FOR THE FISCAL YEAR ENDED JUNE 30, 2008

2008

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FAIRFAX COUNTY UNIFORMED RETIREMENT SYSTEM

A PENSION TRUST FUND OF FAIRFAX COUNTY, VIRGINIA

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County of Fairfax, Virginia

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

November 28, 2008

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, 2008. 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 2008 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 2,003 active members and 961 retirees participating in the System as of June 30, 2008.

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

After five years of expansion, the economy weakened significantly during fiscal 2008. The combination of a stifling credit crisis and soaring commodity prices worldwide resulted in a sharp housing slump, rising foreclosures, a doubling of the consumer inflation rate, oil prices soaring to $140 a barrel and a contraction in economic growth. Despite the rising inflation rate, the Federal Reserve lowered short-term interest rates from 5.25% to 2.00% in an effort to stimulate economic growth and restore liquidity to frozen financial markets. Equity markets felt the brunt of the pain, as the S&P 500 Index fell 13.1% in fiscal 2008. International equity markets were also impacted by events in the U.S.,

RETIREMENT ADMINISTRATION AGENCY
10680 Main Street ∗ Suite 280 ∗ Fairfax, VA 22030
Phone: 703-279-8200 ∗ 1-800-333-1633 ∗ Fax: 703-273-3185
http://www.fairfaxcounty.gov/retirement/

but to a lesser extent The MSCI EAFE Index of developed economies fell 10.6%, while the emerging markets were able to eke out a gain of 4.9% for the year. Commodities were the big winner in 2008 as food and energy commodities prices skyrocketed. The Dow Jones – AIG Commodity Index advanced 41.6%. Public real estate securities declined sharply (13.6%) in sympathy with the housing and mortgage crisis, while private real estate, which is largely insulated from mark-to-market valuation by virtue of a much longer appraisal cycle, gained 9.2%. Fixed income markets generally performed well in 2008 as investors fled from equities to the safety of Treasury bonds. The Lehman Brothers Aggregate Bond Index rose 7.1%.

The diversified fund of the Uniformed Retirement System returned a negative 2.5% for fiscal 2008, after management fees. This return placed the fund in the top quartile of the Trust Universe Comparison Service (TUCS) public fund universe in 2008. The returns for the total fund exceeded the policy benchmark for the year by 1.3 percentage points. The fund's relative performance over the last 10 years was in the 22nd percentile 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 decreased 2.4%, from $1,108.0 million on June 30, 2007 to $1,081.3 million on June 30, 2008.

Major Initiatives

At the request of the Board of Supervisors, the integration of service-connected disability benefits with Social Security was reviewed. The review culminated in a benefit enhancement by reducing the benefit offset from 40% to 30% of Social Security benefits.

During the past twelve months, changes were made to the asset allocation targets of the System to help further diversify the investment program. A new structure to address the underperformance in small cap equity was established with the termination of existing managers and the hiring of Advisory Research in a small cap value mandate, and NCM Capital Management as a mid-cap growth manager. The Boston Company's international small cap team jumped ship and the firm was replaced with Victory Capital in a similar mandate. The fixed income allocation was further diversified with the addition of a dedicated high yield manager, King Street Capital, and the investment in the PIMCO Distressed Senior Credit Opportunities Fund to take advantage of distressed pricing dislocations in the credit markets.

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, 2007 indicated that the ratio of assets accumulated by the System to total actuarial accrued liabilities for benefits increased from 83.6% to 85.2%. The actuarial section contains further information on the results of the July 1, 2007 valuation.

Based on the July 1, 2007 actuarial valuation, the employer contribution rate as determined under the corridor funding policy rose from 26.01% in 2007 to 26.33% for 2008. With the ordinance change mentioned earlier, the final employer contribution rate for fiscal-year 2009 will increase to 26.46%.

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

Other Information

Independent Audit and Actuarial Certifications
The independent auditors' report and certifications from the actuary are included in this report.

Acknowledgements
The annual report of the Uniformed Retirement System was prepared by the System's staff under the leadership of the Board of Trustees. I would like to thank the entire staff for their ongoing efforts throughout the year to provide a high quality of 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/retirement/.

Respectfully submitted,

Robert L. Mears
Executive Director

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BOARD OF TRUSTEES

Administrative Organization

Administrative Staff

Robert L. Mears
Executive Director

Jeffrey A. Willison
Investment Manager

John P. Sahm
Retirement Administrator

Professional Services

Actuary
CHEIRON
Actuaries
McLean, VA

Auditor
KPMG LLP
Certified Public Accountants
Washington, DC

Investment Managers

Acadian Asset Management
Boston, MA

Advisory Research, Inc.
Chicago, IL

Artio Global Investors
New York, NY

Barclays Global Investors
San Francisco, CA

Brandywine Global
Investment Management LLC
Philadelphia, PA

Bridgewater Associates
Westport, CT

Cohen & Steers Capital
Management Inc.
New York, NY

The Dorset Energy Fund
Hamilton, Bermuda

FrontPoint Partners
Greenwich, CT

HarbourVest Partners, LLC
Boston, MA

JP Morgan Investment
Management Inc.
New York, NY

Marathon Asset Management
LLP
London, UK

NCM Capital Management
Durham, NC

OrbiMed Healthcare Fund
Management
New York, NY

Pantheon Ventures, Inc.
San Francisco, CA

Payden & Rygel Investment
Counsel
Los Angeles, CA

PIMCO
Newport Beach, CA

Ramius, LLC
New York, NY

Investment Managers (continued)

Standish Mellon Asset Management
Pittsburgh, PA

Trust Company of the West
Los Angeles, CA

UBS Realty Advisors LLC
Hartford, CT

Victory Capital Management
Cleveland, OH

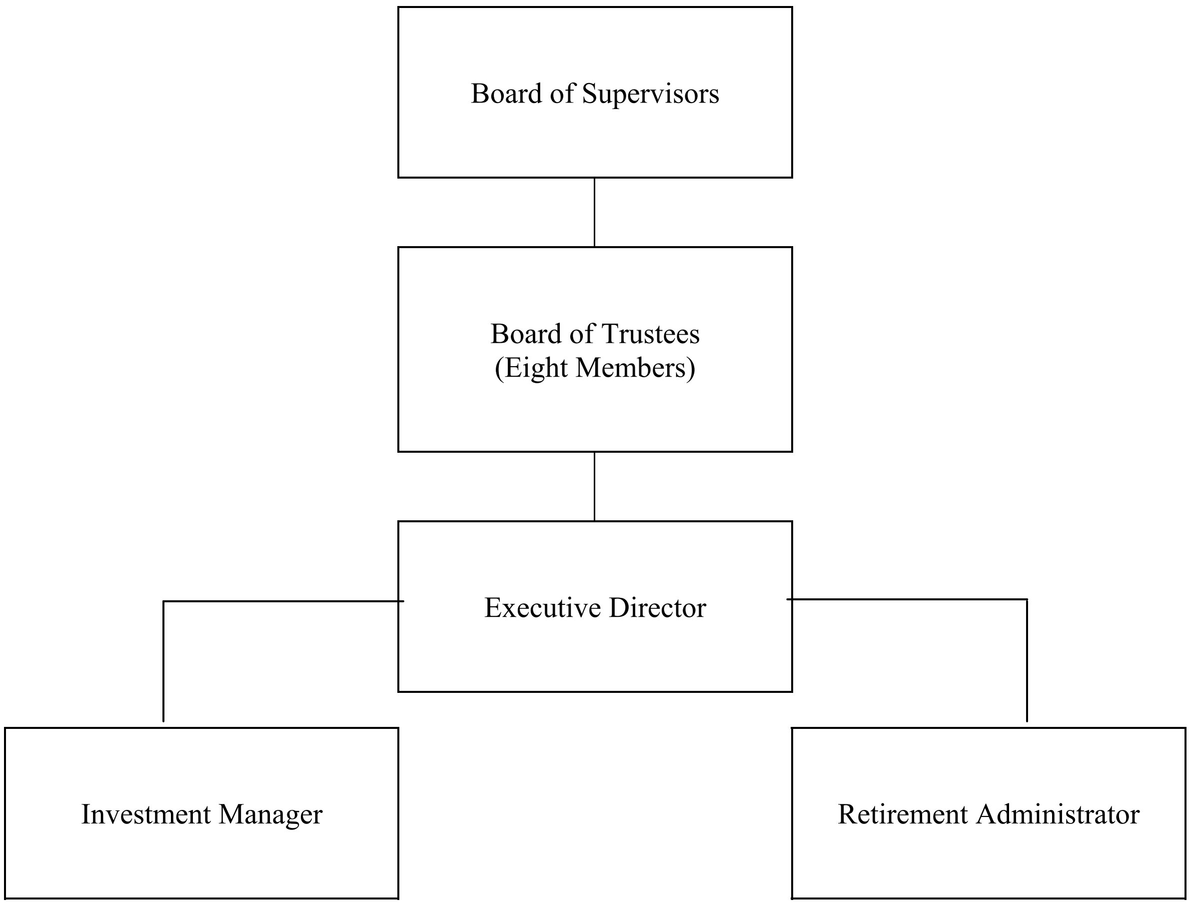
Investment Consultant

New England Pension Consultants
Cambridge, MA

Custodial Bank

Mellon Global Securities Services
Pittsburgh, PA

Organizational Chart



Summary of Plan Provisions

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

The general provisions of the Uniformed Retirement System follow:

All Plans

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

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

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

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

Service-Connected Disability Retirement:
available for members, regardless of their length of service, who become disabled as a result of a job-related illness or injury. Benefits are 40% of their final compensation less workers' compensation and 40% 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 40% 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.

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

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

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

Normal Retirement Benefit:

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

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

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

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

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

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

In addition, a **Pre-Social Security Supplement** is payable to members of Plans C & D until the first month after the member attains the age of eligibility for unreduced Social Security retirement benefits. The amount of the Pre-Social Security Supplement is 0.3% of AFC multiplied by the number of years of creditable service, increased by 3%.

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

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

Contribution Rates:

Plan A Contribution Rate:
4% of base salary up to the maximum Social Security wage base plus 5.75% of base salary over the wage base.

Plan B Contribution Rate:
7.08% of base salary up to the maximum Social Security wage base plus 8.83% of base salary over the wage base.

Plan C Contribution Rate:
4% of creditable compensation.

Plan D Contribution Rate:
7.08% of creditable compensation.

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KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

The Board of Supervisors
County of Fairfax, Virginia

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

We have audited the statement of plan net assets of the Fairfax County Uniformed Retirement System (the System), a pension trust fund of the County of Fairfax, Virginia, as of June 30, 2008, and the related statement of changes in plan net assets for the year then ended. These basic financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the plan net assets of the System as of June 30, 2008, and the changes in plan net assets for the year then ended in conformity with U.S. generally accepted accounting principles.

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

Other required supplementary information is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. Other required supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the System's basic financial statements. The introductory, investment, actuarial, and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in these sections has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

KPMG LLP

November 25, 2008

Management Discussion and Analysis

This section presents management's discussion and analysis of the Fairfax County Uniformed Retirement System's ("System" or "Plan") financial performance and provides an overview of the financial activities for the fiscal year ended June 30, 2008. The information in this section should be reviewed in conjunction with the letter of transmittal provided at the beginning of this report.

