FOR THE FISCAL YEAR ENDED JUNE 30, 2006

COMPREHENSIVE ANNUAL FINANCIAL REPORT

2006

FAIRFAX COUNTY UNIFORMED RETIREMENT SYSTEM

A PENSION TRUST FUND OF FAIRFAX COUNTY, VIRGINIA

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FAIRFAX
COUNTY
V I R G I N I A

BOARD OF TRUSTEES
UNIFORMED RETIREMENT SYSTEM
10680 Main Street, Suite 280
Fairfax, Virginia 22030-3812

Telephone: (703) 279-8200 (800) 333-1633 FAX: (703) 273-3185

January 30, 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, 2006. 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 2006 consists of five sections: (1) an Introductory Section that contains this transmittal letter along with 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 1,888 active members and 845 retirees participating in the System as of June 30, 2006.

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 2006 was a year of solid growth in the economy and the domestic equity markets advanced at a moderate pace. The international equity markets outpaced the returns in the U.S. market. The S&P 500 Index rose 8.6% during fiscal 2006, while the smaller-capitalization Russell 2000 Index advanced 14.6%. International equity returns were quite a bit higher with the developed markets index (EAFE) up 27.1% and the emerging markets index up 35.9%. Returns on REITs were also excellent with the NAREIT index up 19.1%. Only bonds experienced negative returns for the year as the Lehman Brothers Aggregate Bond Index declined 0.8%.

The diversified fund of the Uniformed Retirement System returned 10.7% for fiscal 2006, after management fees. This return placed the fund in the 53rd percentile of the Russell/Mellon public fund universe. The returns for the total fund exceeded the policy benchmark for the year by 0.5%. 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 14.9%, from $837 million on June 30, 2005 to $943 million on June 30, 2006.

Major Initiatives

Significant progress was made on the project to replace the existing legacy computer systems. At the end of the fiscal year, the final changes were being made to a comprehensive defined benefit administration software application package, with plans to conduct final testing and parallel processing during the first half of FY 2007. The new system will interface with County and Schools systems for maintaining salary and service records of active members and will provide automated benefit calculations, support retiree recordkeeping and payroll functions and will include capabilities for internet access.

As of July 1, 2005, public safety communications positions were moved to the Uniformed Retirement System from the Employees' Retirement System. Employees in those positions at the time were given the option to remain in the Employees' System or move to the Uniformed System, with a number of options related to paying the additional employee cost. Of the 144 employees eligible to change systems, 125 transferred membership effective October 1, 2005. To reflect this change in System membership, $11,750,084, the funded portion of the reduction in liability for the Employees' System was transferred to the Uniformed System.

A five-year actuarial experience study was completed. Based on the results of the study, changes were made to the actuarial assumptions for terminations, retirements, sick leave credit and the pattern of salary increases. These changes were included in the final July 1, 2005 valuation and the employer contribution rate for FY 2007.

Several steps were taken to move the investment program toward the ultimate strategic asset allocation that was adopted in the previous year. The allocation to U.S. Large-cap Equity was reduced with the closing of the State Street Global Advisors index account. The Large-cap segment of the portfolio was restructured with the addition of two absolute return overlays with Bridgewater Associates and FrontPoint Partners. The Boston Company was added to manage an International Small-cap Equity account and the International Equity allocation was increased. The allocation to alternative investments was increased and three hedge funds were added, Acadian Asset Management, OrbiMed Advsiors and Optima Management.

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, 2005 indicated that the ratio of assets accumulated by the System to total actuarial accrued liabilities for benefits decreased from 87.1% to 85.3%. The actuarial section contains further information on the results of the July 1, 2005 valuation.

Based on the July 1, 2005 actuarial valuation, the employer contribution rate as determined under the corridor funding policy rose from 24.30% to 25.39%. With the ordinance changes regarding public safety communications positions mentioned earlier, the final employer contribution rate for FY 2007 will increase to 26.01%.

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 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 have 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,

Laurnz A. Swartz
Executive Director

BOARD OF TRUSTEES

ADMINISTRATIVE ORGANIZATION

ADMINISTRATIVE STAFF

Laurnz A. Swartz
Executive Director

Jeffrey A. Willison
Investment Manager

Philip R. Langham
Retirement Administrator

PROFESSIONAL SERVICES

ACTUARY

CHEIRON
Actuaries
McLean, VA

AUDITOR

KPMG LLP
Certified Public Accountants
Washington, DC

INVESTMENT MANAGERS

Acadian Asset Management
Boston, MA

Barclays Global Investors
San Francisco, CA

The Boston Company
Boston, MA

Brandywine Global Investment Management
Philadelphia, PA

Bridgewater Associates
Westport, CT

Cohen & Steers Capital Management
New York, NY

The Dorset Energy Fund
Hamilton, Bermuda

FrontPoint Partners
Greenwich, CT

HarbourVest Partners, LLC
Boston, MA

J. L. Kaplan Associates
Boston, MA

Lazard Asset Management
New York, NY

Marathon Asset Management
London, England

JP Morgan Investment Management, Inc.
New York, NY

OrbiMed Healthcare Fund Management
New York, NY

Pantheon Ventures, Inc.
San Francisco, CA

Payden & Rygel Investment Counsel
Los Angeles, CA

Peregrine Capital Management
Minneapolis, MN

PIMCO
Newport Beach, CA

Standish Mellon Asset Management
Pittsburgh, PA

State Street Global Advisors
Boston, MA

Trust Company of the West
Los Angeles, CA

UBS Realty Advisors LLC
Hartford, CT

Wasatch Advisors
Salt Lake City, UT

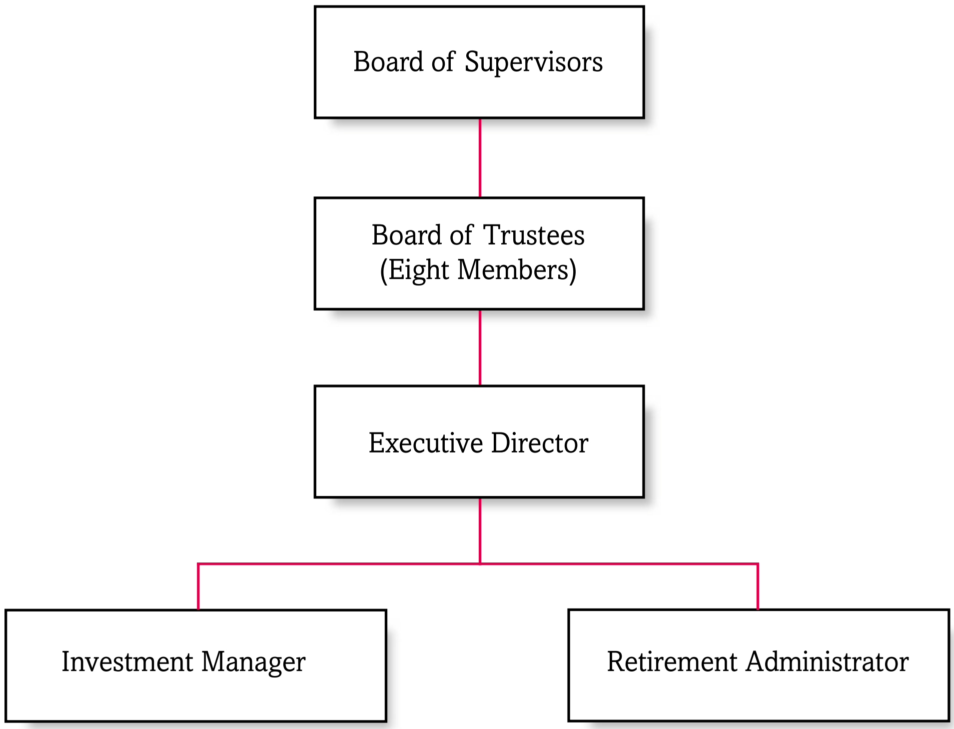
INVESTMENT CONSULTANT

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 slightly 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%, $66^2/_3$%, 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.

SUMMARY OF PLAN PROVISIONS *(continued)*

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.

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.

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, 2006 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 basic 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 as of June 30, 2006 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 on pages 13 and 14 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 on pages 23 and 24 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.

FINANCIAL

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

May 29, 2007

MANAGEMENT'S 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, 2006. The information in this section should be reviewed in conjunction with the letter of transmittal provided in the Introductory Section 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, 2006 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 $106.0 million or 12.7% during fiscal 2006. These changes were primarily due to increases in fair value of investments during the fiscal year.

Return on Investments.

The System's return on investments net of investment management fees for fiscal 2006 was 10.7%, ranking in the top half of the universe of public funds. The System's domestic equities returned 9.7%. The international developed equity portfolios returned 29.4% for fiscal 2006. Emerging markets returned 35.1% for the fiscal year. The System's fixed income investments returned a negative 2.2% for fiscal 2006. The System's real estate portfolios returned 14.3% for the fiscal year. Additional investment market commentary is provided in the Investment Section of this document.

Additions.

Total additions increased $28.7 million from fiscal 2005 to 2006, primarily due to higher investment returns and the transfer of $11.8 million from the Employees' Retirement System to cover the accrued benefits of the DPSCC employees switching from the Employees' to the Uniformed System. Employer contributions increased $4.9 million or 18.2% from fiscal 2005 to 2006. The 2006 employer contribution rate of 24.92% of covered payroll increased 0.62 percentage points over the fiscal 2005 adopted rate of 24.30% of covered payroll. Total contributions for fiscal 2006 were also impacted by the increases in covered payroll that occurred each year. The System experienced net investment gains during fiscal 2006. Net appreciation in the fair value of investments was $69.1 million during fiscal 2006. Interest and dividend income was $24.4 million for the fiscal year. Investment activity expense increased $813 thousand or 19.8% due to investment management fees computed on the increasing investment values. Net securities lending income increased $112 thousand from fiscal 2005 to 2006. This was primarily due to a larger base of securities available to lend and a favorable borrowing climate.

Deductions.

