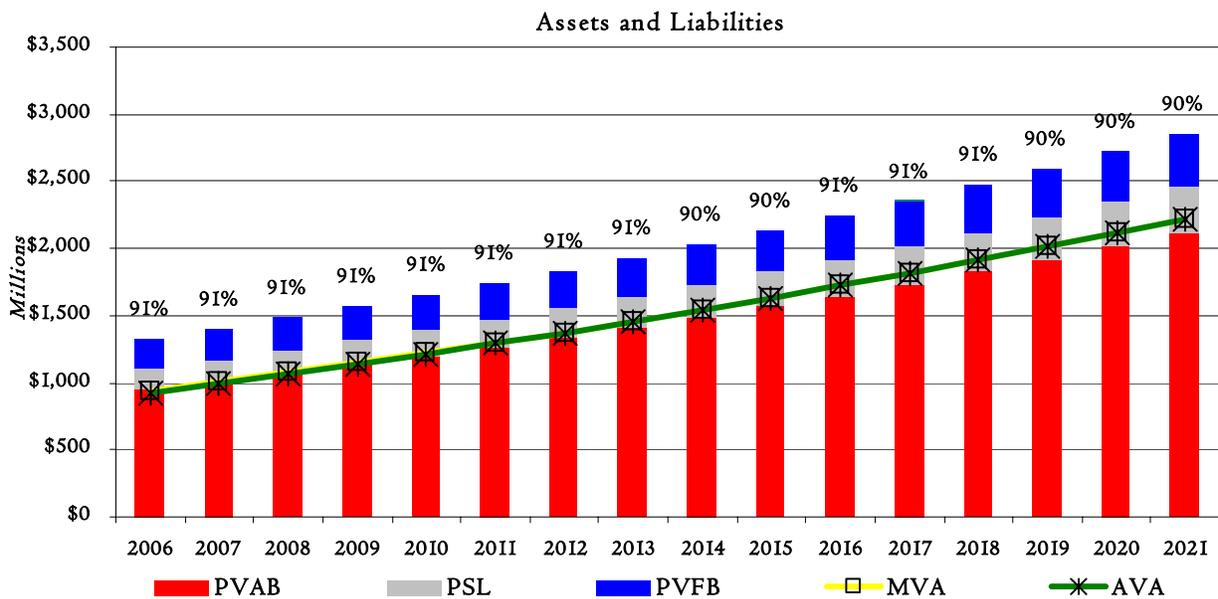
Future Outlook

Base Line Projections

The two graphs below show the expected progress of the Plan over the next 15 years assuming the System’s assets earn 7.5% on their *market value*. The chart entitled “Plan Funding” shows the System remaining near the bottom of the corridor if all other actuarial assumptions are met as well as the 7.5% interest rate. The red line shows the actuarially calculated rate as if the corridor were not in place. The decreases in the yellow line towards the end of the period show plan change bases becoming fully amortized and dropping out.