Overview of Financial Statements and Accompanying Information

Basic Financial Statements. The System presents the Statement of Plan Net Assets as of June 30, 2008 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 decreased $26.7 million, or 2.4%, during fiscal 2008. These changes were primarily due to decreases in the fair value of investments during the fiscal year.

Return on Investments. The System's return on investments net of investment management fees for fiscal 2008 was negative 2.5%. The System's domestic equities returned a negative 11.0%. The international developed equity portfolios returned a negative 10.3%, and emerging markets gained 8.8% for the fiscal year. The System's fixed income investments advanced 9.9% for fiscal 2008. The System's real estate portfolios were flat for the fiscal year. Private equity investments returned 13.2% and the System's hedge fund investments returned 5.4%. Additional investment market commentary is provided in the Investment Section of this document.

Additions. Total additions decreased $191.6 million from fiscal 2007 to 2008 primarily due to dramatically lower investment returns. Employer contributions increased $2.6 million, or 7.1%, from fiscal 2007 to 2008. The 2008 employer contribution rate of 26.33% of covered payroll increased 0.32 percentage points over the fiscal 2007 adopted rate of 26.01% of covered payroll. Total contributions for fiscal 2008 were also impacted by the increase in covered payroll, rising 7.1%. The System experienced net investment losses during fiscal 2008. Net appreciation value of investments was -$50.4 million during fiscal 2008. Interest and dividend income was $27.5 million for the fiscal year, an increase of 22.0% over the prior year.

Deductions. Benefit payments increased less than 1% during fiscal 2008. Retirees received cost of living increases of 4.0% as of July, 2007. Refunds increased $96.0 thousand from fiscal year 2007 to 2008. The amount of refunds varies from year to year based on changes in employee turnover rates and decisions of former employees. Net administrative expenses increased $19.2 thousand. Investment activity expense increased $160.6 thousand, or 3.2%, due to employing specialty investment managers who charged higher investment management fees. Net securities lending income increased $267.8 thousand from fiscal 2007 to 2008 due to a more favorable environment for lending securities.

Post Fiscal-Year Market Conditions

The County's investments are exposed to various risks such as interest rate risk, market and credit risks. Such risks, and the resulting investment security values, may be influenced by changes in economic conditions and market perceptions and expectations. Accordingly, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

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/retirement/.

Summary Statement of Plan Net Assets

Assets	**2008**	**2007**	**Difference**
Total cash and investments	$1,179,536,895	$1,250,689,101	$(71,152,206)
Total receivables	48,519,311	60,864,173	(12,344,862)
Total Assets	1,228,056,206	1,311,553,274	(83,497,068)
Liabilities	146,766,253	203,542,098	(56,775,845)
Net Assets	$1,081,289,953	$1,108,011,176	$(26,721,223)

Summary of Additions and Deductions

Additions	**2008**	**2007**	**Difference**
Contributions			
Employer	$39,085,662	$36,486,832	$2,598,830
Plan members	10,535,823	9,988,515	547,308
Net investment income	(27,523,778)	167,240,928	(194,764,706)
Total Additions	22,097,707	213,716,275	(191,618,568)
Deductions			
Benefit payments	47,544,913	47,194,476	350,437
Refunds	833,454	737,506	95,948
Administrative expense	440,563	421,390	19,173
Total Deductions	48,818,930	48,353,372	465,558
Net Change	$(26,721,223)	$165,362,903	$(192,084,126)

Statement of Plan Net Assets
as of June 30, 2008

Assets		
Cash and short-term investments		
Equity in County's pooled cash and temporary Investments	$ 4,078,341	
Cash collateral received for securities on loan	66,527,652	
Short-term investments	46,302,949	
Total cash and short-term investments		$ 116,908,942
Receivables		
Prepaid and Other Assets	850	
Contributions	2,711,170	
Accrued interest and dividends	3,449,737	
Securities sold	42,357,554	
Total receivables		48,519,311
Investments, at fair value		
Asset-backed securities	159,534,224	
Corporate bonds	120,467,921	
Pooled and mutual funds	506,696,176	
Common and preferred stock	275,929,632	
Total investments		1,062,627,953
Total assets		1,228,056,206
Liabilities		
Cash collateral received for securities on loan	66,527,652	
Purchase of investments	78,775,106	
Accounts payable and accrued expenses	1,463,495	
Total liabilities		146,766,253
Net assets held in trust for pension benefits		$1,081,289,953

(A schedule of funding progress is presented on page 24.)

See accompanying notes to financial statements.

Statement of Changes in Plan Net Assets

For the Year Ended June 30, 2008

Additions		
Contributions		
Employer	$ 39,085,662	
Plan members	10,535,823	
Total contributions		$49,621,485
Investment income from investment activities		
Net appreciation in fair value of investments	(50,403,678)	
Interest	19,012,922	
Dividends	8,494,092	
Total investment income	(22,896,664)	
Investment activity expense		
Management fees	4,841,779	
Custodial fees	130,542	
Consulting fees	174,656	
Total investment expense	5,146,977	
Net income from investment activities		(28,043,641)
From securities lending activities		
Securities lending income	3,755,003	
Securities lending expenses		
Borrower rebates	3,031,945	
Management fees	203,195	
Total securities lending activities expense	3,235,140	
Net income from securities lending activities		519,863
Total net investment income		(27,523,778)
Total additions		22,097,707
Deductions		
Annuity benefits	39,604,805	
Disability benefits	7,411,038	
Survivor benefits	529,070	
Refunds	833,454	
Administrative expense	440,564	
Total deductions		48,818,930
Net increase		(26,721,223)
Net assets held in trust for pension benefits		
Beginning of fiscal year		1,108,011,176
End of fiscal year		$1,081,289,953

See accompanying notes to financial statements.

<u>Notes to the Financial Statements</u>
For the Year ended June 30, 2008

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

A. Summary of Significant Accounting Policies

Basis of Accounting. The System's financial statements have been prepared under the accrual basis of accounting in accordance with accounting principles applicable to governmental units in the United States of America. Member and employer contributions to the plan are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due in accordance with the terms of the plan. The cost of administering the plan is paid by the System.

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

Equity in County's pooled cash and temporary investments. The System maintains cash with the County, which invests cash and allocates interest earned, net of a management fee, on a daily basis to the System based on the System's average daily balance of equity in pooled cash. As of June 30, 2008 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.

The County's investments are exposed to various risks such as interest rate risk, market and credit risks. Such risks, and the resulting investment security values, may be influenced by changes in economic conditions and market perceptions and expectations. Accordingly, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

B. Plan Description, Contribution Information, Plan's Funded Status Information, and Actuarial Methods and Assumptions

Membership. At July 1, 2007, the date of the latest actuarial valuation, membership in the System consisted of:

Retirees and beneficiaries receiving benefits		900
Terminated plan members entitled to but not yet receiving benefits		46
DROP participants		77
Active plan members		1,828
	Total	2,851

Plan Description. The system is a single-employer defined benefit pension plan. The plan covers uniformed employees including non-clerical employees of the Fire and Rescue Department, Office of the Sheriff, park police, helicopter pilots, public safety communications personnel, animal wardens and game wardens who are not covered by other plans of the County or the Virginia Retirement System. Benefit provisions are established and may be amended by County ordinance. All benefits vest at five years of service. To be eligible for normal retirement, an individual must meet the following criteria: (a) attain the age of 55 with six years of service, or (b) complete 25 years of service. The normal retirement benefit is calculated using average final compensation (i.e., the highest consecutive three years) and years (or partial years) of service at date of termination. The plan provides that unused sick leave credit may be used in the calculation of average final compensation by projecting the final salary during the unused sick leave period. Members eligible for normal retirement have the option of participating in a deferred retirement option program (DROP). In lieu of continuing to earn service credit, DROP members accrue a lump sum benefit payable at retirement. Participating members continue working up to an additional three years after eligibility for normal retirement. To be eligible for early retirement, the employee must have 20 years of service. The benefit for early retirement is actuarially reduced and payable at early termination.

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

Contributions. The contribution requirements of the System members are established and may be amended by County ordinances. Plan A members were given the opportunity to join Plan B as of July 1, 1981 and to enroll in Plan C as of April 1, 1997. From July 1, 1981, until March 31, 1997, all new hires were enrolled in plan B. Plan B members were given the opportunity to enroll in Plan D as of April 1, 1997. From April 1, 1997, forward, all new hires are enrolled in Plan D. Plan A requires member contributions of 4 percent up to the Social Security wage base and 5.75 percent of compensation in excess of the wage base. Plan B requires member contributions of 7.08 percent of compensation up to the Social Security wage base and 8.83 percent of compensation in excess of the wage base. Plan C requires member contributions of 4 percent of compensation. Plan D requires contributions of 7.08 percent of compensation. The County is required to contribute at an actuarially determined rate; the rate for the year ended June 30, 2008 was 26.33 percent of covered payroll.

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

Plan's Funded Status Information. The actuarial valuation performed as of July 1, 2007 showed the System's funded status at 85.2%, an increase of 1.6 percentage points from the July 1, 2006 funded percentage of 83.6%. The table below displays the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial accrued liability, the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the unfunded actuarial liability to annual covered payroll.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded Actuarial Accrued Liability as a % of Covered Payroll ((b-a)/c)
7/1/2007	$1,028,384,897	$1,206,624,155	$178,239,258	85.2%	$136,486,665	131%

The required schedule of funding progress, which presents multiyear trend information, is reported immediately following the financial statement notes.

Actuarial Methods and Assumptions Information.

Valuation date	July 1, 2007
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, 2007 per the GASB methodology resulted in a contribution rate of 30.60% for fiscal 2008, a decrease of 0.96 percentage points over the fiscal 2008 rate of 31.56%. 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 26.46% for fiscal 2009, an increase of 0.13 percentage points over the fiscal 2008 adopted rate of 26.33%.

C. Investments

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

The System has adopted a Statement of Investment Objectives and Policies whose general investment philosophy is to maintain a well-diversified, high-quality investment program that can meet the long-term needs of the members of the System. The Board of Trustees believes that the retention of experienced money management professionals with proven investment disciplines is the best means of attaining the System's investment goals and that the investment program should be sufficiently flexible to adapt to changes in the financial markets. Investment decisions for these assets are made by the Board of Trustees or investment managers selected by the Board. The overall investment policies do not address specific levels of credit risk, interest rate risk or foreign currency risk. Each individual investment portfolio is managed by an investment management firm selected by the Board. Each investment portfolio has a specific benchmark and investment guidelines. The interest rate risk for the fixed income accounts is controlled by limiting the credit quality of the securities held and the duration of the portfolio against the duration of the benchmark. While the overall investment guidelines do not specifically address concentration of credit risk, managers have specific quality and concentration limits appropriate for the type of mandate they are managing and that fit within the total risk tolerance of the fund. The System does not have investments (other than U.S. Government and U.S. Government guaranteed obligations) in any one organization that represents 5 percent or more of net assets available for benefits. All investments, except for the pooled and mutual funds, short-term investment fund and a short-term collateral investment pool are held by an unaffiliated custodian. There is no custodial credit risk since the custodian's records establish the System's interest in the securities.