Benefit payments increased 13.7% during fiscal 2006. The number of retirees and beneficiaries collecting benefits and the amount of the average benefit increased during the year and were responsible for the increase in the expense. Retirees received cost of living increases of 3.9% as of July, 2005. Refunds and other expenses decreased $195 thousand from fiscal 2005 to 2006. The amount of refunds varies from year to year based on changes in employee turnover rates and decisions of former employees.

The actuarial valuation performed as of July 1, 2005 showed the System's funded status at 85.3%, a decrease of 1.8 percentage points from the July 1, 2004 funded percentage of 87.1%.

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

	2006	2005	Difference
Assets			
Total cash and investments	$1,050,201,000	$938,304,120	$111,896,880
Total receivables	45,575,696	36,702,158	8,873,538
Total Assets	1,095,776,696	975,006,278	120,770,418
Liabilities	153,128,422	138,321,433	14,806,989
Net Assets	$ 942,648,274	$836,684,845	$105,963,429

SUMMARY OF ADDITIONS AND DEDUCTIONS

	2006	2005	Difference
Additions			
Contributions			
Employer	$ 32,135,984	$27,192,791	$ 4,943,193
Plan members	9,860,429	7,953,800	1,906,629
Transfer from ERS	11,750,084	-	11,750,084
Net investment income	88,814,121	78,696,049	10,118,072
Total Additions	142,560,618	113,842,640	28,717,978
Deductions			
Benefit payments	36,023,777	31,678,214	4,345,563
Refunds and other	573,412	768,276	(194,864)
Total Deductions	36,597,189	32,446,490	4,150,699
Net Change	$105,963,429	$81,396,150	$24,567,279

FINANCIAL STATEMENTS

STATEMENT OF PLAN NET ASSETS

as of June 30, 2006

Assets		
Cash and short-term investments		
Equity in County's pooled cash and temporary investments	$ 3,975,270	
Cash collateral received for securities on loan	72,944,610	
Short-term investments	75,528,478	
Total cash and short-term investments		$ 152,448,358
Receivables		
Contributions	1,967,470	
Accrued interest and dividends	2,398,473	
Securities sold	41,209,753	
Total receivables		45,575,696
Investments, at fair value		
U.S. Government obligations	51,151,738	
Asset-backed securities	126,788,381	
Corporate bonds	37,469,309	
Pooled and mutual funds	391,386,277	
Common and preferred stock	290,956,937	
Total investments		897,752,642
Total assets		1,095,776,696
Liabilities		
Cash collateral received for securities on loan	72,944,610	
Purchase of investments	78,694,271	
Accounts payable and accrued expenses	1,489,541	
Total liabilities		153,128,422
Net assets held in trust for pension benefits		$ 942,648,274

(A schedule of funding progress is presented on page 23)

See accompanying notes to financial statements.

FINANCIAL STATEMENTS *(continued)*

STATEMENT OF CHANGES IN PLAN NET ASSETS

For the Year Ended June 30, 2006

Additions		
Contributions		
Employer	$32,135,984	
Plan members	9,860,429	
Transfers from other systems	11,750,084	
Total contributions		$ 53,746,497
Investment income from investment activities		
Net appreciation in fair value of investments	69,094,414	
Interest	17,065,915	
Dividends	7,292,183	
Total investment income	93,452,512	
Investment activity expense		
Management fees	4,481,359	
Custodial fees	157,958	
Consulting fees	172,388	
Allocated administration expense	111,921	
Total investment expense	4,923,626	
Net income from investment activities		88,528,886
From securities lending activities		
Securities lending income	3,373,659	
Securities lending expenses		
Borrower rebates	2,969,026	
Management fees	119,398	
Total securities lending activities expense	3,088,424	
Net income from securities lending activities		285,235
Total net investment income		88,814,121
Total additions		142,560,618
Deductions		
Annuity benefits	28,710,205	
Disability benefits	6,869,141	
Survivor benefits	444,431	
Refunds	349,572	
Administrative expense	223,840	
Total deductions		36,597,189
Net increase		105,963,429
Net assets held in trust for pension benefits		
Beginning of fiscal year		836,684,845
End of fiscal year		$942,648,274

See accompanying notes to financial statements.

Notes to the Financial Statements

For the year ended June 30, 2006

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. The System records investment purchases and sales as of the trade date. These transactions are not finalized until the settlement date, which occurs approximately 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.

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. As of June 30, 2006 and 2005 the bank balance of the County's public deposits was either insured by the Federal Deposit Insurance Corporation or through the State Treasury Board pursuant to the provisions of the Security for Public Deposit Act.

B. Plan Description and Contribution Information

Membership.

At July 1, 2005, the date of the latest actuarial valuation, membership in the System consisted of:

Retirees and beneficiaries receiving benefits	799
Terminated plan members entitled to but not yet receiving benefits	22
DROP participants	68
Active plan members	1,641
Total	2,530

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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 Consolidated 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, 2006 was 24.92 percent of covered payroll. A one-time transfer of $11.8 million was received from the Employees' Retirement System to cover the funded liabilities of the public safety communications workers that moved from the Employees' System to the Uniformed System.

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 51.1-124.30.C 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 believe 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 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

The System's investments quality ratings at June 30, 2006 are as follows:

Type of Investment	Fair Value	Ratings	Percent of Fixed
U.S. Government Obligations	$ 51,151,738	AAA	23.7%
Corporates and others	24,230,081	AAA	11.2%
	2,040,821	AA	0.9%
	6,564,037	A	3.0%
	1,321,428	BBB	0.6%
	1,617,095	BB	0.8%
	176,662	B	0.1%
	1,519,184	unrated	0.7%
Asset-backed	123,374,146	AAA	57.3%
	400,520	A	0.2%
	749,836	BBB	0.3%
	2,263,879	unrated	1.1%
Total fixed income	215,409,427	AAA	100.0%
Short-term	12,714,301	AAA	
	9,694,630	AA	
	53,119,547	unrated	
Cash collateral investment pool	72,944,610	N/A	
Common and preferred stock	290,956,937	N/A	
Pooled and mutual funds	391,386,277	N/A	
Equity in County's pooled cash	3,975,270	N/A	
Total investments	$1,050,200,999		

As of June 30, 2006 the fixed income portfolio exhibited an overall credit quality rating of "AAA," and less than 2% of the portfolio was invested in below-investment grade securities.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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, 2006 follow:

Investment Type	Fair Value	Effective Duration in Years	Percentage of Fixed
US Government obligations	$ 51,151,738	6.8	23.7%
Corporate and other	37,469,308	3.2	17.4%
Asset-backed	126,788,381	7.8	58.9%
Total fixed income	215,409,427	6.7	100.0%
Short-term investments	75,528,478	0.1	
Cash collateral investment pool	72,944,610	0.1	
Common and preferred stock	290,956,937	N/A	
Pooled and mutual funds	391,386,277	N/A	
Equity in County's pooled cash	3,975,270	N/A	
Total investments	$1,050,200,999		

As of June 30, 2006 the System's overall fixed income portfolio duration was 6.7 years compared with 4.8 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 investments at June 30, 2006 held in currencies other than US dollars are as follows:

International Securities	Equity	Fixed Income	Short-term and Other	Total
Japanese Yen	$ 46,519,159	-	$ 16,571,071	$ 63,090,230
European currency unit	61,123,641	$ 5,881,234	(4,928,827)	62,076,048
British pound sterling	40,956,070	1,807,887	497,361	43,261,318
Swiss Franc	10,887,078	-	18,850	10,905,928
Swedish Krona	3,897,863	2,943,621	543	6,842,027
Canadian dollar	2,789,730	2,078,391	1,808,838	6,676,959
Hong Kong dollar	5,271,140	-	28,784	5,299,924
Singapore Dollar	1,431,337	2,922,874	108,514	4,462,725
Other currencies	17,828,533	12,263,040	(2,799,925)	27,291,648
Total international	190,704,551	27,897,047	11,305,209	229,906,807
Securities held in US dollars	482,505,070	196,504,687	29,206,404	708,216,161
Total investments	$673,209,621	$224,401,734	$ 40,511,613	$938,122,968

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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. These strategies are employed by one or more of the System's fixed income investment managers. 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

The following table shows the derivative instruments the System held at June 30, 2006.

Derivative	Notional Value Par or Local Face	Fair Value Dollars	Maturity
Money Market Futures	$81,750,000	$77,245,863	12/06 – 3/08
Government Futures	6,800,000	7,168,252	9/06
Options	18,000,000	(2,487)	8/06 – 6/07
Currency Forwards	N/A	(1,651,047)	7/06 – 11/06
Inverse Floaters	168,077	1,600	3/09
Swaps	17,500,000	(232,321)	12/11 – 2/36

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, 2006.

Securities Lent	Underlying Securities	Securities Collateral Value	Cash Collateral Investment Value
Lent for Cash Collateral			
U.S. Government obligations	$30,477,714		$31,061,486
Asset-backed securities			
Corporate and other bonds	5,295,683		5,562,564
Common and preferred stock	32,048,018		33,587,150
Lent for Other Collateral			
U.S. Government obligations	14,291,062	$14,561,288	
Corporate and other bonds	3,316,288	3,391,076	
Common and preferred stock	4,637,889	4,963,747	
Total	$90,066,655	$22,916,111	$70,211,200

The System did not impose any restrictions during fiscal 2006 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, 2006 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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 ((b-a)/c)
7/1/1999	$560,044	$531,789	$ (28,255)	105.31%	$ 78,622	-35.94%
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%

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

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2000	$16,489,406	100%
2001	18,818,351	100%
2002	16,834,252	112%
2003	21,548,814	107%
2004	25,186,003	99%
2005	32,320,929	84%
2006	38,629,304	83%

REQUIRED SUPPLEMENTARY INFORMATION *(continued)*

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, 2005
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.