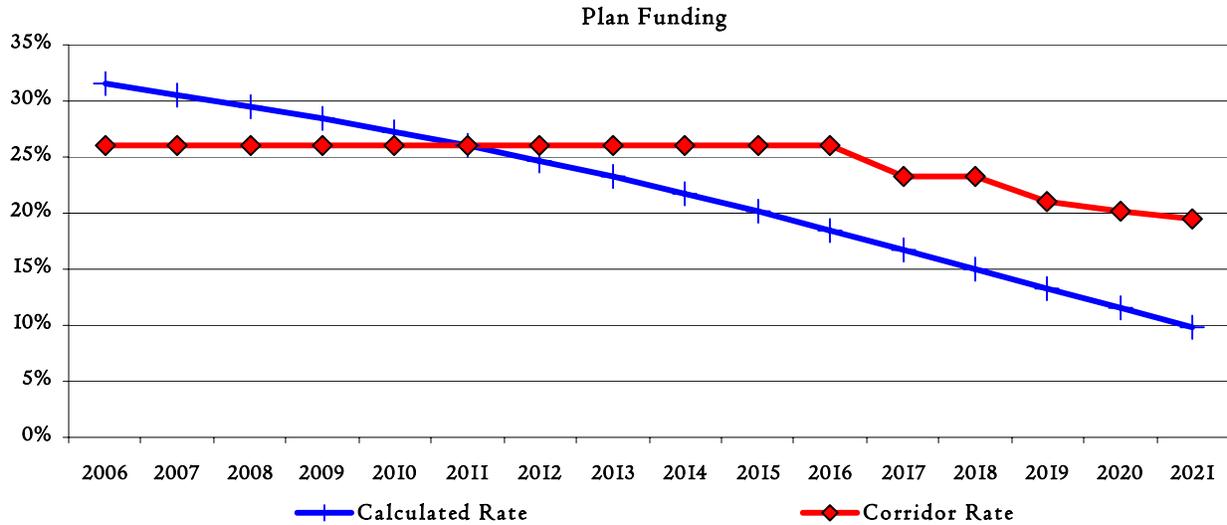


The “Assets and Liabilities” graph shows the projected funding status over the next decade. Note that the 2006 funded level differs from that shown earlier, the ratio used here reflects the corridor method. The System’s funded status is projected to drop from the current level of 91% to around 90%, but to remain within the corridor.

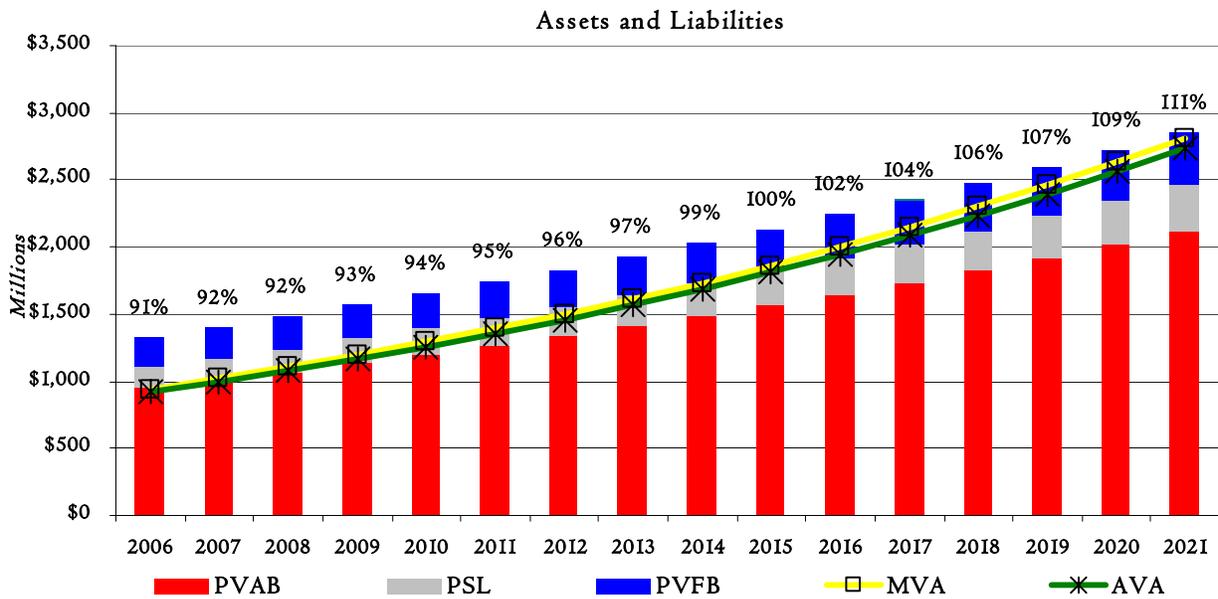


Projections With Asset Returns of 9.0%

The future funding status of this System will be largely driven by the investment earnings. Due to the size of assets, as compared to liabilities, the System is in a highly leveraged position. This means that relatively minor changes in the market returns can have significant effects on the System's status. The next two charts show what the coming decade would look like with a 9% annual return.