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

The System's investment quality ratings at June 30, 2008 were as follows:

Type of Investment	**Fair Value**	**Ratings**	**Percent of Fixed**
Corporates and other	$35,844,685	AAA	12.8%
	21,255,338	AA	7.6%
	38,158,978	A	13.6%
	17,734,267	BBB	6.3%
	1,079,127	BB	0.4%
	900,652	B	0.3%
	5,494,874	UNRATED	2.0%
Asset-backed	149,017,664	AAA	53.2%
	2,281,134	AA	0.8%
	212,615	BB	0.1%
	138,805	CCC	0.1%
	7,884,005	UNRATED	2.8%
Total fixed income	$280,002,145	**AA**	100.0%
Short-term	$16,581,327	AAA	
	$29,721,622	UNRATED	

As of June 30, 2008 the fixed income portfolio exhibited an overall credit quality rating of "AA", and 1% of the portfolio was invested in below-investment-grade securities.

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

The System's investments' sensitivity to interest rates at June 30, 2008 follows:

Investment Type	**Fair Value**	**Effective Duration (yrs)**	**Percentage of Fixed**
Corporate and other	$120,467,921	5.3	43.0%
Asset-backed	159,534,223	7.4	57.0%
Total fixed income	$280,002,145	6.5	100.0%
Short-term investments	$46,302,949	N/A	

As of June 30, 2008 the System's overall fixed income portfolio duration was 6.5 years compared with 4.7 years duration of the Lehman Brothers Aggregate Bond Index.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the investment. The System's investments at June 30, 2008 held in currencies other than US dollars were as follows:

International Securities	Equity	Fixed Income	Short-Term and Other	Total
Japanese Yen	$47,147,125	$ -	$(481,817)	$46,665,308
Euro currency Unit	46,057,906	4,051,999	(6,230,889)	43,879,016
British Pound Sterling	34,726,591	4,957,838	(5,119,593)	34,564,836
Australian Dollar	3,938,020	8,567,087	16,258	12,521,365
Swiss Franc	8,009,264	-	563,594	8,572,858
Singapore Dollar	2,435,611	4,987,550	378,057	7,801,218
Swedish Krona	4,275,077	3,009,941	25,436	7,310,454
Malaysian Ringgit	1,458,618	5,245,836	135,983	6,840,437
S African Comm Rand	2,520,384	2,967,680	367	5,488,431
Other Currencies	18,065,972	21,041,856	3,774,924	42,882,752
Total International	$168,634,568	$54,829,787	$(6,937,680)	$216,526,675

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, mortgage-backed IO and PO strips, and currency forwards in accordance with Board of Trustees' policy. Use of these instruments may involve certain costs and risks, including the risk that a portfolio could not close out a position when it would be most advantageous to do so. Portfolios investing in derivatives could lose more than the principal amount invested.

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

An Options Contract is a financial instrument that, in exchange for the option price, gives the option buyer the right, but not the obligation, to buy (or sell) a financial asset at the exercise price from (or to) the option seller within a specified time period, or on a specified date (expiration date). The System employs Options on Treasury Futures as well as Options on Swaps (Swaptions). Options on Treasury Futures are primarily used to manage interest rate and volatility exposure and to generate income. Swaptions have investment characteristics similar to other options but have the advantage of being more customized instruments that can serve more specific applications in a portfolio. By both purchasing and writing puts and calls on interest rate swaps, swaptions are used to manage swap rate volatility and position a portfolio for different swap rate environments (e.g. a steep or inverted swap curve). Swaptions also are used to generate income. An important characteristic of options is that they can cause the effective duration of a portfolio to change with movements in interest rates. In order to control interest rate risk associated with option strategies, the duration change potential of option positions are measured over a wide range of best and worst case interest rate scenarios. Finally, options are used to assure that any subsequent duration change on a total return will be modest under reasonable worst case scenarios. Option strategies that have the potential to move the portfolio's duration outside an appropriate range will not be employed.

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.

Mortgage-backed derivatives are used in the portfolio to generate income and capital gains. Interest only strips and principal only strips are specific tranches of a mortgage pool security and designate which portion of the interest payment cash flow is to be received. These are often used to shape the duration of the portfolio or to take a position against expected moves in interest rates. Credit risk is associated with the uncertainty in the counterparty's ability to meet its obligations. In many cases, the counterparty risk lies within the GSEs (Fannie Mae, Freddie Mac, Ginnie Mae), in which case there is either a government guarantee or sponsorship. Mortgage securities also face prepayment risk, which is the risk associated with the early unscheduled return of principal, thus future interest payments will not be paid on that part of the principal. We expect prepayments to slow over the course of the next year as slower housing turnover in conjunction with rising transaction costs continue to pressure prepayment speeds down.

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

The following table shows the derivative instruments the System held at June 30, 2008:

Derivative	Notional Value Par or Local Face	Fair Value Dollars	Maturity
Money Market Futures	68,875,000	66,144,430	9/08-3/10
Government Futures	(50,700,000)	(58,396,675)	9/08
Equity Futures	726,384	(1,839,592)	9/08
Options	61,600,000	(84,658)	9/08-9/09
Currency Forwards	N/A	4,408,172	7/08-9/08
Other Forwards	2,800,000	4,251,242	N/A
Inverse Floaters	19,764,897	16,066,875	1/32-6/36
Inverse IO Strips	77,489,489	6,333,927	7/31-11/34
Swaps	123,000	(1,714,746)	N/A
Interest Only Strips	21,310,938	499,875	4/35-5/35
Principal Only Strips	14,844,384	8,337,242	8/33-2/36
Credit Spreads	300,000	(1,154)	N/A

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, 2008.

Securities Lent	Underlying Securities	Securities Collateral Value	Cash Collateral Investment Value
Lent for Cash Collateral			
Sovereign Debt	$5,783,148	$ -	$6,769,313
US Government obligations	8,353,611	-	8,485,312
Corporate and other bonds	1,351,365	-	1,383,430
Common and preferred stock	47,302,954	-	49,889,597
Lent for Other Collateral			
US Government obligations	19,077,632	$20,979,154	-
Sovereign Debt	3,164,321	3,243,429	-
Common and preferred stock	6,231,673	6,717,062	-
Total	$91,264,704	$30,939,645	$66,527,652

The System did not impose any restrictions during fiscal 2008 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, 2008 had a weighted-average maturity of 31 days. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of securities loans made by other plans that invest cash collateral in the investment pool.

D. Income Taxes

The Internal Revenue Service issued a determination letter on November 24, 2003, which stated that the System and its underlying trust qualify under the applicable provisions of the Internal Revenue Code and therefore are exempt from federal income taxes.

Required Supplementary Information

Seven-year historical trend information about the System is presented here as required supplementary information. This information is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due and make comparisons with other public employee retirement systems.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (in thousands) (a)	Actuarial Accrued Liability – AAL Entry Age (in thousands) (b)	Unfunded AAL – UAAL (in thousands) (b-a)	Funded Ratio (a/b)	Covered Payroll (in thousands) (c)	UAAL as a Percentage of Covered Payroll (in thousands) ((b-a)/c)
7/1/2001	$666,599	$651,840	$(14,759)	102.26%	$93,577	(15.77%)
7/1/2002	687,093	720,996	33,903	95.30%	99,200	34.18%
7/1/2003	715,797	795,342	79,545	90.00%	100,749	78.95%
7/1/2004	767,357	881,015	113,658	87.10%	102,960	110.39%
7/1/2005	830,702	974,106	143,404	85.28%	109,067	131.48%
7/1/2006	921,414	1,102,669	181,255	83.56%	127,467	142.20%
7/1/2007	1,028,385	1,206,624	178,239	85.23%	136,487	130.59%

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
2001	$18,818,351	100%
2002	16,834,283	112%
2003	21,548,814	107%
2004	25,186,003	99%
2005	32,320,929	84%
2006	38,629,304	83%
2007	43,009,853	85%
2008	46,849,354	83%

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Capital Markets and Economic Conditions

Fiscal Year 2008 Economic Environment

After five years of expansion, the economy weakened significantly during the fiscal year of 2008. Quarter-over-quarter real gross domestic product (GDP) growth slowed dramatically as the credit crisis created a sharpening housing market slump and the effects of rising global commodity prices began to be felt in the broader economy. Although the third quarter of 2007 posted a strong GDP growth rate of 4.8%, every quarter following was weak (negative 0.2% in the fourth quarter of 2007 and 0.9% in the first quarter of 2008) except for the second quarter of 2008, which rose 2.8% fueled by the Administration's nationwide tax rebate and strengthening exports resulting from the falling U.S. dollar.

The housing market deteriorated during the year amid continuing reports of rising foreclosures, slowing housing starts, and sharply declining housing prices. The mortgage crisis and the impact on financial institutions was also a concern during the year as major banks announced huge write-offs and losses as a result of bad mortgage loans and securities. In response to the housing and credit epidemics and the slowing economy, the Federal Reserve acted by systematically lowering the Federal Funds Target Rate from 5.25% to 2.00%.

Increasing global demand and constrained global supply spawned a widespread rise in commodity prices. From the second quarter of 2007 to the second quarter of 2008, crude oil prices surged from roughly $70 per barrel to around $140 per barrel. These record-setting crude oil prices increased transportation and production costs of farm commodities. Record commodity prices have lead to concerns of higher inflation as the seasonally-adjusted, year-over-year percentage change in CPI rose from 2.6% in the second quarter of 2007 to 5.0% in the second quarter of 2008.

Equity Markets

Equity markets mirrored forecasts for tough economic times ahead. The S&P 500 Index fell 13.1% for the fiscal year. Small caps underperformed large caps, with the Russell 2000 Index returning negative 16.2% over the same time period. Growth stocks significantly outperformed value stocks in both the large cap and small cap areas of the market. The Russell 1000 Growth Index returned negative 6.0% while the Russell 1000 Value Index declined 18.8% for the fiscal year. Financials were by far the weakest sector, with the S&P 500 Financial Index down 42.4% for the fiscal year. Also underperforming were telecom services and consumer discretionary, with their respective S&P sector indexes returning negative 19.8% and negative 26.8%.

The international equity markets modestly outperformed the domestic market for the past fiscal year. The MSCI EAFE Index returned a negative 10.6%, beating the S&P 500 Index by about three percentage points but posting its worst performance since 2001. Developed international countries are facing many of the same problems involving an economic slowdown and financial institutions in distress. Investors in international markets also benefited significantly from the weakening US dollar. The emerging markets outperformed the developed markets for the fiscal year led by a very strong return of 29.7% from the MSCI Emerging Markets Latin America Index. The MSCI Emerging Markets Index returned 4.9% for the year.