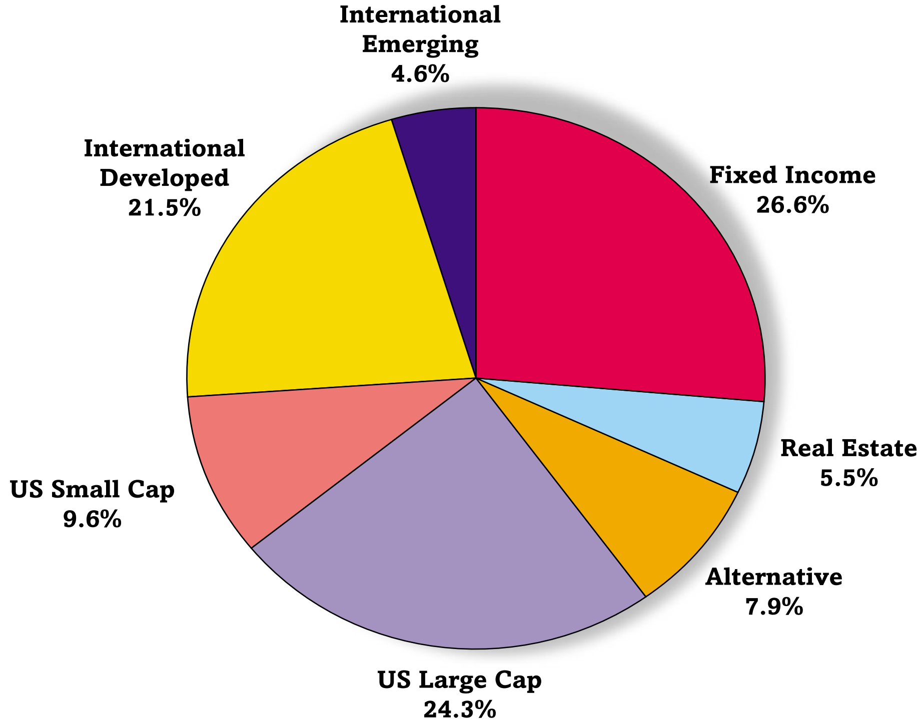
The actuarial valuation performed as of July 1, 2005 resulted in a contribution rate of 30.66% for fiscal 2007 per the GASB methodology, an increase of 1.45% over the fiscal 2006 rate of 29.21% per the GASB methodology. Beginning with fiscal 2003, the funding policy was revised to further stabilize the 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 26.01% for fiscal 2007, an increase of 1.09% over the fiscal 2006 adopted rate of 24.92%.

OVERVIEW

The Board of Trustees has established an investment policy for the System to identify investment objectives, guidelines and performance standards of the System. The objectives are formulated in response to the anticipated needs of the System, the risk tolerance of the System and the desire of the Board of Trustees to define and fulfill their fiduciary responsibility over System assets.

The Board has established its asset class strategic target allocations which it believes will achieve the return requirements of the System at an appropriate level of risk and maintain a comfortable risk tolerance. Further, a disciplined rebalancing policy was adopted to ensure that market movements do not cause asset class weightings to unintentionally stray too far from the target percentages. The actual asset allocation at market is reviewed monthly and if asset class weightings fall outside the "no rebalancing range," transfers between asset classes are initiated to rebalance the asset allocations to within the target ranges. The following graph shows the actual asset allocations as of June 30, 2006.

UNIFORMED RETIREMENT SYSTEM ASSET ALLOCATION AS OF 6/30/06



The Board of Trustees hires investment management firms and provides each firm with a specific investment mandate, and assigns a benchmark index or a blend of indices against which the performance of the account is measured. Each managed account has its own investment guidelines outlining the nature of investments to be held in the account and detailing allowed and/or prohibited transactions. Investment managers are requested to submit a written statement describing their proposed investment strategy and tactics for achieving the investment goals and objectives that are required by their guidelines. Investment manager performance is monitored monthly by staff and reviewed by the Board of Trustees quarterly.

CAPITAL MARKETS AND ECONOMIC CONDITIONS

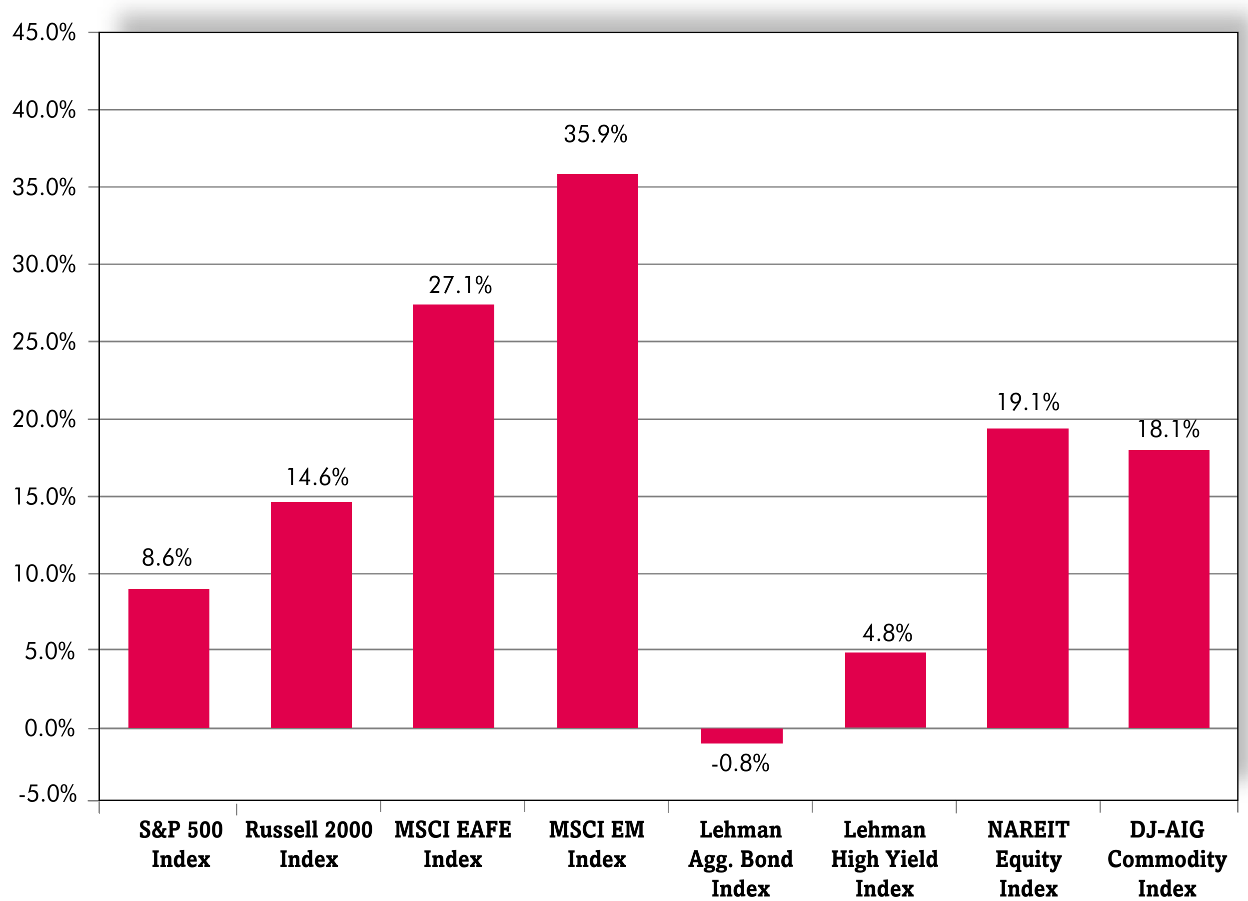
Financial and Economic Summary

Worldwide capital markets produced mixed results in fiscal 2006 ending June 30, 2006. Global equity markets achieved reasonably solid performance during the fiscal year, marking the fourth year of recovery from the 2000-2002 bursting of the dot-com bubble. International equity markets performed exceptionally well, partially due to results benefiting from translating foreign gains back into a weaker US dollar. Macroeconomic conditions made for turbulent fixed income markets, however, as rising energy prices, inflation concerns, and a destructive hurricane season dominated investor sentiment.

Economy

The US economy grew at a good clip during fiscal 2006. Real gross domestic product increased by 4.1% in the third quarter of 2005, 1.7% in the fourth quarter of 2005, 5.6% in the first quarter of 2006, and 2.6% in the second quarter of 2006. For the second consecutive year corporate earnings advanced at double-digit rates every quarter of the year. Businesses increased capital spending as productivity gains slowed. Retail sales remained strong as consumer incomes grew and consumer spending continued to outpace income, resulting in another year of negative savings for the nation. The threat of rising inflation was again the main

ASSET CLASS RETURNS



CAPITAL MARKETS AND ECONOMIC CONDITIONS *(continued)*

concern of federal monetary policy. Dr. Alan Greenspan departed as Chairman of the Federal Reserve Board, and Dr. Ben Bernanke took his place vowing to maintain a measured pace of monetary tightening in the war on inflation. During the year, eight consecutive increases elevated the Fed Funds Rate from 3.25% to 5.25%. Global demand for commodities spiked a surge in prices, jumpstarting the economies of several emerging markets producers and pushing the spot price of oil to an historic high of $75 a barrel by the end of the year. The Consumer Price Index (adjusted) rose 4.2% over the past year off of forty-year lows. As productivity gains waned and capacity became more constrained, businesses picked up their rate of hiring, creating over a million new jobs and effectively reducing the national unemployment rate from 5.0% at the beginning of the year to 4.6% by year end.

Equity Markets

Broad US equity benchmarks posted gains over the trailing year, with positive returns in three of four quarters. The S&P 500 Index posted a total return of 8.6%, and for the third consecutive year the small-cap Russell 2000 Index was the strongest of the major domestic indexes, rising 14.6%. Value and growth were evenly matched among small stocks, but value led in the mid- and large-cap segments by 1.3 and 7.7 percentage points, respectively. Boosted by record-high fuel prices, Energy was the S&P's strongest sector over the past year, returning 24.5% and accounting for 41% of the index's positive performance. Health Care was the S&P's worst performer and was the only sector (at -1.1%) to post a negative return. Other strong sectors included Materials (+21.2%), Industrials (+14.4%) and Financials (+12.5%).

International equity benchmarks posted spectacular results over the past year. The MSCI EAFE Index, a broad index of international developed countries, returned 27.1% for fiscal 2006, while the commodity-driven MSCI Emerging Markets Free Index returned a stunning 35.9%. Asian and Latin American markets fueled the largest increases in performance. Foreign results were boosted by 2.9% due to translating foreign currencies back into a weaker US dollar.