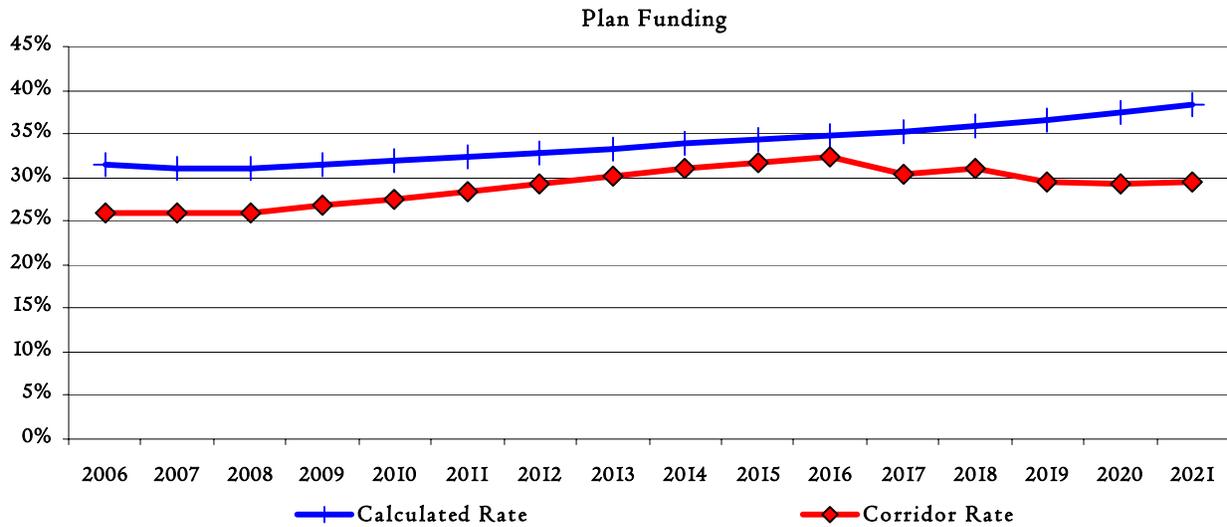


As you can see, the corridor contribution rate would remain adequate for the entire 15 year period and the System would return to its fully funded position.

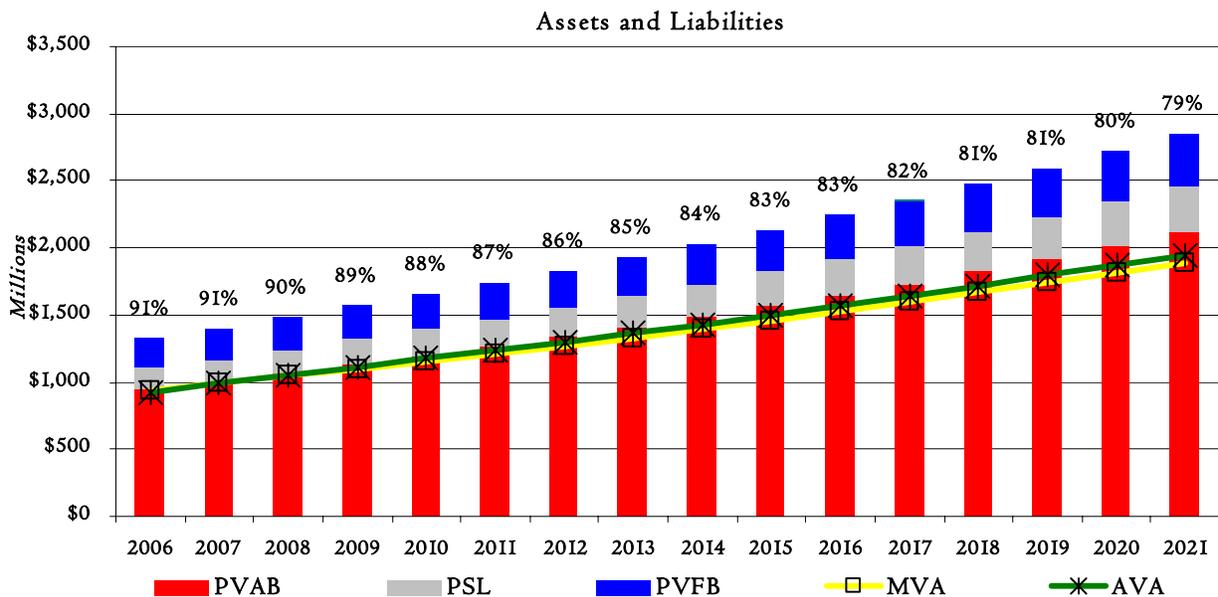


Projections With Asset Returns of 6.0%

To further demonstrate how the future funding of this System will be driven by investment earnings, we show below the anticipated plan funding projections if the invested assets earn 6.0% per year over the entire 15 year period. Under this scenario, both the corridor contribution required of the County and the calculated rate used in GASB disclosures would increase.



The projection shows a deterioration of the System’s funded status from the current 91% down to 79% by the end of the period.