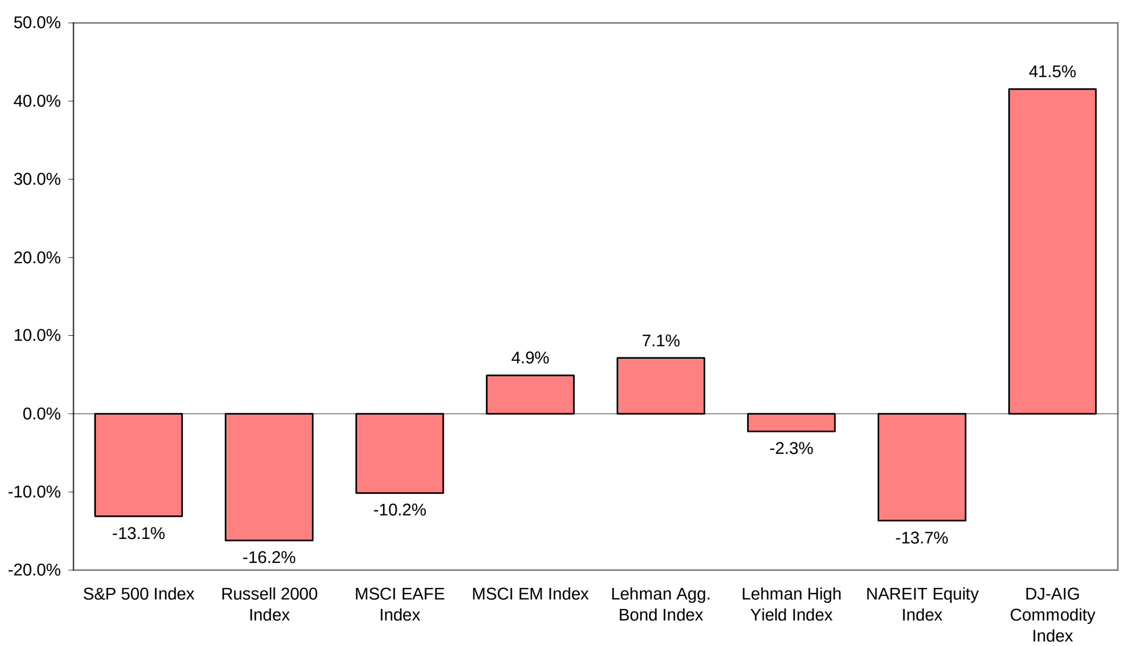
Real Estate Markets

REIT markets declined significantly for the fiscal year. The FTSE NAREIT Equity Index returned a negative 13.6% for the year. The decline was led by the poorly performing lodging and apartment sectors. The NCREIF index, which measures the performance of privately held real estate, fared far better than the REITs at 9.2%. The success of the private real estate index relative to REITs can be traced to better fundamentals in institutional classes of real estate, a slower re-pricing of assets because values are based on annual appraisals, and significantly less leverage than in REITs (NCREIF is an unlevered benchmark).

Fixed Income Markets

The fixed income market performed well overall, as investors fled from equities to safer securities. The Lehman Brothers Aggregate Bond Index returned 7.1% for the year. Government debt and TIPS (Treasury Inflation-Protected Securities) saw huge gains because of the safe nature of the securities and inflation protection. However, U.S. credit and corporate high-yield bonds struggled as the economy slowed and liquidity tightened. Mortgage-backed debt tumbled along with the rest of the housing market. The best performing and worst performing sectors were Government bonds (+9.7%) and High Yield bonds (-2.3%), respectively.

Fiscal Year 2008 Market Asset Class Returns



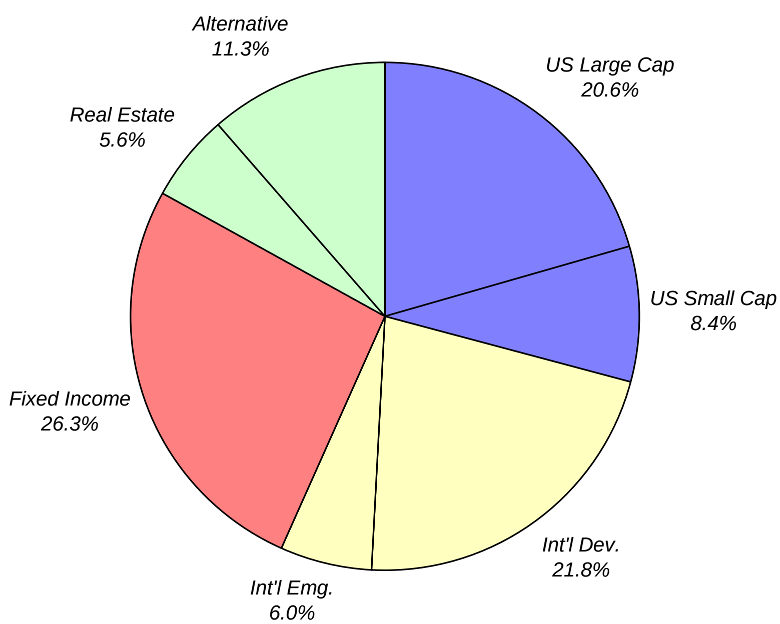
Uniformed System

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

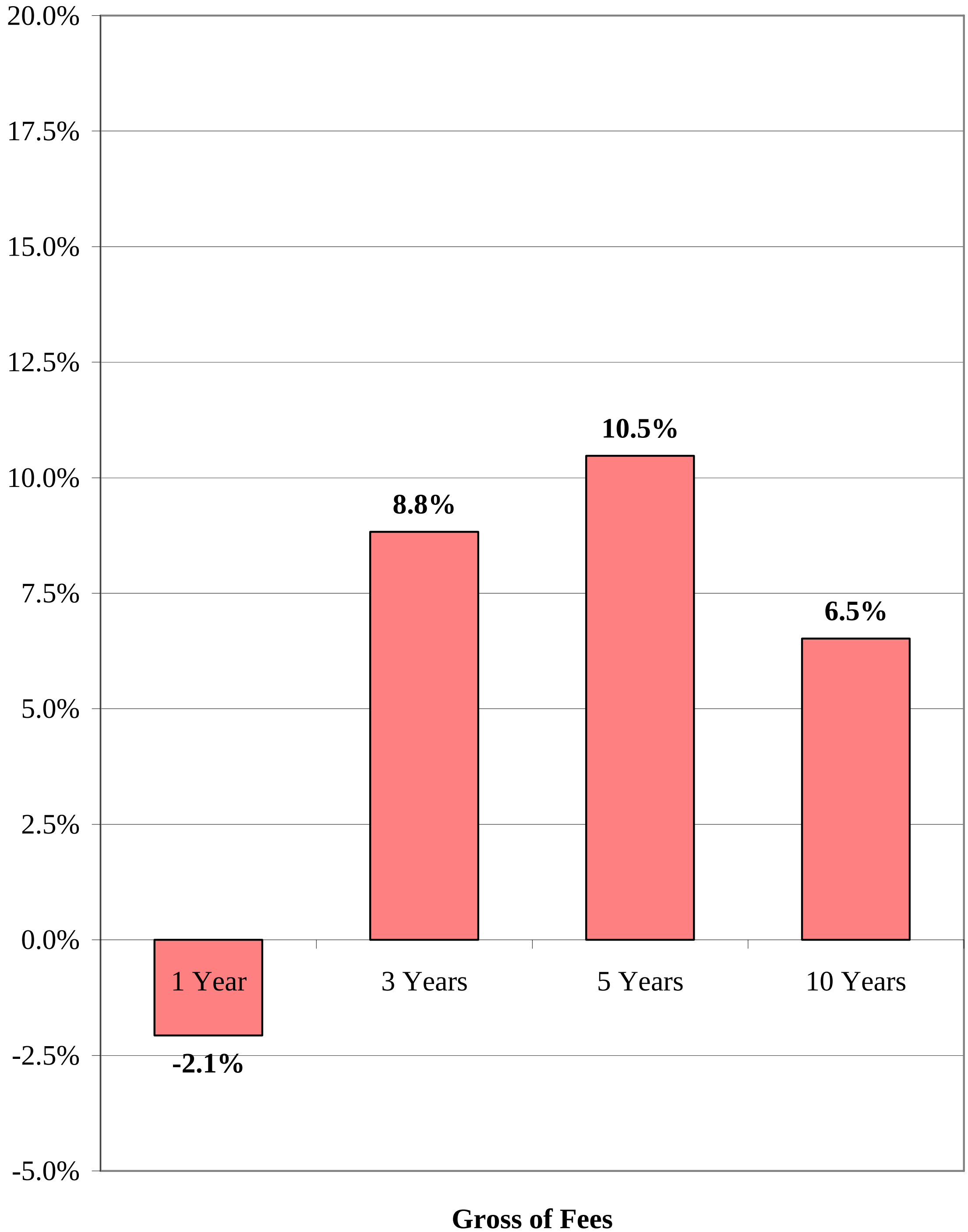
On a market value basis, the total net assets held in trust fell from $1,108.0 million at June 30, 2007 to $1,081.3 million at June 30, 2008. For fiscal 2008, investments provided a negative return of 2.1% gross of fees (-2.5% net of fees), reflecting the deteriorating economic environment. The System's annualized rates of return, gross of fees, were 8.8% (8.4%, net of fees) over the last three years and 10.5%, gross of fees (10.0%, net of fees), over the last five years. These System returns ranked in the 24th percentile of the TUCS universe of public plans in 2008, in the 11th percentile for the latest 3-year period, and in the 16th percentile of public plans for the last 5 years. The universe comparison is based on gross of fees performance to reflect an unbiased comparison due to investment management fees.

During the past twelve months, changes were made to the asset allocation targets of the System to help further diversify the investment program. A new structure to address the underperformance in small cap equity was established with the termination of existing managers and the hiring of Advisory Research in a small cap value mandate, and NCM Capital Management as a mid-cap growth manager. The Boston Company's international small cap team jumped ship and the firm was replaced with Victory Capital in a similar mandate. The fixed income allocation was further diversified with the addition of a dedicated high yield manager, King Street Capital, and the investment in the PIMCO Distressed Senior Credit Opportunities Fund to take advantage of distressed pricing dislocations in the credit markets.