Real Estate Markets

With rising interest rates and moderating capital flows, real estate investments were forecasted to have a lackluster year. However, strengthening underlying fundamentals (occupancies, rents) coupled with increased merger and acquisition activity kept the sector in the forefront of investor interest. The public real estate market had another outstanding year as measured by the 19.1% return of the NAREIT Equity Index. This marks the seventh consecutive year that the REIT Index has outperformed the S&P 500 Index. Private real estate, which often lags the REIT market due to the lag of the property appraisal cycle, kept pace this fiscal year with a strong 18.2% return.

Fixed Income Markets

Domestic investment grade bonds recorded negative returns over the past twelve months as yields rose across the curve. The Lehman Brothers Aggregate Bond Index returned a negative 0.8% for fiscal 2006. High yield bonds were the best performing sector, returning 4.8% for the year, followed by asset-backed and mortgage securities, which were marginally positive. Due to strong balance sheets, corporate yield spreads over Treasuries remained tighter than historical averages. Long bonds suffered the most, as the dramatic upward shift in the yield curve saw long yields rise the most over the past year. Global bonds posted slightly negative returns for the year as most developed-market central banks raised interest rates through the course of the year in line with rising global growth.

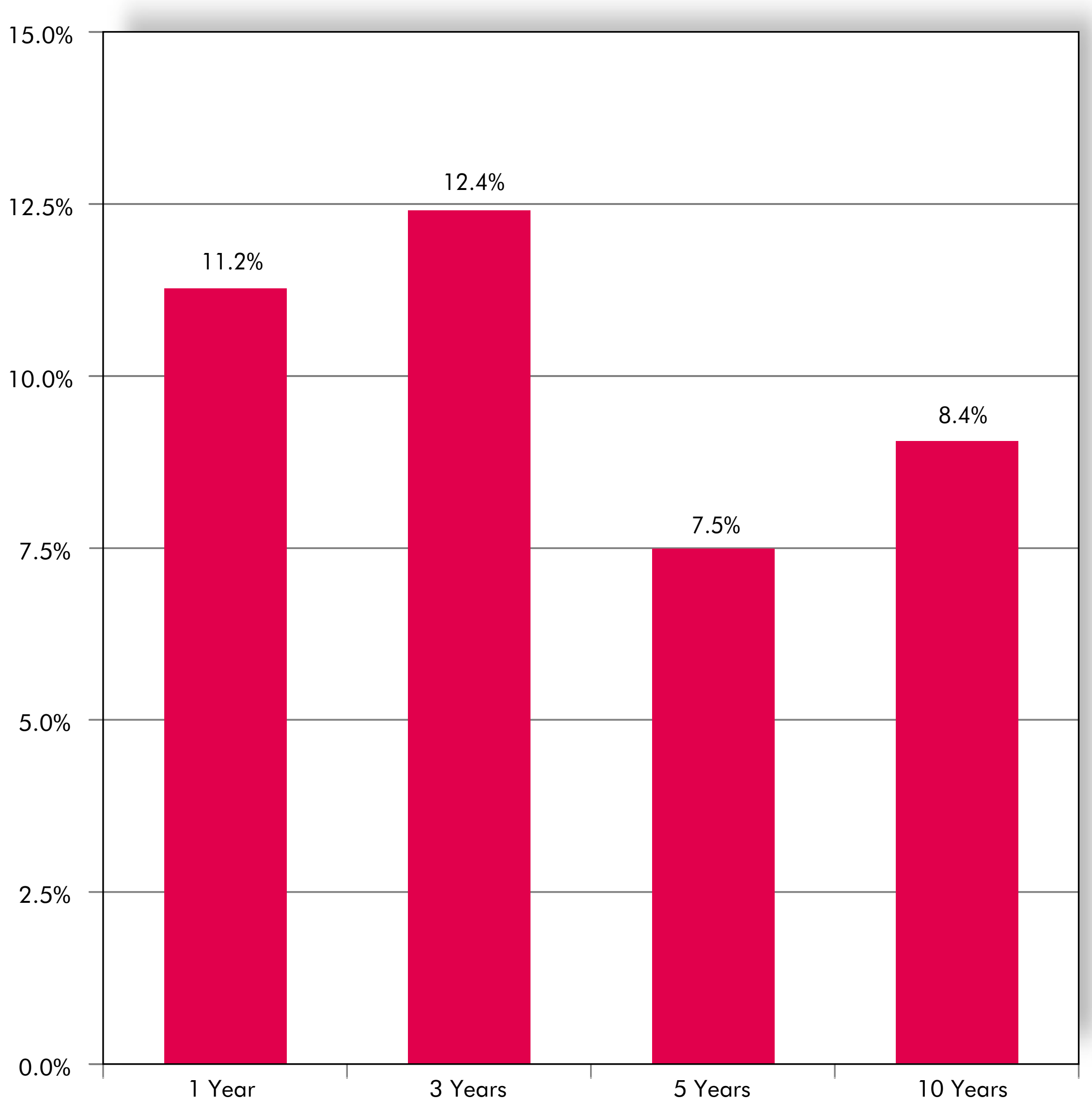
System

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 $836.7 million at June 30, 2005 to $942.6 million at June 30, 2006. For fiscal 2006, investments provided a return of +10.7%, net of fees, reflecting an expansionary economic environment. The System's annualized rate of return, net of fees, was +11.9% over the last three years and +7.1% over the last five years. These System returns ranked in the third quartile of a 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 7.9% has surpassed the 7.5% long-term threshold return used for actuarial purposes.

CAPITAL MARKETS AND ECONOMIC CONDITIONS *(continued)*

COMPOUND ANNUAL RETURN ON INVESTMENT PORTFOLIO



GROSS OF FEES

During the past twelve months, several changes were made to the asset allocation targets of the System to help further diversify the investment program. A portable alpha mandate was established in the large cap equity space. Bridgewater and FrontPoint Partners were hired to fill this mandate, and since inception performance has been strong for these managers. In the absolute return space, Acadian, Dorset and OrbiMed were put into place, filling 6% of total portfolio assets.

ASSET ALLOCATION BY CATEGORY AND INVESTMENT MANAGER

June 30, 2006

ASSET CLASS Manager	**Investment Style**	**Total Assets**	**% of Total Net Assets**
DOMESTIC EQUITIES			
BGI Alpha Tilts Fund *	Enhanced S&P 500 Index	$152,505,850	16.2%
J.L. Kaplan	Small Cap Value	52,833,890	5.6%
Bridgewater Associates*	Enhanced S&P 500 Index	38,622,070	4.1%
FrontPoint Partners*	Enhanced S&P 500 Index	37,211,026	3.9%
Wasatch Advisors	Small Cap Growth	37,022,907	3.9%
INTERNATIONAL EQUITIES			
Marathon Asset Mangement	Developed Markets	109,684,061	11.6%
Boston Company	Developed Mkts. Small Cap	47,822,908	5.1%
Lazard International	Developed Markets Value	44,154,402	4.7%
BGI Emerging Markets Fund*	Emerging Markets Index	42,699,976	4.5%
FIXED INCOME			
Pacific Investment Mgt. Co. (PIMCO)	Total Return Core Bonds	86,487,449	9.2%
Payden & Rygel	Domestic Core Plus Bonds	44,710,335	4.7%
Brandywine Asset Mgt.	Global Bonds	41,628,088	4.4%
Peregrine Capital Mgt.	Duration Management	38,468,951	4.1%
Trust Company of the West	Mortgage-Backed Securities	36,290,984	3.9%
REAL ESTATE			
UBS Realty*	Direct Real Estate	40,583,475	4.3%
Cohen & Steers Capital Mgt.	Real Estate Investment Trusts	11,117,949	1.2%
ALTERNATIVE INVESTMENTS			
Dorset Asset Mgt.*	Equity Long/Short Hedge Fund	19,176,680	2.0%
Acadian Asset Mgt.*	Equity Long/Short Hedge Fund	18,175,040	1.9%
OrbiMed Advisors*	Equity Long/Short Hedge Fund	16,968,147	1.8%
Pantheon Private Equity*	Private Equity	9,669,545	1.0%
J.P. Morgan Private Equity*	Private Equity	5,589,169	0.6%
HarbourVest Private Equity*	Private Equity	4,834,005	0.5%
SHORT-TERM			
Standish Mellon	Plan Level Cash Accounts	1,866,062	0.2%
Cash Held at County Treasurer	Operating Cash Account	3,975,270	0.4%
Net Assets		$942,098,238	100.0%

**Pooled fund*

LARGEST HOLDINGS FOR SEPARATELY MANAGED (NON-POOLED) ACCOUNTS

ASSET CLASS **Manager** Security	**Market Value**	**% of Account**
DOMESTIC EQUITIES		
J.L. Kaplan Associates		
Cash America International Inc.	$2,380,800	4.51%
Arrow Electronics Inc.	$2,012,500	3.81%
Ametek Inc.	$1,966,270	3.73%
The Scotts Miracle-Gro Company	$1,912,864	3.63%
Group 1 Automotive Inc.	$1,887,390	3.58%
Wasatch Advisors		
United Surgical Partners International	$1,600,446	4.35%
Silicon Laboratories Inc.	$1,304,768	3.54%
Healthways Inc.	$1,257,570	3.41%
HDFC Bank Ltd. (ADR)	$1,166,825	3.17%
Knight Transportation Inc.	$1,145,138	3.11%
INTERNATIONAL EQUITIES		
Boston Company		
Inmet Mining Corp.	$ 611,195	1.29%
Mitsubishi Gas & Chemical Co.	$ 596,807	1.26%
Vallourec	$ 576,927	1.21%
Oxiana Ltd.	$ 534,107	1.12%
Trican Well Service Ltd.	$ 473,231	1.00%
Lazard Asset Mgt.		
Total SA	$1,455,988	3.30%
Novartis AG	$1,367,233	3.10%
Sanofi-Aventis	$1,164,000	2.64%
Mitsubishi UFJ Financial Group	$1,161,702	2.63%
Credit Suisse Group	$1,022,817	2.32%
Marathon Asset Mgt.		
Arcelor	$1,568,328	1.43%
Jardine Matheson Holdings	$1,436,301	1.31%
Rio Tinto	$1,422,435	1.30%
Royal Dutch Shell	$1,237,065	1.13%
Acciona SA	$1,195,749	1.09%