**Fairfax County Uniformed Retirement System
Summary of Principal Plan Results**

Valuation as of:	<u>7/1/2005</u>	<u>7/1/2006</u>	<u>% Change</u>
<u>Participant Counts</u>			
Actives (excluding DROP)	1,641	1,799	9.6%
DROP	68	89	30.9%
Terminated Vesteds	22	23	4.5%
In Pay Status	<u>799</u>	<u>845</u>	5.8%
Total	2,530	2,756	8.9%
 Annual Salaries of Active Members	 \$ 109,067,496	 \$ 127,466,973	 16.9%
 Annual Retirement Allowances for Retired Members and Beneficiaries (Base amount only – not supplements)	 \$ 30,798,587	 \$ 33,807,698	 9.8%
<u>Assets and Liabilities</u>			
Actuarial Accrued Liability	\$ 974,105,999	\$ 1,102,668,714	13.2%
Assets for Valuation Purposes	<u>830,702,027</u>	<u>921,414,147</u>	10.9%
Unfunded Actuarial Liability	\$ 143,403,972	\$ 181,254,567	26.4%
Funding Ratio	85.28%	83.56%	
 Present Value of Accrued Benefits	 \$ 837,397,558	 \$ 946,322,655	 13.0%
Market Value of Assets	<u>836,684,845</u>	<u>942,648,272</u>	12.7%
Unfunded FASB Accrued Liability (not less than \$0)	712,713	3,674,383	
Accrued Benefit Funding Ratio	99.9%	99.6%	
<u>Contributions as a Percentage of Payroll</u>			
<u>GASB Method:</u>			
Normal Cost Contribution	19.30%	19.30%	
Unfunded Actuarial Liability Contribution	11.11%	12.01%	
Administrative Expense	<u>0.25%</u>	<u>0.25%</u>	
Total Contribution	30.66%	31.56%	
<u>Corridor Method:</u>			
Normal Cost Contribution	19.30%	19.30%	
Increase Due to Amortized Changes	5.84%	6.46%	
Administrative Expense	<u>0.25%</u>	<u>0.25%</u>	
Corridor Method	25.39%	26.01%	

Summary of Actuarial Assumptions and Methods

Funding Method

The funding method used for GASB disclosure purposes is the “aggregate accrual modification of the entry age normal cost method.” Under this method, the employer contribution has three components – the normal cost, the payment toward the unfunded actuarial liability, and the expense rate.

The normal cost is a level percent of pay cost which, along with the member contributions, will pay for projected benefits at retirement for the average plan participant. The level percent developed is called the normal cost rate and the product of that rate and payroll is 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 funds accumulated as of the same date is referred to as the unfunded actuarial liability.

The expense rate is added to cover the System’s administrative expenses.

The County contributions are calculated using the same basic actuarial method (EAN). However, in order to produce a more level contribution rate, the System has adopted a Corridor Funding Method.

Under the Corridor Funding Method, the County’s total contribution rate is equal to the normal cost rate, plus rate changes due to assumption changes or amendments passed since June 30, 2002 plus the expense rate as long as the System’s actuarial funded status remains within a corridor of 90% to 120%. If the funded status falls outside the corridor, a credit (if above 120%) or charge (if below 90%) will be established based on a 15-year amortization equal to the amount necessary to re-enter the corridor. Once the funded status is within the corridor, the contribution rate will return to normal cost rate plus expense rate, plus amortization of post-2002 changes, plus expense rate.

Actuarial Value of Assets

For purposes of determining the County contribution to the Plan, we use an actuarial value of assets. The asset adjustment method dampens the volatility in asset values that could occur because of fluctuations in market conditions. Use of an asset smoothing method is consistent with the long-term nature of the actuarial valuation process.

In determining the actuarial value of assets, we calculate an expected actuarial value based on cash flow for the year and imputed returns at the actuarial assumption. This expected value is compared to the market value and one-third of the difference is added to the preliminary actuarial value to arrive at the final actuarial value.

Changes Since Last Valuation

There have been no changes since the last valuation to the Funding Method or Actuarial Value of Assets.

Long Term Assumptions Used to Determine System Costs and Liabilities

Demographic Assumptions

Mortality

**1994 Uninsured Pensioners Mortality Table
Annual Deaths Per 1,000 Members***

<u>Age</u>	<u>Male Deaths</u>	<u>Female Deaths</u>	<u>Age</u>	<u>Male Deaths</u>	<u>Female Deaths</u>
20	1	0	65	16	9
25	1	0	70	26	15
30	1	0	75	40	24
35	1	1	80	67	42
40	1	1	85	105	73
45	2	1	90	164	125
50	3	2	95	251	200
55	5	2	100	341	297
60	9	5	105	441	415

* 5% of deaths are assumed to be service-connected.