<u>Uniformed Retirement System – Allocation of Market Exposures</u>



Compounded Annual Rates of Return



Investments by Category and Investment Manager
June 30, 2008

Asset Class / Manager	Investment Style	Net Assets	% of Total Net Assets
Domestic Equities			
BGI Alpha Tilts Fund *	Enhanced S&P 500 Index	$ 134,978,252	12.5%
Bridgewater Associates*	Enhanced S&P 500 Index	44,056,007	4.1%
FrontPoint Partners*	Enhanced S&P 500 Index	42,918,955	4.0%
NCM Capital	Mid Cap Growth	43,115,635	4.0%
Advisory Research	Small Cap Value	47,404,147	4.4%
International Equities			
Marathon Asset Mgt.	Developed Markets	132,188,326	12.2%
Artio Global Investors*	Developed Markets	53,118,245	4.9%
Lazard International	Developed Markets	14,874	0.0%
Boston Company	Developed Mkts. Small Cap	210,979	0.0%
Victory Capital	Developed Mkts. Small Cap	48,508,229	4.5%
Acadian Asset Mgt.*	Emerging Markets	64,288,480	6.0%
Fixed Income			
Pacific Investment Mgt. Co. (PIMCO)	Total Return Core Bonds	98,564,110	9.1%
Payden & Rygel	Domestic Core Plus Bonds	49,666,501	4.6%
Brandywine Asset Mgt.	Global Bonds	82,430,132	7.6%
Trust Company of the West	Mortgage-Backed Securities	46,794,265	4.3%
Real Estate			
UBS Realty *	Direct Real Estate	49,951,217	4.6%
Cohen & Steers Capital Mgt.	Real Estate Investment Trusts	10,374,709	1.0%
Alternative Investments			
Dorset Asset Mgt.*	Long/Short Energy Fund	31,127,803	2.9%
Acadian Asset Mgt.*	Long/Short Absolute Return Fund	19,020,984	1.8%
Orbimed Advisors*	Long/Short Health Care Fund	18,566,594	1.7%
Ramius Starboard*	Small Cap Value Activist	19,945,076	1.8%
Pantheon Private Equity *	Private Equity	11,534,573	1.1%
J.P. Morgan Private Equity *	Private Equity	9,870,820	0.9%
Harbourvest Private Equity *	Private Equity	11,655,552	1.1%
Short-term			
Standish Mellon	Plan Level Cash Accounts	5,598,092	0.5%
Cash Held at County Treasurer	Operating Cash Account	4,073,830	0.4%
Net Assets		$ 1,079,976,384	100.0%

* Pooled fund

Largest Holdings for Separately Managed (Non-Pooled) Accounts

Asset Class / Manager / Security		Market Value	% of Account
Domestic Equities			
Advisory Research			
Leucadia National Corp.	$	2,154,546	4.58%
CNX Gas Corp.	$	1,846,817	3.93%
Overseas Shipholding Group Inc.	$	1,813,851	3.86%
UMB Financial Corp.	$	1,742,667	3.70%
Comstock Resources Inc.	$	1,734,192	3.69%
NCM Capital			
Williams Companies Inc.	$	1,756,186	4.22%
Murphy Oil Corp.	$	1,599,784	3.84%
Priceline.com Inc.	$	1,450,293	3.48%
Helmerich & Payne Inc.	$	1,397,188	3.36%
Joy Global Inc.	$	1,289,110	3.10%
International Equities			
Marathon Asset Mgt.			
Arcelor NPV	$	2,304,319	1.75%
BP PLC	$	1,757,441	1.33%
Vestas Wind System	$	1,748,095	1.33%
Saipem	$	1,651,298	1.25%
Jardine Matheson Holdings	$	1,609,148	1.22%
Victory Capital			
Vetropack Holding	$	1,077,274	2.20%
Unicharm Petcare	$	1,076,553	2.20%
Trevi Finanziaria	$	1,076,053	2.20%
CFE NPV	$	1,013,866	2.07%
Shinko Plantech Co.	$	1,006,839	2.05%
Real Estate Securities			
Cohen & Steers Capital Mgt.			
Simon Property Group Inc.	$	773,054	7.50%
Vornado Reality Trust	$	510,400	4.95%
Boston Properties Inc.	$	478,166	4.64%
General Growth Properties Inc.	$	472,695	4.59%
Macerich Co.	$	397,632	3.86%

Largest Holdings for Separately Managed (Non-Pooled) Accounts

(continued)

Asset Class Manager Security		Market Value	% of Account
Core Fixed Income			
Brandywine Asset Mgt.			
New South Wales Treasury Corp., 5.500%, 03/01/2017	$	4,811,703	5.88%
Government of Singapore Bonds, 4.375%, 01/15/2009	$	4,353,689	5.32%
Government of Poland Bonds, 5.250%, 10/25/2017	$	4,334,682	5.30%
Government of Brazil Bonds, Variable Rate, 01/05/2016	$	3,251,508	3.97%
MEXICO UTD, 8.000%, 12/19/2013	$	3,012,103	3.68%
Payden & Rygel			
Federal Home Lending Mortage Corp. Discount Note, 08/20/2008	$	3,088,011	5.90%
FNMA Mortgage Pool, 5.500%, 03/01/2037	$	2,845,308	5.44%
FHLMC Mortgage Pool, 6.000%, 11/01/2036	$	2,686,503	5.13%
FNMA Mortgage Pool, 5.500%, 02/01/2037	$	2,399,460	4.58%
GNMA Mortgage Pool TBA, 5.500%, 07/15/2038	$	1,900,450	3.63%
Pacific Investment Mgt.			
FNMA Mortgage Pool TBA, 6.000%, 07/01/2038	$	22,698,000	17.51%
FHLMC Mortgage Pool TBA, 5.500%, 07/01/2038	$	8,865,000	6.84%
FNMA Mortgage Pool, 6.000%, 05/01/2038	$	5,185,650	4.00%
FNMA Mortgage Pool, 5.000%, 03/01/2036	$	4,114,791	3.18%
Government of Germany Bonds, 5.625%, 01/04/2028	$	2,046,942	1.58%
TCW Asset Mgt.			
FHLMC Multiclass Mortgage, 5.000%, 04/15/2033	$	2,238,363	4.82%
FHLMC Multiclass Mortgage, Variable Rate, 07/15/2033	$	2,076,410	4.47%
FNMA GTD REMIC, Variable Rate, 05/25/2033	$	1,883,878	4.06%
FHLMC Multiclass Mortgage, 6.500%, 02/15/2032	$	1,647,771	3.55%
FHLMC Multiclass Mortgage, Variable Rate, 12/15/2032	$	1,343,511	2.89%

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CHEIRON Classic Values, Innovative Advice

March 31, 2008

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, 2007. The results of the valuation are contained in this report.

Funding Objective

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

Assumptions

The actuarial assumptions used in performing the July 1, 2007 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.

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

Reliance on Others

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

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

March 31, 2008
Fairfax County Uniformed Retirement System
Page 2

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

We are responsible for the 2004 through 2007 information in the Schedule of Funding Progress, Schedule of Employer Contributions and Notes to Trend Data shown in the Financial Section.

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

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

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

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

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

Sincerely,
Cheiron

Fiona E. Liston

Fiona E. Liston, FSA
Consulting Actuary

Summary of Valuation Results

Overview

This report presents the results of the July 1, 2007 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 2009;
- Provide specific information and documentation required by the Governmental Accounting Standards Board (GASB).

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

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

General Comments

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

The County's contribution rate will change when benefits are increased or modified or assumptions are changed. The new rate will reflect the change in normal cost rate and the change in actuarial liability amortized over 15 years. Since the inception of the Corridor Funding Method the normal cost rate has increased by 1.77% and the UAL rate has increased by 6.76%, the specific changes are summarized in the table below:

Changes Since 2001	Impact on Normal Cost Rate	Impact on UAL Rate
2002 Pre-Social Security Supplement	+ 1.40%	+ 2.45%
2002 ad-hoc COLA	N/A	+ 0.25%
2004 Retiree Increase	N/A	+ 1.70%
2004 DROP	+ 0.17%	+ 0.53%
2005 Assumption Changes	+ 0.18%	+ 0.91%
2006 DPSC Transfer	N/A	+ 0.62%
2007 Reduce Disability Offset	+ 0.02%	+ 0.30%
Total Increase	+ 1.77%	+ 6.76%

The basic Corridor Funding Contribution is currently 26.33% of payroll. The normal cost rate and actuarial accrued liability will continue to be measured using the entry age funding method. If the funded status falls outside the corridor, a credit (if above 120%) or charge (if below 90%) will be established based on a 15-year amortization equal to the amount necessary to re-enter the corridor. Once the funded status is within the corridor, the contribution rate will return to normal cost rate plus expense rate, and any remaining amortization for benefit or assumption changes.

The valuation as of July 1, 2007 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 2007, which produced an actuarial gain on the asset side of the System. The actual return on a market value basis was approximately 17.76%. On an actuarial value basis, the assets returned 11.83% compared with an assumed rate of return of 7.5%. The gain recognized for funding purposes was $40 million.

The System recently installed a new data collection software package which now provides more information to the valuation process. One element of this new data is the calculation of benefits for a group of terminated vested members. These are former members who left employment after working enough years to be vested and who did not take a refund of their member contributions. They remain eligible to receive either a refund of contributions with interest or a deferred vested benefit when they reach normal retirement age. In previous valuations, this liability was included under the assumption that the former members would take a refund of contributions. While the liability figure has always been included, these former members were not included in the membership counts. Starting with this report, these former members are included as terminated vested members in both the liability and the membership counts. You will note an increase in counts in various places throughout the report for this reason. The change in the calculation of liability produced a result that was $2 million higher than the previous method.

An annual component of liability loss is the delayed recognition of new hires throughout the year. This does not contribute to an increase in the System's unfunded liability because both the member and the employer make contributions from the date of hire. However, when we look only at the liability side they are a component of the annual liability loss and this year they contributed $4 million to that number.

The valuation assumes a 3% cost-of-living adjustment will be awarded each year. Since the actual COLA was 4% last year this created a liability loss of $5 million.

There is a $19 million liability loss component that is made up of various other causes such as salary increases in excess of those assumed, members terminating, dying or becoming disabled in a way contrary to the assumption and also data changes from previous years.

Finally, the County ordinance was changed this year to reduce the offset to service-connected disability benefits from 64% of Social Security amounts to 40% of such amounts. This change increased the liability by about $5 million.

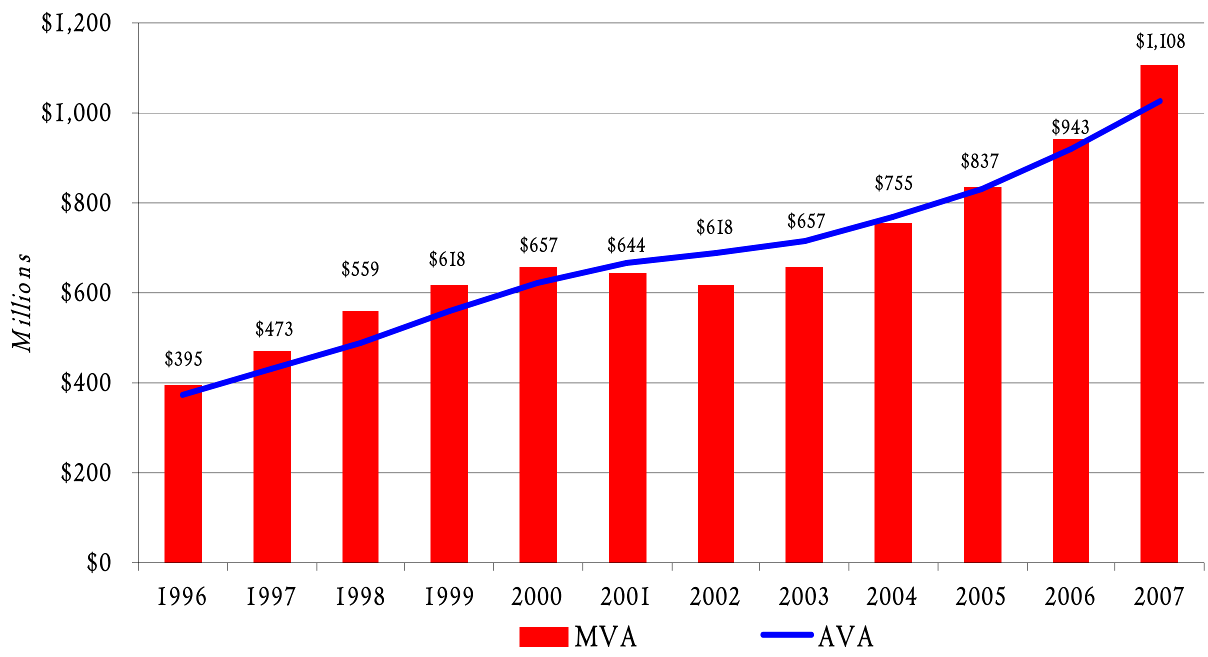
The combination of liability and investment experience over the last year produced an improvement in the System's funding ratio (actuarial value of assets over actuarial accrued liability) from 83.6% at July 1, 2006 to 85.2% at July 1, 2007. For purposes of measuring whether the System remains within 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 increased from 91.2% at July 1, 2006 to 92.6% at July 1, 2007.