LARGEST HOLDINGS FOR SEPARATELY MANAGED (NON-POOLED) ACCOUNTS *(continued)*

ASSET CLASS / **Manager** / Security	**Market Value**	**% of Account**
REAL ESTATE SECURITIES		
Cohen & Steers Capital Mgt.		
Equity Office Properties Trust	$ 606,066	5.50%
Equity Residential	$ 550,179	4.99%
Home Properities Inc.	$ 447,522	4.06%
Colonial Properties Trust	$ 350,740	3.18%
Brandywine Realty Trust	$ 341,517	3.10%
FIXED INCOME		
Brandywine Asset Mgt.		
US Treasury Bonds, 6.125%, 11/15/2027	$ 5,648,160	13.77%
Kingdom of Sweden Bonds, 6.5%, 5/5/2008	$ 2,915,717	7.11%
Government of Poland Bonds, 5.75%, 6/24/2008	$ 2,833,772	6.91%
Government of Singapore Bonds, 4.0%, 3/1/2007	$ 2,422,234	5.90%
US Treasury Bonds, 6.5%, 11/15/2026	$ 2,174,513	5.30%
Payden & Rygel		
FNMA Mortgage Pool TBA, 6.0%, 7/1/2036	$ 6,160,228	10.58%
US Treasury Notes, 4.5%, 11/15/2015	$ 3,896,952	6.69%
FNMA Mortgage Pool TBA, 5.5%, 7/1/2036	$ 3,716,408	6.38%
US Treasury Notes, 3.125%, 10/15/2008	$ 3,262,893	5.60%
US Treasury Notes, 3.625%, 6/30/2007	$ 2,874,156	4.94%
Peregrine Capital Mgt.		
US Treasury Bonds, 6.25%, 5/15/2030	$ 3,767,641	9.85%
Landesbank Baden (Germany) Notes, Variable Rate, 3/30/2007	$ 2,296,389	6.01%
Federal Home Loan Bank Bonds, 3.375%, 12/15/2006	$ 1,907,194	4.99%
Federal Home Loan Bank Bonds, Variable Rate, 1/26/2007	$ 1,888,505	4.94%
FHLMC Discount Note, 7/11/2006	$ 1,880,586	4.92%
Pacific Investment Mgt. (PIMCO)		
FNMA Mortgage Pool TBA, 5.5%, 7/1/2035	$15,364,800	14.17%
FNMA Mortgage Pool TBA, 5.0%, 7/1/2021	$ 3,369,800	3.11%
FNMA Mortgage Pool, 5.0%, 8/1/2020	$ 2,886,154	2.66%
FHLMC Mortgage Pool, 5.5%, 5/1/2035	$ 2,439,184	2.25%
Westpac Banking Discount Note, 9/1/2006	$ 2,368,256	2.18%
TCW Asset Mgt.		
FHLMC Multiclass Mortgage, 6.5%, 2/15/2032	$ 2,304,595	6.38%
FHLMC Multiclass Mortgage, 5.0%, 4/15/2033	$ 1,925,687	5.33%
FHLMC Multiclass Mortgage, Variable Rate, 7/15/2033	$ 1,589,067	4.40%
FHLMC Multiclass Mortgage, Variable Rate, 12/15/2032	$ 1,376,955	3.81%
Master Asset Security, 5.5%, 7/25/2033	$ 1,358,726	3.76%

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CHEIRON Classic Values, Innovative Advice

February 16, 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, 2005. 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). 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. This 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, 2005 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, 2005. 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. Several assumptions were changed in conjunction with the aforementioned experience review.

The assumptions and methods used in performing this valuation meet the parameters set by Government 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.

8200 Greensboro Drive, Suite 1125, McLean, VA 22102 Tel: 877 CHEIRON (243.4766) Fax: 703.893.2006 www.cheiron.us

ACTUARIAL

February 16, 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 and 2005 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 was prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the applicable Code of Professional Conduct, amplifying opinions, and supporting recommendations and interpretations of the Actuarial Standards Board.

Sincerely,
CHEIRON

Fiona E. Liston

Fiona E. Liston, FSA
Consulting Actuary

CHEIRON

SUMMARY OF VALUATION RESULTS

Overview

This report presents the results of the July 1, 2005 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 2007;
- ★ Provide specific information and documentation required by the Government 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 as 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 6.50% to the contribution rate and assumption changes have added 1.09% to the contribution rate, for a total Corridor Funding Contribution of 25.39% of payroll. Due to the budgeting process an additional change will be recognized in the FY 2007 rate, an increase of 0.62% of payroll to recognize the transfer of Department of Public Safety Communication members into this System. The resulting rate will be 26.01%. 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, 2005 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 2005, which produced an actuarial gain on the asset side of the System. The actual return on a market value basis was approximately 10.40%. On an actuarial value basis, the assets returned 7.89% compared with an assumed rate of return of 7.5%. The gain recognized for funding purposes was $3 million.

The measurement of liabilities produced a loss this year in the amount of $20 million. This loss was due to increases in pay which exceeded those assumed (loss of $11 million), the plan experience (loss of $5 million), and due to the base COLA being more than 3% (loss of $4 million).

Finally, the assumptions used to value plan liabilities were adjusted this year to reflect the findings of the quinquennial experience study recently completed. This added an additional $12 million to the liabilities.

SUMMARY OF VALUATION RESULTS *(continued)*

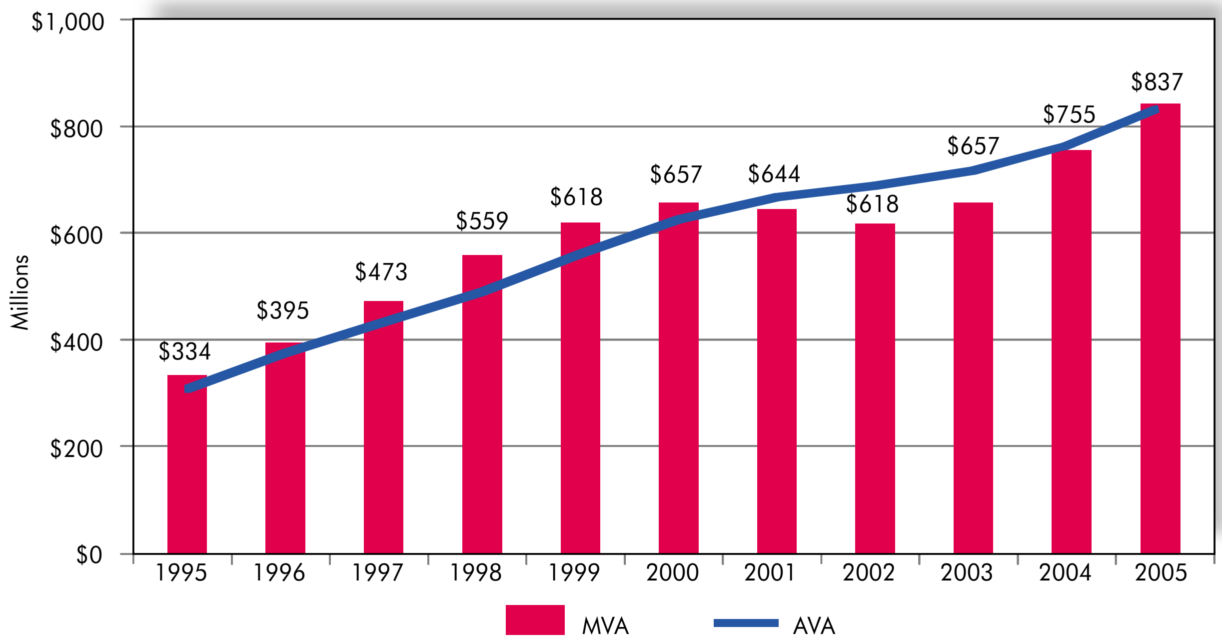
The combination of liability and investment experience and the adoption of new assumptions over the last year produced a deterioration in the System's funding ratio (actuarial value of assets over actuarial accrued liability) from 87.1% at July 1, 2004 to 85.3% at July 1, 2005. For purposes of measuring 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 93.5% at July 1, 2004 to 92.3% at July 1, 2005.

It is important to take a step back from the latest results and view them in the context of the System's recent history. A series of charts follow 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
MVA – Market value of assets
AVA – Actuarial value of assets
DROP – Deferred Retirement Option Program