**Annual Deaths per
1,000 Disabled Members
1994 Uninsured Pensioners
Mortality Table +5**

<u>Age</u>	<u>Male</u>	<u>Female</u>
40	2	1
45	3	2
50	5	2
55	9	5
60	16	9
65	26	15
70	40	24
75	67	42
80	105	73

Termination of Employment: (Prior to Normal Retirement Eligibility)

Annual Terminations Per 1,000 Members

<u>Service</u>	<u>Sheriffs</u>	<u>Non-Sheriffs</u>
0	135	60
5	43	25
10	10	10
20	5	5
25	5	5

It is assumed that members who terminated before normal or early retirement age elect to receive a refund of contributions instead of vested benefits.

Disability

Annual Disabilities Per 1,000 Members*

<u>Age</u>	<u>Male and Female</u>
20	1
25	2
30	2
35	3
40	4
45	7
50	11
55	16
60	16

* Disabilities are assumed to be all service-connected. Of these, 30% are assumed to receive Social Security benefits and 38% are assumed to receive Workers Compensation benefits.

Retirement

Annual Retirement Per 1,000 Eligible*

<u>Age</u>	<u>Early</u>	<u>Age</u>	<u>Normal</u>
40	20	45-64	500
41	31	65	1,000
42	42		
43	53		
44	64		
45	76		
46	87		
47	98		
48	109		
49	120		
50	150		
51	50		

* 75% are assumed to take DROP

Merit/Seniority Salary Increase (In Addition to Across-the-Board Increase)

<u>Years of Service</u>	<u>Merit/Seniority Increase*</u>
0	8.0%
5	5.0%
10	1.5%
15	1.0%
20	1.0%
25	1.0%
30	1.0%

* Spikes at 8.6% at 14 years and 6.7% at 19 years of service.

Family Composition

For purposes of valuing the pre-retirement death benefit, an assumption is made concerning how many employees are married. The assumption used in this valuation is that 80% of employees are married at death while active and that the female spouse is 3 years younger than the male spouse.

Sick Leave Credit

Active members are assumed to receive an additional 2.0% of service credit and 2.1% of average final compensation due to unused sick leave.

Economic Assumptions

Investment Return:	7.50% compounded per annum.
Rate of General Wage Increase:	4.00% compounded per annum.
Rate of Increase in Cost-of-Living:	4.00% compounded per annum. (Benefit increases limited to 4% per year. We will use an assumption that post-retirement cost-of-living increases will be 3% per year.)
Total Payroll Increase (For Amortization):	4.00% compounded per annum.
Administrative Expenses:	0.25% of payroll.

Changes Since Last Valuation

There have been no changes since the last valuation

Analysis of Financial Experience

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

<u>Type of Activity</u>	<i>Gain or loss for year ending June 30,</i>			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Investment Income	\$ (29,218,034)	\$ (6,034,380)	\$ 2,991,409	\$ 10,617,063
Combined Liability Experience	(16,189,649)	(3,532,945)	(19,757,797)	(41,223,033)
Gain (or Loss) During Year from Financial Experience	(45,407,683)	(9,567,325)	(16,766,388)	(30,605,970)
Non-Recurring Items	0	(27,183,266)	(11,713,440)	(9,356,621)
Composite Gain (or Loss) During Year	(45,407,683)	(36,750,591)	(28,479,828)	(39,962,591)

**Schedule of Retirees and Beneficiaries
Added-To and Removed-From Rolls**

<u>Year Ended June 30</u>	<u>Added to Rolls</u>		<u>Removed From Rolls</u>		<u>On Rolls @ Yr. End</u>		<u>% Increase Allowance</u>	<u>Average Allowance</u>
	<u>No.</u>	<u>Annual Allowance</u>	<u>No.</u>	<u>Annual Allowance</u>	<u>No.</u>	<u>Annual Allowance</u>		
2000	29	\$1,982,436	6	\$234,523	589	\$16,931,035	11.51%	\$28,745
2001	56	2,688,692	9	232,369	636	19,387,357	14.51%	30,483
2002	34	2,152,809	7	241,818	663	21,298,348	9.86%	32,124
2003	85	4,795,387	17	589,036	731	25,955,035	21.86%	35,506
2004	43	3,901,017	8	405,901	766	29,450,151	13.47%	38,447
2005	47	3,289,619	14	594,988	799	32,144,782	9.15%	40,231
2006	61	3,522,449	15	697,840	845	34,969,391	8.79%	41,384