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

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

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

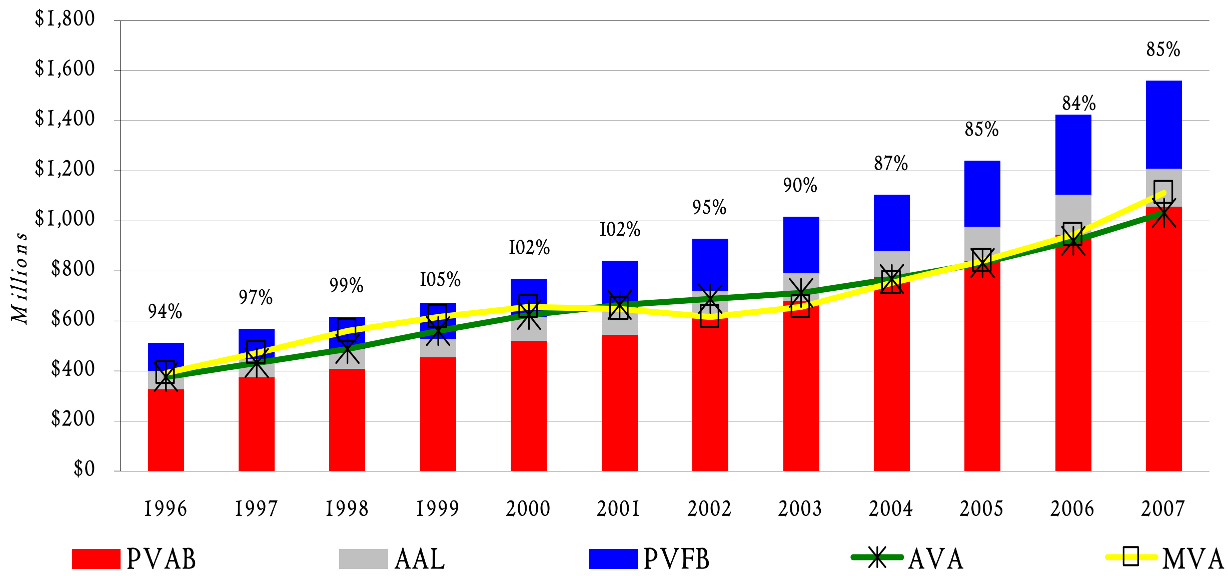
<u>Growth of Assets</u>



The positive growth in the market value of assets continued this year with a return of over 17%. 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, 2007 the System's assets returned approximately 8.5% per year measured at actuarial value, compared to a valuation assumption of 7.5% per year.

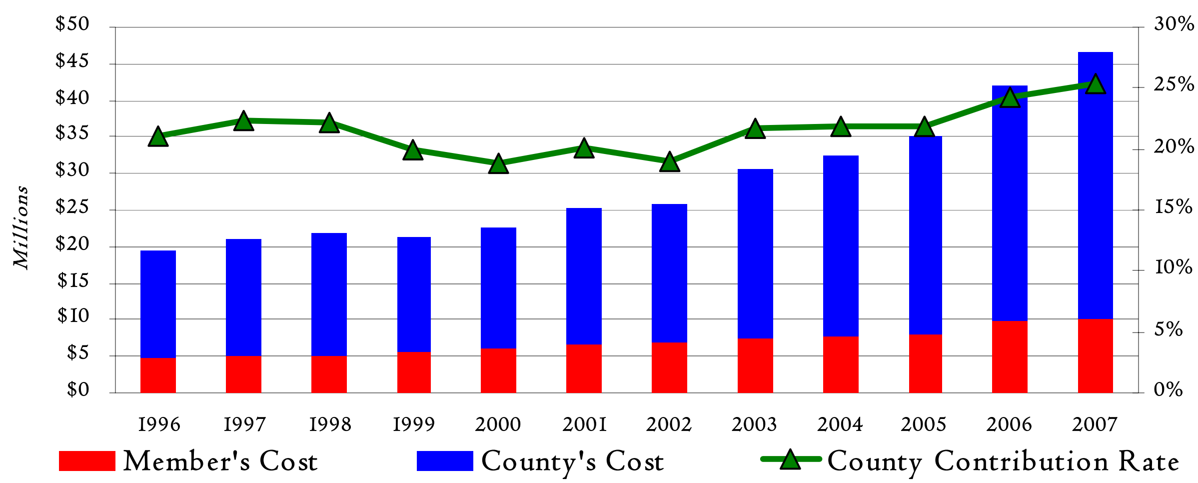
Assets and Liabilities



The three colored bars represent the three different measures of liability mentioned in this report. The amount represented by the top of the blue bars, the Present Value of Future Benefits (PVFB), is the amount needed to provide all benefits for the current participants and their beneficiaries. If the System had assets equal to the PVFB no contributions would, in theory, be needed for the current members. For funding purposes, the target amount is represented by the top of the gray bar. We compare the actuarial value of assets to this measure of liability in developing the funded percent. These are the percentages shown in the graph labels.

As you can see, the System had its highest funded percentage (105%) at July 1, 1999, before a combination of benefit improvements and the three-year market slide at the start of the decade.

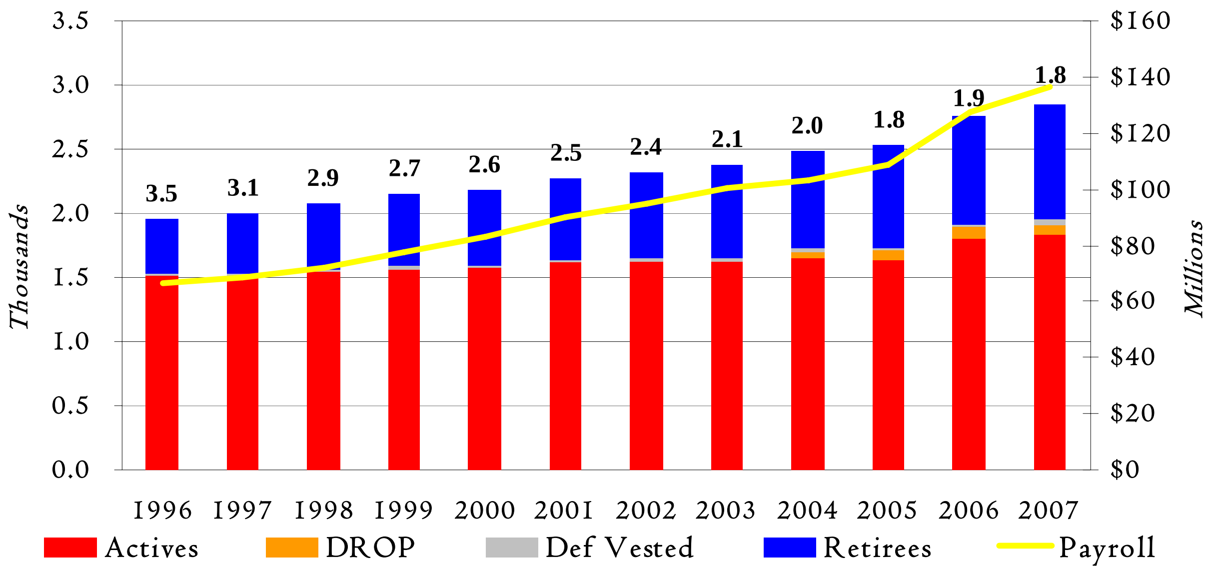
Contribution Rates



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

The member contribution rate is set by the County Ordinance, depending in which plan the member participates. 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 2007 value is the rate prepared by the 2005 valuation and implemented for the period July 1, 2006 to June 30, 2007.

Participant Trends



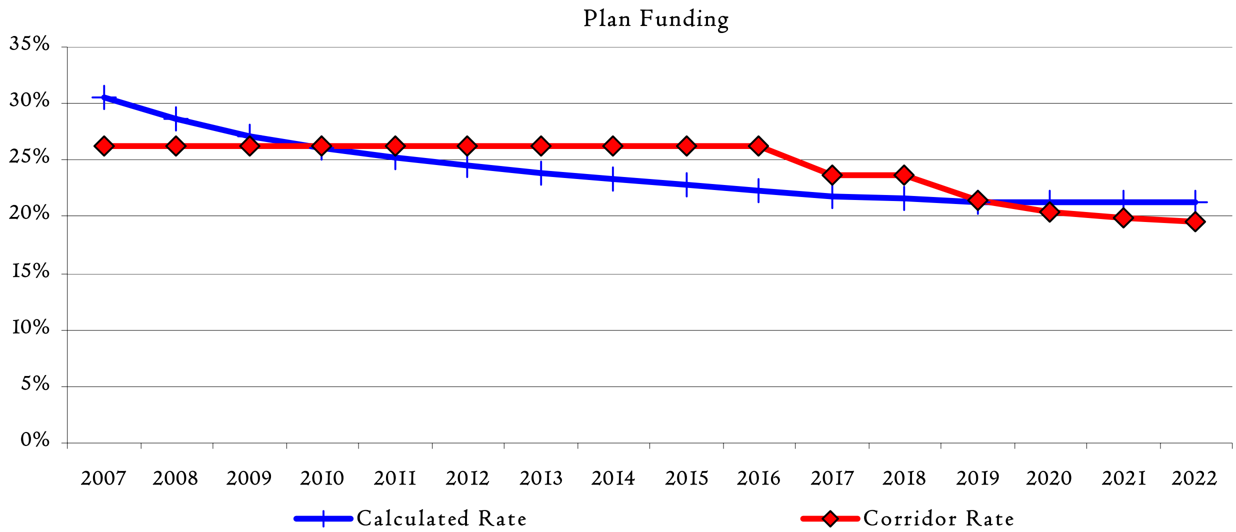
As with many funds in this country, there has been a steady growth in the number of retired members as the System has matured. The active-to-inactive ratio has decreased from 3.5 actives to each inactive in 1996 to 1.8 actives for each inactive today. While this would be an alarming trend in a pay-as-you-go 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.