GROWTH IN ASSETS

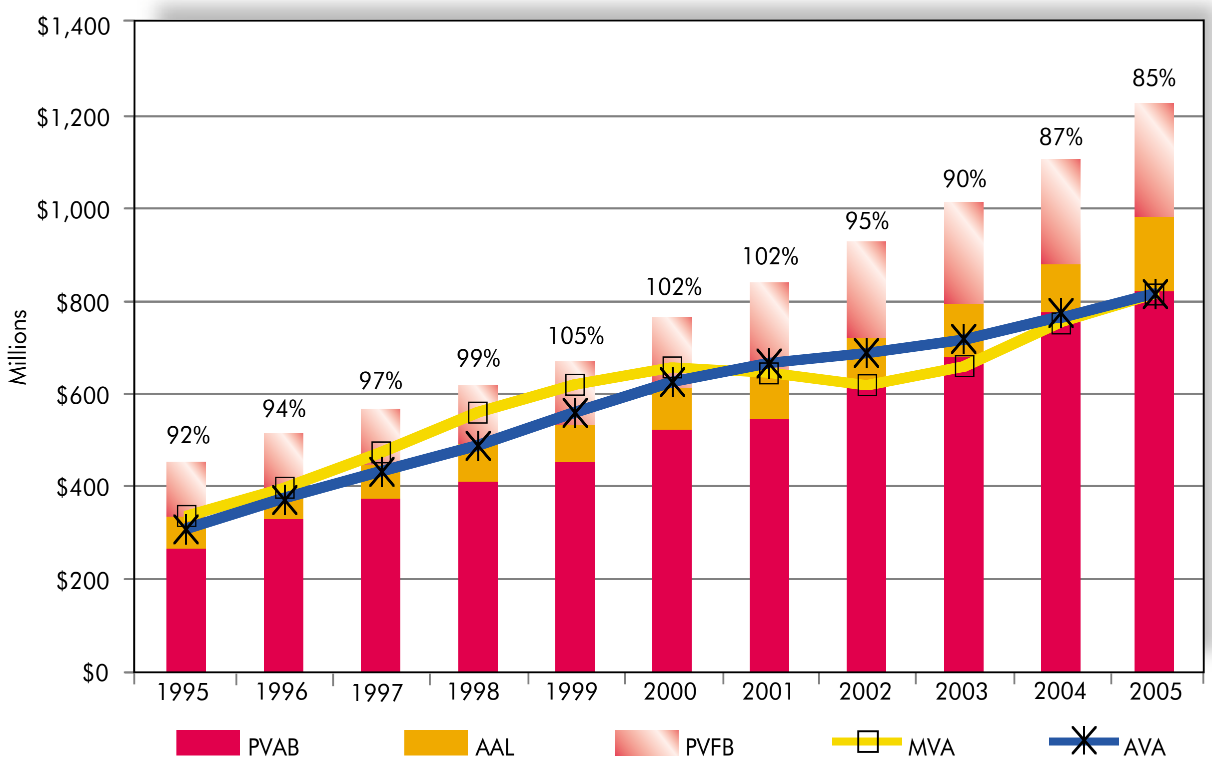


The positive growth in the market value of assets continued this year with a return of over 10%. Due to the asset smoothing method in place, the actuarial value of assets (AVA) did not increase by as much as the market value, since a portion of this year's excess investment return is being held for future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

Over the period July 1, 1995 to June 30, 2005 the System's assets returned approximately 8.73% per year measured at Actuarial Value, compared to a valuation assumption of 7.5% per year.

SUMMARY OF VALUATION RESULTS *(continued)*

ASSETS AND LIABILITIES

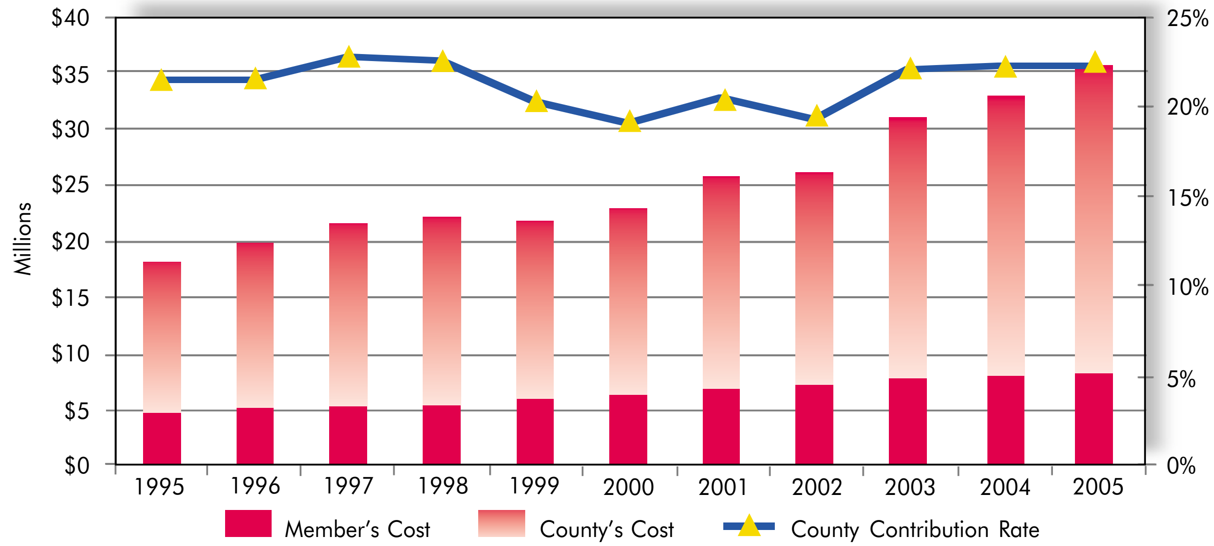


The three colored bars represent the three different measures of liability mentioned in this report. For funding purposes, the target amount is represented by the top of the orange (AAL) bar. We compare the actuarial value of assets to this measure of liability in developing the funded percent. These 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 segment of the red 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.

SUMMARY OF VALUATION RESULTS *(continued)*

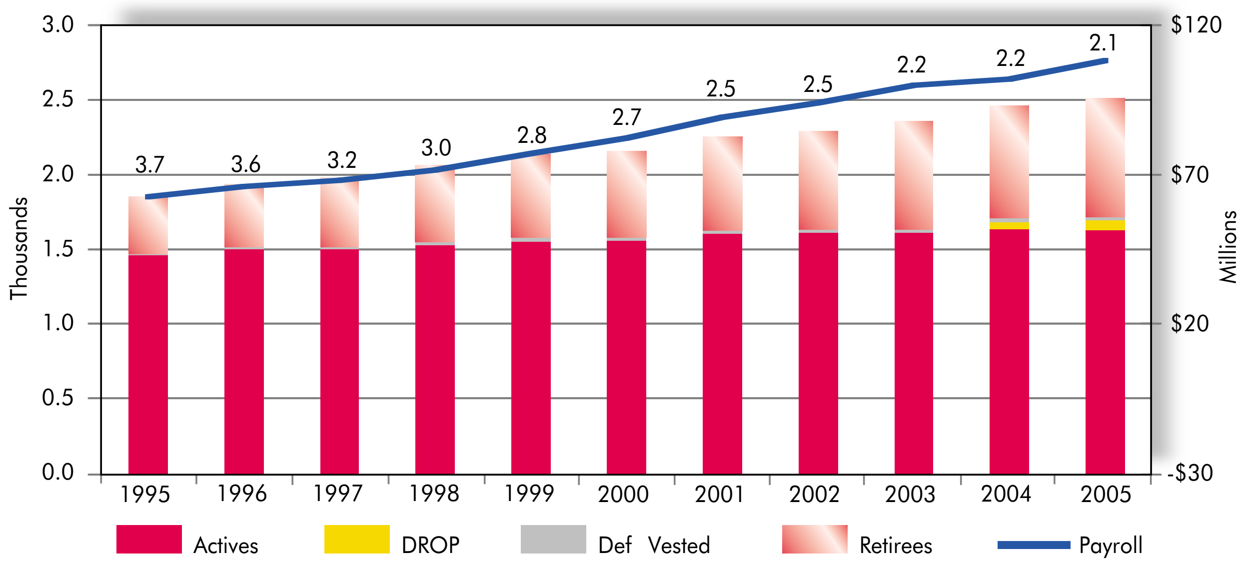
CONTRIBUTION RATES



The stacked bars in this graph show the contributions made by both the County and the members (left hand scale). The blue 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 2005 value is the rate prepared by the 2003 valuation and implemented for the period July 1, 2004 to June 30, 2005.

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 2.1 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.

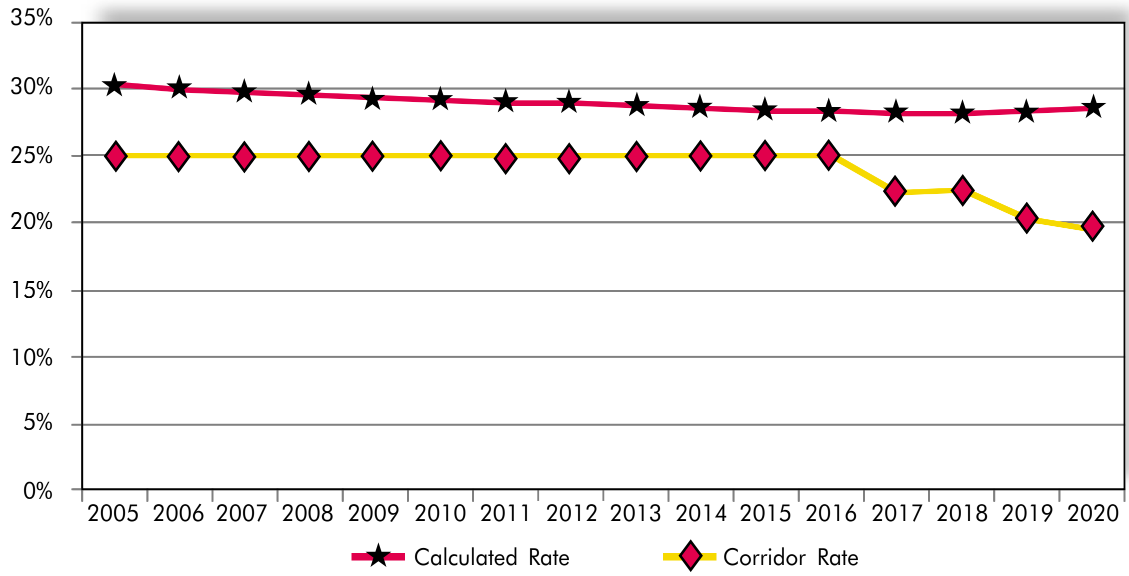
SUMMARY OF VALUATION RESULTS *(continued)*