Solvency Test

Aggregate Accrued Liability For:

Valuation Date	Aggregate Accrued Liability For:			Reported Assets	Portion of Accrued Liabilities by Reported Assets		
	(1) Active Member Contributions	(2) Retirees Vested Terms, Beneficiaries & DROP	(3) Active Members (Employer Financed Portion)		(1)	(2)	(3)
July 1,							
2001	\$ 63,630,360	\$ 267,348,939	\$ 320,860,989	\$ 666,599,019	100%	100%	105%
2002	72,967,375	290,395,797	357,632,571	687,093,049	100%	100%	91%
2003	75,564,839	347,474,506	372,302,919	715,797,245	100%	100%	79%
2004	76,250,569	446,268,151	358,496,006	767,357,364	100%	100%	68%
2005	80,400,046	500,700,951	393,005,002	830,701,872	100%	100%	64%
2006	87,206,883	568,374,094	447,087,737	921,414,147	100%	100%	59%

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Schedule of Additions by Source

Fiscal Year	Plan Member Contributions	Employer Contributions	Transfers	Employer Contributions % of covered Payroll	Net Investment Income (loss)	Total Additions
2000	\$ 6,002,735	\$ 16,489,406		19.90%	\$ 32,133,144	\$ 54,625,285
2001	6,525,647	18,818,351		20.11%	(18,768,044)	6,575,954
2002	6,892,667	18,778,608		18.93%	(31,599,441)	(5,928,166)
2003	7,478,708	23,027,237		21.65%	33,576,497	64,082,442
2004	7,800,284	24,823,288		21.90%	94,008,180	126,631,752
2005	7,953,800	27,192,791		24.30%	78,696,049	113,842,640
2006	9,860,429	32,135,984	\$11,750,084	24.92%	88,814,121	142,560,618
2007	9,988,515	36,486,832		26.01%	167,240,928	213,716,275

Schedule of Deductions by Type

Fiscal Year	Benefit Payments	Refunds of Contributions	Administrative Expenses	Total Deductions
2001	\$ 18,341,664	\$ 336,462	\$ 219,827	\$ 18,897,953
2002	20,116,400	290,966	220,125	20,627,491
2003	23,863,933	259,624	223,110	24,346,667
2004	27,954,431	452,616	297,188	28,704,235
2005	31,678,214	544,777	223,499	32,446,490
2006	36,023,777	349,572	223,842	36,597,191
2007	47,194,476	737,506	421,390	48,353,372

Schedule of Benefit Payments by Type

Fiscal Year Ended June 30	<u>Annuity</u>	Service- Connected <u>Disability</u>	Ordinary <u>Disability</u>	<u>Survivor</u>	<u>Total</u>
2001	\$ 12,521,546	\$ 5,283,214	\$ 222,066	\$ 315,838	\$ 18,342,664
2002	13,996,618	5,546,273	244,173	329,336	20,116,400
2003	17,410,370	5,806,457	269,750	377,356	23,863,933
2004	21,252,301	6,148,149	159,241	394,740	27,954,431
2005	24,716,535	6,242,349	291,306	428,024	31,678,214
2006	28,710,205	6,559,201	309,940	444,431	36,023,777
2007	39,729,752	6,669,085	309,674	485,965	47,194,476

Schedule of Retired Members by Benefit Type

Fiscal Year Ended June 30	<u>Annuity</u>	Service- Connected <u>Disability</u>	Ordinary <u>Disability</u>	<u>Survivor</u>	<u>Total</u>
2001	411	191	15	19	636
2002	437	191	15	20	663
2003	503	191	17	20	731
2004	533	194	17	22	766
2005	569	193	17	20	799
2006	618	189	17	21	845
2007	672	187	17	21	897

Schedule of Average Monthly Benefit Amounts

Fiscal Year Ended June 30	<u>Annuity</u>	Service- Connected <u>Disability</u>	Ordinary <u>Disability</u>	<u>Survivor</u>	<u>Average</u>
2001	\$ 2,697	\$ 2,419	\$ 1,276	\$ 1,356	\$ 2,540
2002	2,853	2,527	1,368	1,436	2,683
2003	3,166	2,659	1,460	1,477	2,948
2004	3,529	2,684	1,442	1,735	3,217
2005	3,718	2,855	1,471	1,843	3,415
2006	3,827	2,942	1,518	1,909	3,535
2007	4,252	3,164	1,596	1,936	3,920