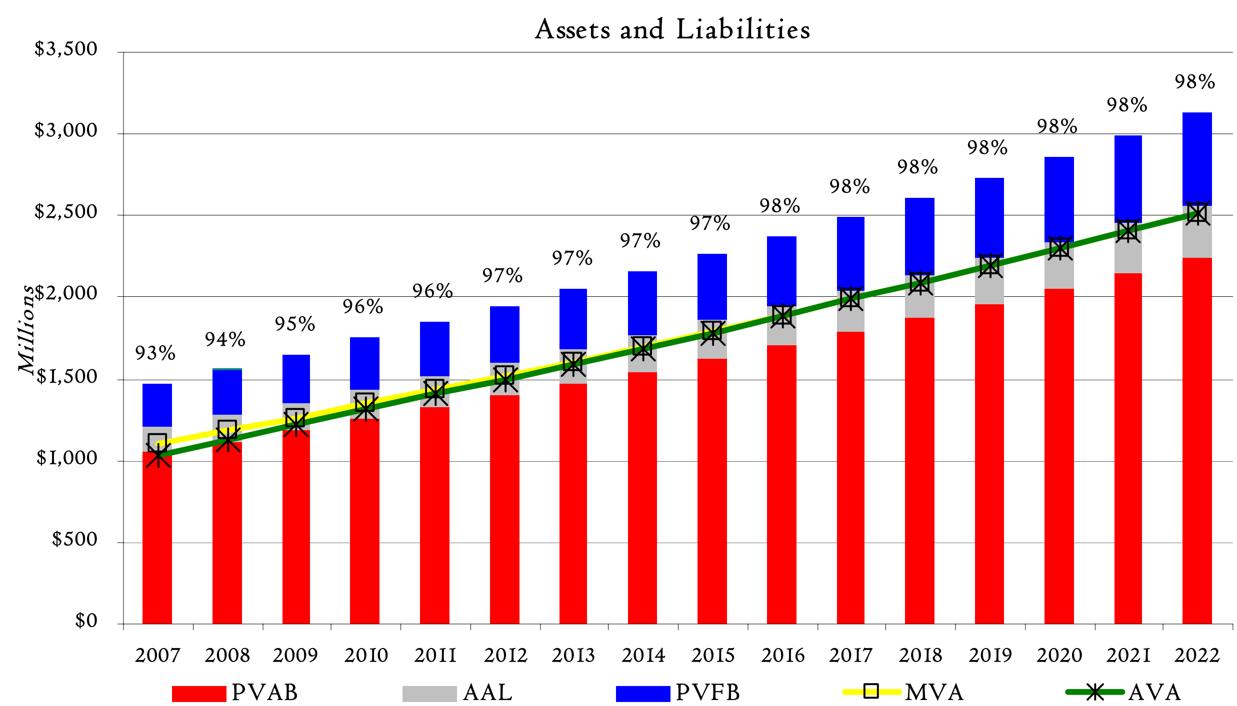
Future Outlook

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 rising through the corridor if all other actuarial assumptions are met as well as the 7.5% interest rate. The red line shows the actuarially calculated rate as if the corridor were not in place. The decreases in the yellow line towards the end of the period show plan change bases becoming fully amortized and dropping out.

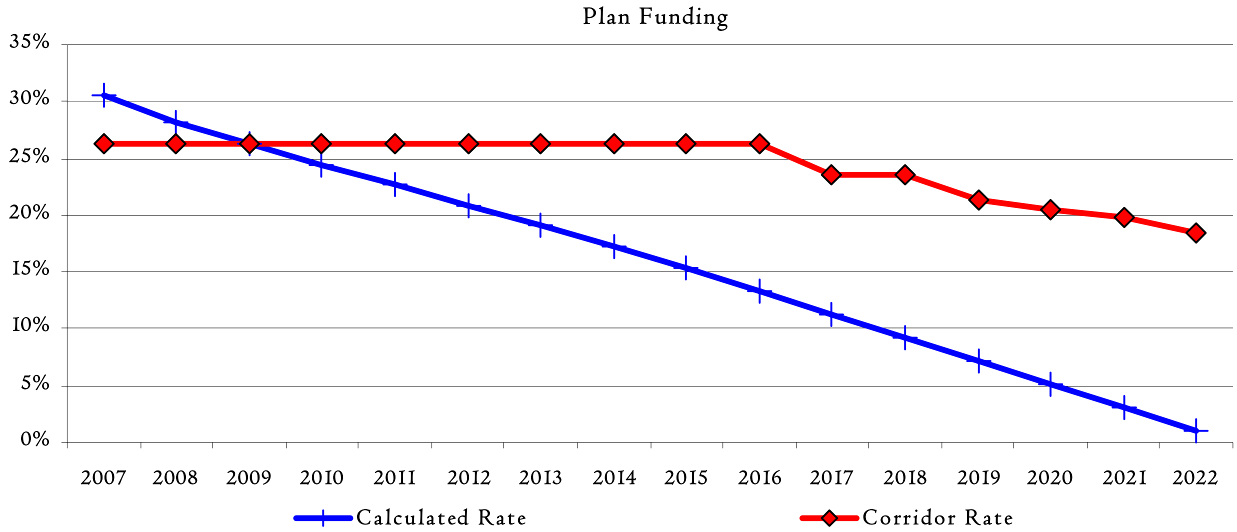


The "Assets and Liabilities" graph shows the projected funding status over the next decade. Note that the 2007 funded level differs from that shown in the historical graphs because the ratio used here reflects the corridor method. The System's funded status is projected to increase from the current level of 93% to around 98%, and remain within the corridor.

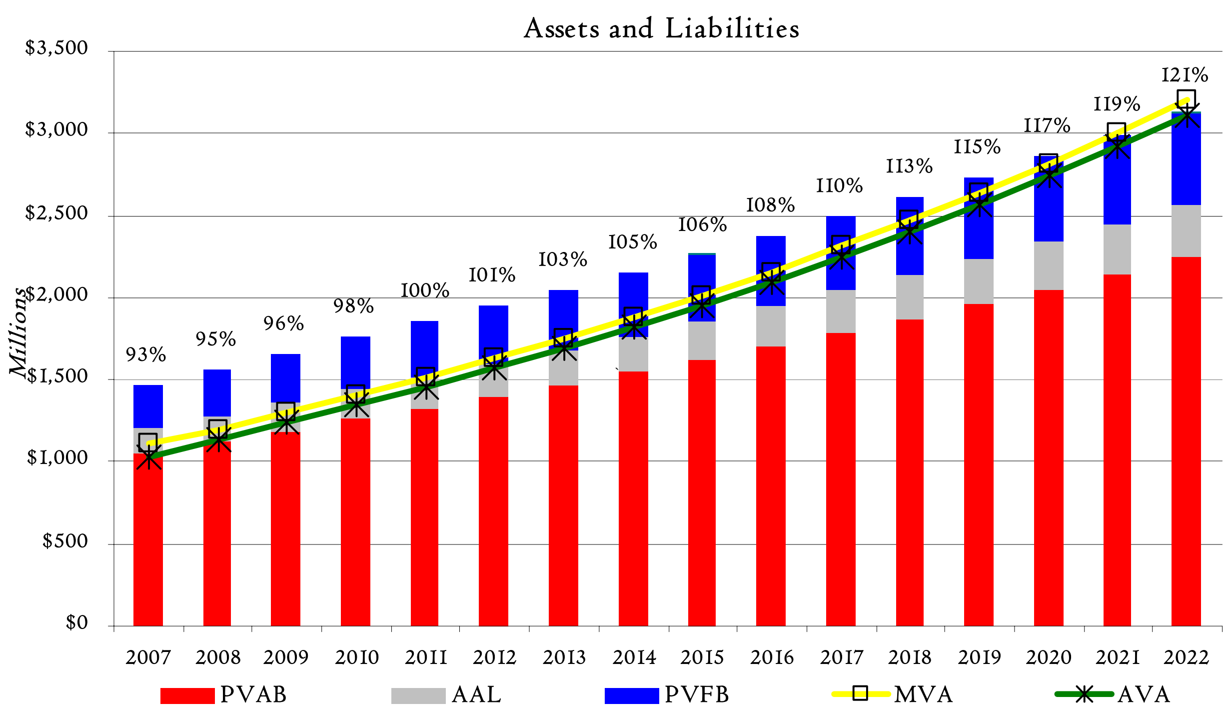


Projections With Asset Returns of 9.0%

The future funding status of this System will be largely driven by the investment earnings. Due to the size of assets, as compared to liabilities, the System is in a highly leveraged position. This means that relatively minor changes in the market returns can have significant effects on the System's status. The next two charts show what the next 15 years would look like with a 9.0% annual return in each year.

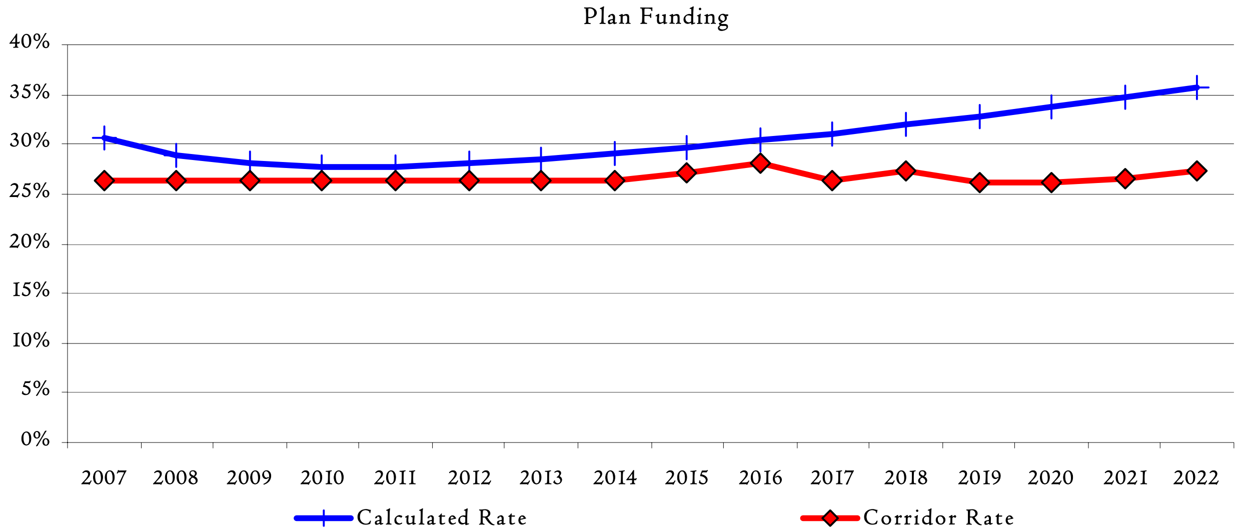


As you can see, the corridor contribution rate would remain adequate for the entire 15 year period while the calculated rate approaches zero. The System would reach full funding by 2011 and continue to improve over this period, reaching the top of the corridor by 2022.