Future Outlook

Base Line Projections

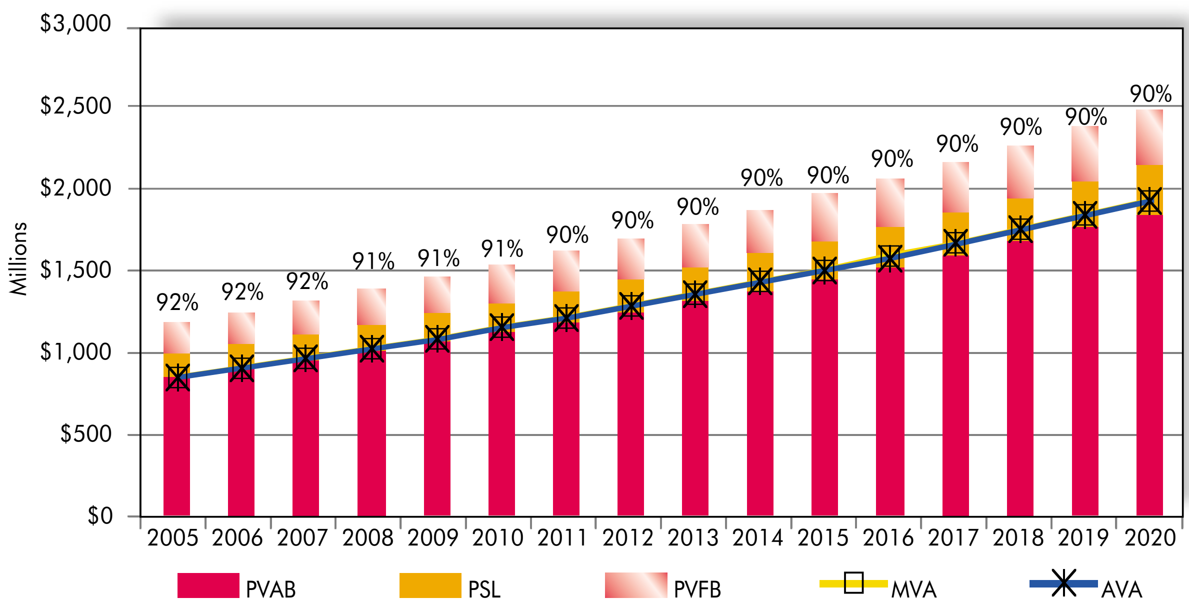
The two graphs below show the expected progress of the Plan over the next 15 years assuming the System's assets earn 7.5% on their *market value*. The chart entitled "Plan Funding" shows the System remaining near the bottom of the corridor if all other actuarial assumptions are met as well as the 7.5%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

PLAN FUNDING



The "Assets and Liabilities" graph shows the projected funding status over the next decade. Note that the 2005 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 92% to around 90%, but to remain within the corridor.

ASSETS AND LIABILITIES

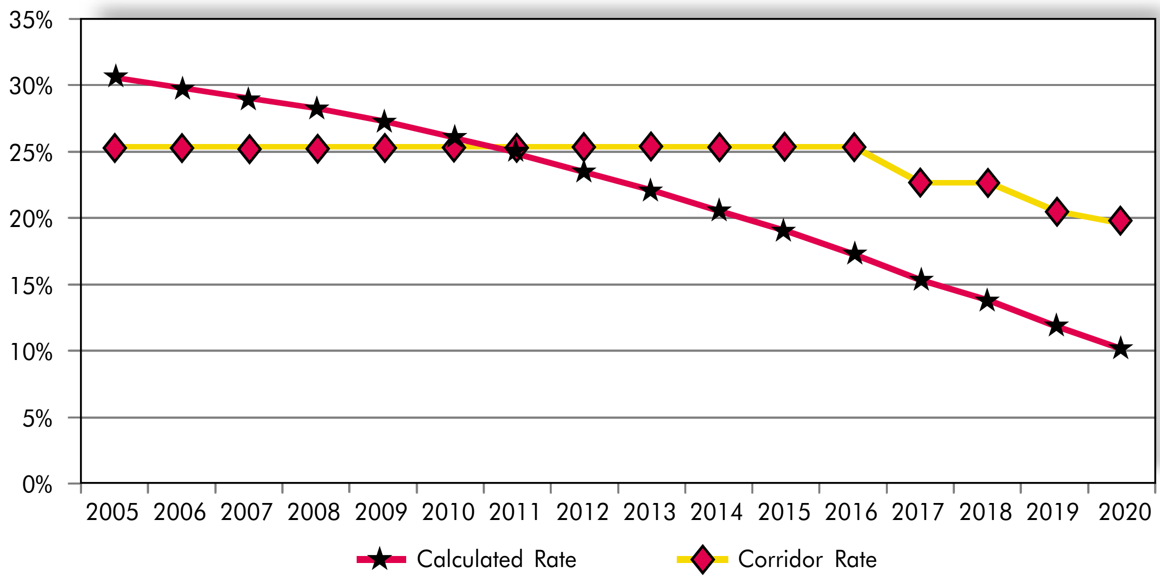


SUMMARY OF VALUATION RESULTS *(continued)*

Projections With Asset Returns of 9.0%

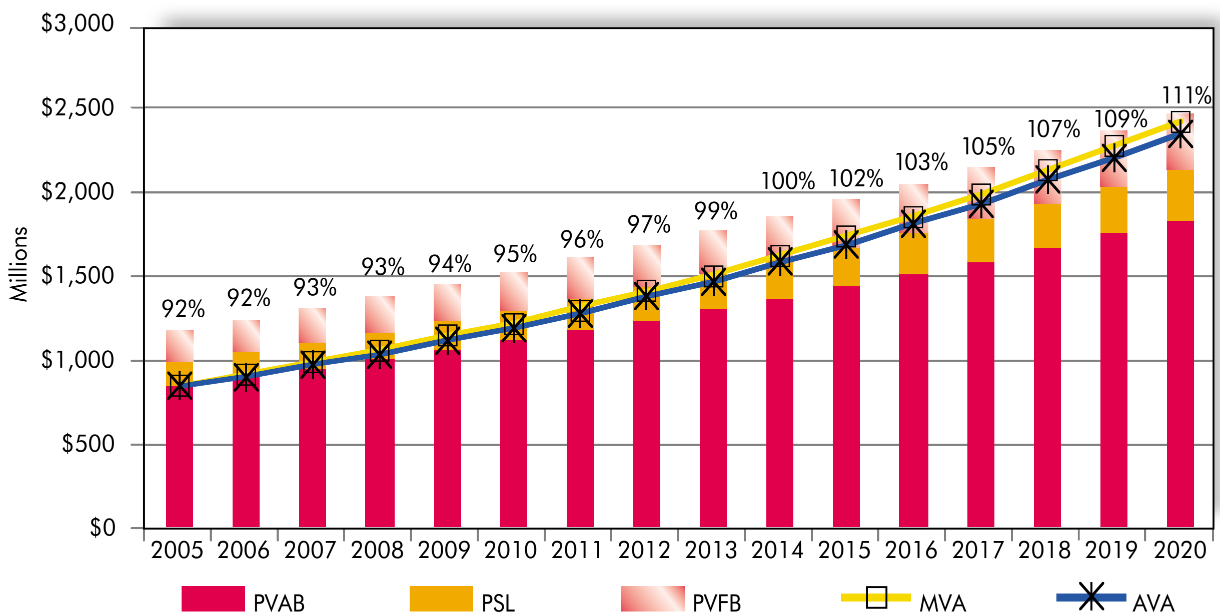
The future funding status of this System will be largely driven by the investment earnings. Due to the size of assets, as compared to liabilities, the System is in a highly leveraged position. This means that relatively minor changes in the market returns can have significant effects on the System's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

PLAN FUNDING



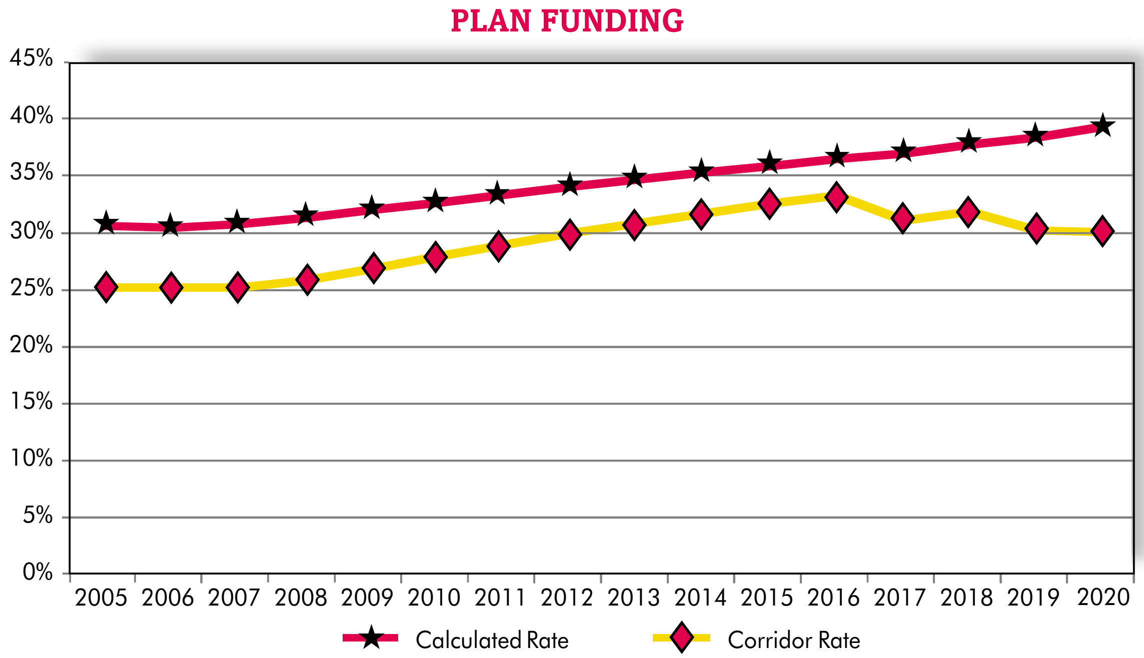
As you can see, the corridor contribution rate would remain adequate for the entire 15 year period and the System would return to its fully funded position.

ASSETS AND LIABILITIES

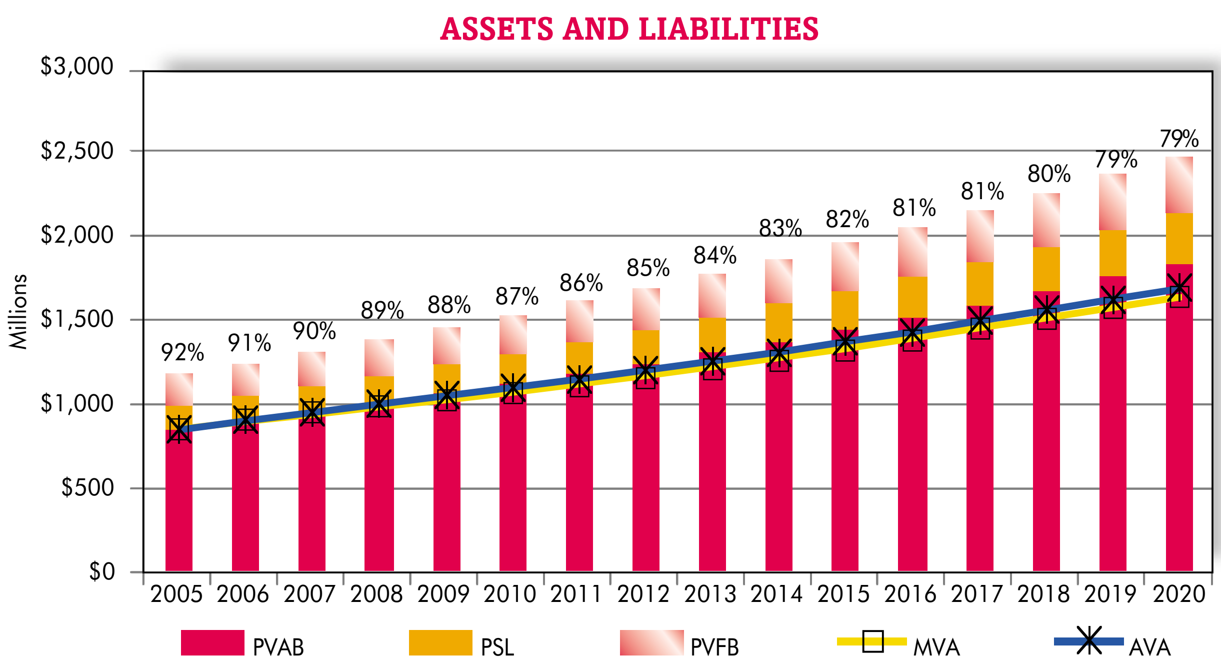


SUMMARY OF VALUATION RESULTS *(continued)*

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 92% down to 79% by the end of the period.



SUMMARY OF VALUATION RESULTS *(continued)*

FAIRFAX COUNTY UNIFORMED RETIREMENT SYSTEM
SUMMARY OF PRINCIPAL PLAN RESULTS

This table presents the principal plan results for the valuations as of:

Participant Counts	**July 1, 2004**	**July 1, 2005**	**% Change**
Actives (excluding DROP)	1,646	1,641	-0.3%
DROP	48	68	41.7%
Terminated Vesteds	26	22	-15.4%
In Pay Status	766	799	4.3%
Total	2,486	2,530	1.8%
Annual salaries of Active Members	$102,959,655	$109,067,496	5.9%
Annual Retirement Allowances for Retired Members and Beneficiaries *(Base amount only — not supplements)*	$ 27,963,468	$ 30,798,587	10.1%
Assets and Liabilities			
Actuarial Accured Liability	$881,014,726	$974,105,999	10.6%
Assets for Valuation Purposes	767,357,454	830,702,027	8.3%
Unfunded Actuarial Liability	$113,657,272	$143,403,972	26.2%
Funding Ratio	87.10%	85.3%	
Present Value of Accrued Benefits	$776,925,844	$837,397,558	7.8%
Market Value of Assets	755,288,695	836,684,845	10.8%
Unfunded FASB Accrued Liability *(not less than $0)*	$ 21,637,149	$ 712,713	
Accrued Benefit Funding Ratio	97.22%	99.9%	

Contributions as a Percentage of Payroll	**Fiscal Year 2006**	**Fiscal Year 2007**
GASB Method:		
Normal Cost Contribution	19.12%	19.30%
Unfunded Actuarial Liability Contribution	9.84%	11.11%
Administrative Expense	0.25%	0.25%
Total Employer Contribution	29.21%	30.66%
Corridor Method:		
Normal Cost Rate	19.12%	19.30%
Increase Due to Amortized Changes	4.93%	5.84%
Administrative Expense	0.25%	0.25%
Corridor Method	24.30%	25.39%

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 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 plan changes.

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.

ACTUARIAL ASSUMPTIONS AND METHODS

LONG-TERM ASSUMPTIONS USED TO DETERMINE SYSTEM COSTS AND LIABILITIES

Demographic Assumptions

MORTALITY

1994 Uninsured Pensioners Mortality Table

*Annual Deaths Per 1,000 Members**

Age	Male Deaths	Female Deaths	Age	Male Deaths	Female Deaths
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

1994 Uninsured Pensioners Mortality Table + 5

Annual Deaths per 1,000 Disabled Members

Age	Male Deaths	Female Deaths
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

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

TERMINATION OF EMPLOYMENT:

(Prior to Normal Retirement Eligibility)

Annual Termination per 1,000 Members

Service	Sheriffs	Non-Sheriffs
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**

Age	Male and Female
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.*

ACTUARIAL ASSUMPTIONS AND METHODS *(continued)*

RETIREMENT

*Annual Retirement per 1,000 Eligible**

Age	Early	Age	Normal
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)

Age	Merit/Seniority Increase
25	4.5%
30	4.0%
35	2.8%
40	1.7%
45	0.7%
50	0.4%
55	0.1%

**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.

ACTUARIAL ASSUMPTIONS AND METHODS *(continued)*

CHANGES SINCE LAST VALUATION

a. The termination assumption was previously separated by gender as shown below. The revised assumption does not vary by gender, but does vary by Sheriff or non-Sheriff employment.

Annual Termination Per 1,000 Members

Age	Male	Female
20	60	50
25	50	50
30	30	50
35	15	50
40	13	50
45	10	50
50	8	50

b. Retirement assumption was increased for early retirement and decreased for normal retirement. The prior assumption was:

Annual Retirement Per 1,000 Eligible*

Age	Early	Age	Normal
40	38	45-64	800
41	40	65	1,000
42	43		
43	45		
44	48		
45	50		
46	58		
47	63		
48	68		
49	75		
50	150		
51	40		

**75% are assumed to take DROP.*

c. Merit/Seniority Salary Increase (in addition to across-the-board) assumption was modified and based on experience of all public safety positions (PRS and UPS). The prior assumption was:

Age	Merit/Seniority Increase
25	4.5%
30	4.0%
35	2.8%
40	1.7%
45	0.7%
50	0.4%
55	0.1%

d. Disability was reduced by 1/3 of the prior rates. The prior assumption was:

Annual Disabilities per 1,000 Members*

Age	Male and Female
20	2
25	2
30	3
35	4
40	6
45	10
50	17
55	24
60	24

* *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.*

f. The prior assumption for unused sick leave was that retirees, deferred vested terminations, and deceased member receive an additional 3.0% of service credit.

ANALYSIS OF FINANCIAL EXPERIENCE

GAIN AND LOSS IN ACCRUED LIABILITY DURING YEARS ENDED JUNE 30

Resulting from Differences Between Assumed Experience and Actual Experience

	Gain (or Loss) for Year Ending June 30			
Type of Activity	**2002**	**2003**	**2004**	**2005**
Investment Income	$(34,733,822)	$(29,218,034)	$ (6,034,380)	$ 2,991,409
Combined Liability Experience	14,531,374	(16,189,649)	(731,077)	(19,757,797)
Gain (or Loss) During Year From Financial Experience	(20,202,448)	(45,407,683)	(6,765,457)	(16,766,388)
Non-Recurring Items	(30,227,967)	-	(27,183,266)	(11,713,440)
Composite Gain (or Loss) During Year	$(50,430,415)	$(45,407,683)	$(33,948,723)	$(28,479,828)

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

	Added to Rolls		*Removed From Rolls*		*On Rolls @ Yr. End*			
Year Ended June 30	**No.**	**Annual Allowance**	**No.**	**Annual Allowance**	**No.**	**Annual Allowance**	**% Increase Allowance**	**Average Allowance**
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	25,504,699	19.75%	34,890
2004	43	3,842,598	8	397,144	766	28,950,153	13.51%	37,794
2005	47	3,289,619	14	594,988	799	32,144,782	9.15%	40,231

SOLVENCY TEST

AGGREGATE ACCRUED LIABILITIES

	Aggregate Accrued Liabilities for						
Valuation Date	**(1) Active Member Contributions**	**(2) Retirees Vested Terms, Beneficiaries & DROP**	**(3) Active Members (Employer Financed Portion)**	**Reported Assets**	**Portion of Accrued Liabilities Covered by Reported Assets (1)**	**(2)**	**(3)**
07/01/00	$62,528,390	$231,064,298	$320,649,967	$624,297,885	100%	100%	103%
07/01/01	63,630,360	267,348,939	320,860,989	666,599,019	100%	100%	105%
07/01/02	72,967,375	290,395,797	357,632,571	687,093,049	100%	100%	91%
07/01/03	75,564,839	347,474,506	372,302,919	715,797,245	100%	100%	79%
07/01/04	76,250,569	446,268,151	358,496,006	767,357,364	100%	100%	68%
07/01/05	80,400,046	500,700,951	393,005,002	830,701,872	100%	100%	64%

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

SCHEDULE OF DEDUCTIONS BY TYPE

Fiscal Year	Benefit Payments	Refunds of Contributions	Administrative Expenses	Total Deductions
2000	$15,696,421	$670,016	$200,089	$16,566,526
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

SCHEDULE OF BENEFIT PAYMENTS BY TYPE

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Total
2000	$10,217,461	$5,002,237	$213,311	$263,412	$15,696,421
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

SCHEDULE OF RETIRED MEMBERS BY BENEFIT TYPE

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Total
2000	368	188	15	18	589
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

SCHEDULE OF AVERAGE MONTHLY BENEFIT AMOUNTS

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Average
2000	$2,532	$2,325	$1,232	$1,315	$2,396
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

FAIRFAX COUNTY RETIREMENT ADMINISTRATION AGENCY

10680 MAIN STREET, SUITE 280 • FAIRFAX, VIRGINIA 22030