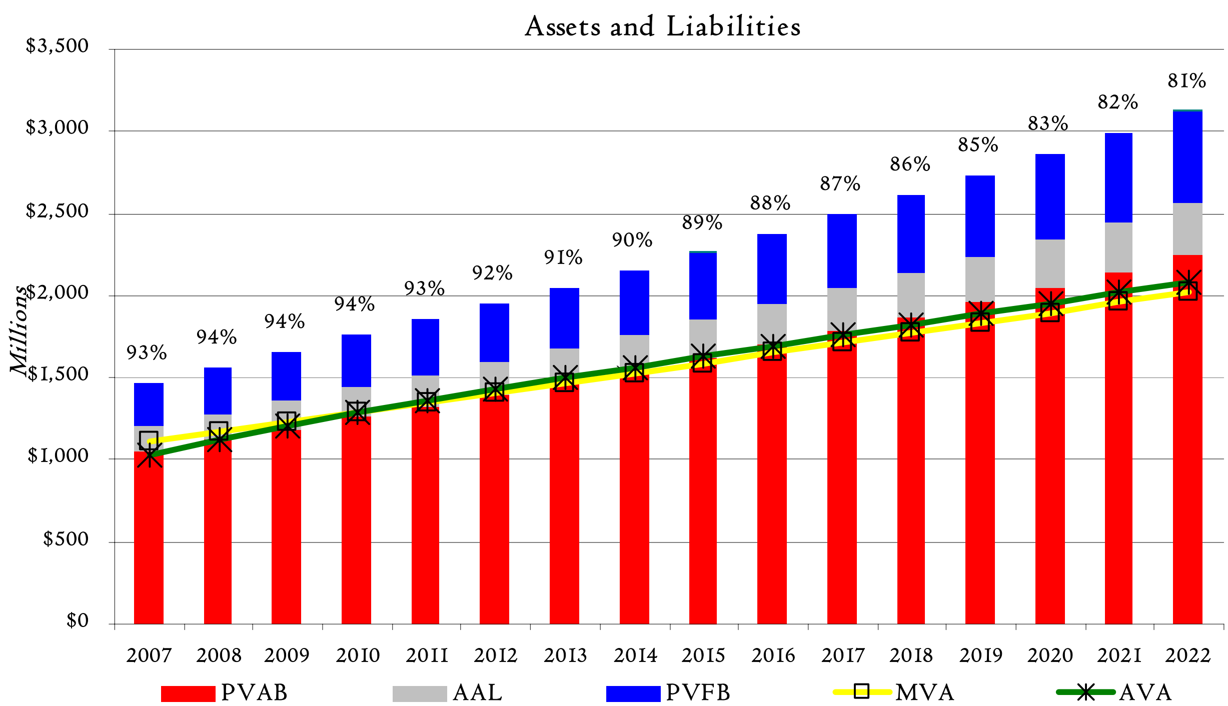


Projections With Asset Returns of 6.0%

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



The corridor funding ratio will improve in the short-term as unrecognized asset gains are incorporated into the actuarial value of assets. After that, the ratio declines, eventually dropping out of the corridor in 2015. At this point, the county contribution rate will rise.



Fairfax County Uniformed Retirement System
Summary of Principal Plan Results

Valuation as of:	7/1/2006	7/1/2007	% Change
Participant Counts			
Actives (excluding DROP)	1,799	1,828	1.6%
DROP	89	77	-13.5%
Terminated Vesteds	23	46	100.0%
In Pay Status	845	900	6.5%
Total	2,756	2,851	3.4%
Annual Salaries of Active Members	$ 127,466,973	$ 136,486,665	7.1%
Annual Retirement Allowances for Retired Members and Beneficiaries (Base amount only – not supplements)	$ 33,807,698	$ 39,159,891	15.8%
Assets and Liabilities			
Actuarial Accrued Liability	$ 1,102,668,714	$ 1,206,624,155	9.4%
Assets for Valuation Purposes	921,414,147	1,028,384,897	11.6%
Unfunded Actuarial Liability	$ 181,254,567	$ 178,239,258	-1.7%
Funding Ratio	83.56%	85.23%	
Present Value of Accrued Benefits	$ 946,322,655	$ 1,055,586,007	11.5%
Market Value of Assets	942,648,272	1,108,011,176	17.5%
Unfunded FASB Accrued Liability (not less than $0)	3,674,383	0	
Accrued Benefit Funding Ratio	99.6%	105.0%	
Contributions as a Percentage of Payroll	**Fiscal Year 2008**	**Fiscal Year 2009**	
GASB Method:			
Normal Cost Contribution	19.30%	19.32%	
Unfunded Actuarial Liability Contribution	12.01%	11.03%	
Administrative Expense	0.25%	0.25%	
Total Contribution	31.56%	30.60%	
Corridor Method:			
Normal Cost Contribution	19.30%	19.32%	
Increase Due to Amortized Changes	6.46%	6.76%	
Administrative Expense	0.25%	0.25%	
Corridor Method	26.01%	26.33%	

Summary of Actuarial Assumptions and Methods

Funding Method

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

The normal cost is a level percent of pay cost which, along with the member contributions, will pay for projected benefits at retirement for the average plan participant. The level percent developed is called the normal cost rate and the product of that rate and payroll is the normal cost.

The actuarial liability is that portion of the present value of projected benefits that will not be paid by future employer normal costs or member contributions. The difference between this liability and funds accumulated as of the same date is referred to as the unfunded actuarial liability.

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

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

Under the Corridor Funding Method, the County's total contribution rate is equal to the normal cost rate, plus rate changes due to assumption changes or amendments passed since June 30, 2001 plus the expense rate as long as the System's actuarial funded status remains within a corridor of 90% to 120%. If the funded status falls outside the corridor, a credit (if above 120%) or charge (if below 90%) will be established based on a 15-year amortization equal to the amount necessary to re-enter the corridor. Once the funded status is within the corridor, the contribution rate will return to normal cost rate plus expense rate, plus amortization of post-2002 changes, plus expense rate.

Actuarial Value of Assets

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

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

Changes Since Last Valuation

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

Long Term Assumptions Used to Determine System Costs and Liabilities

Demographic Assumptions

Mortality

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

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

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

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

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

Termination of Employment: (Prior to Normal Retirement Eligibility)

Annual Terminations Per 1,000 Members

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.

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)

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

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

Family Composition

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

Sick Leave Credit

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

Economic Assumptions

Investment Return: 7.50% compounded per annum.

Rate of General Wage Increase: 4.00% compounded per annum.

Rate of Increase in Cost-of-Living: 4.00% compounded per annum. (Benefit increases limited to 4% per year. We will use an assumption that post-retirement cost-of-living increases will be 3% per year.)

Total Payroll Increase (For Amortization): 4.00% compounded per annum.

Administrative Expenses: 0.25% of payroll.

Changes Since Last Valuation

There have been no changes since the last valuation

Analysis of Financial Experience

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

Type of Activity	2004	2005	2006	2007
Investment Income	$ (6,034,380)	$ 2,991,409	$ 10,617,063	$ 39,813,140
Combined Liability Experience	(3,532,945)	(19,757,797)	(41,223,033)	(29,998,557)
Gain (or Loss) During Year from Financial Experience	(9,567,325)	(16,766,388)	(30,605,970)	9,814,583
Non-Recurring Items	(27,183,266)	(11,713,440)	(9,356,621)	(4,847,761)
Composite Gain (or Loss) During Year	$ (36,750,591)	$ (28,479,828)	$ (39,962,591)	$ 4,966,822

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
2001	56	$ 2,688,692	9	$ 232,369	636	$ 19,837,693	14.51%	$ 31,191
2002	34	2,152,809	7	241,818	663	21,748,684	9.63%	32,803
2003	85	4,795,387	17	589,036	731	25,955,035	19.34%	35,506
2004	43	4,104,353	8	349,620	766	29,709,768	14.47%	38,786
2005	47	3,586,643	14	556,740	799	32,739,671	10.20%	40,976
2006	61	3,797,302	15	691,879	845	35,845,094	9.49%	42,420
2007	94	6,751,363	39	899,814	900	41,696,643	16.32%	46,330

Solvency Test

Aggregate Accrued Liabilities For:

	(1)	(2)	(3)		Portion of Accrued Liabilities by Reported Assets		
Valuation Date July 1,	Active Member Contributions	Retirees Vested Terms, Beneficiaries & DROP	Active Members (Employer Financed Portion)	Reported Assets	(1)	(2)	(3)
2002	$72,967,375	$290,395,797	$357,632,571	$687,093,049	100%	100%	91%
2003	75,564,839	347,474,506	372,302,919	715,797,245	100%	100%	79%
2004	76,250,569	446,268,151	358,496,006	767,357,364	100%	100%	68%
2005	80,400,046	500,700,951	393,005,002	830,701,872	100%	100%	64%
2006	87,206,883	568,374,094	447,087,737	921,414,147	100%	100%	59%
2007	95,478,570	645,236,172	465,909,413	1,028,384,897	100%	100%	62%

Schedule of Additions by Source

Fiscal Year	Plan Member Contributions	Employer Contributions	Transfers	Employer Contributions % of covered Payroll	Net Investment Income (loss)	Total Additions
2002	$ 6,892,667	$ 18,778,608		18.93%	$ (31,599,441)	$ (5,928,166)
2003	7,478,708	23,027,237		21.65%	33,576,497	64,082,442
2004	7,800,284	24,823,288		21.90%	94,008,180	126,631,752
2005	7,953,800	27,192,791		24.30%	78,696,049	113,842,640
2006	9,860,429	32,135,984	$11,750,084	24.92%	88,814,121	142,560,618
2007	9,988,515	36,486,832		26.01%	167,240,928	213,716,275
2008	10,535,823	39,085,662		26.33%	(27,523,779)	22,097,707

Schedule of Deductions by Type

Fiscal Year	Benefit Payments	Refunds of Contributions	Administrative Expenses	Total Deductions
2002	$ 20,116,400	$ 290,966	$ 220,125	$ 20,627,491
2003	23,863,933	259,624	223,110	24,346,667
2004	27,954,431	452,616	297,188	28,704,235
2005	31,678,214	544,777	223,499	32,446,490
2006	36,023,777	349,572	223,842	36,597,191
2007	47,194,476	737,506	421,390	48,353,372
2008	47,544,913	833,454	440,564	48,818,931

Schedule of Benefit Payments by Type

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Total
2002	$ 13,996,618	$ 5,546,273	$ 244,173	$ 329,336	$ 20,116,400
2003	17,410,370	5,806,457	269,750	377,356	23,863,933
2004	21,252,301	6,148,149	159,241	394,740	27,954,431
2005	24,716,535	6,242,349	291,306	428,024	31,678,214
2006	28,710,205	6,559,201	309,940	444,431	36,023,777
2007	39,729,752	6,669,085	309,674	485,965	47,194,476
2008	39,604,805	7,077,598	333,440	529,070	47,544,913

Schedule of Retired Members by Benefit Type

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Total
2002	437	191	15	20	663
2003	503	191	17	20	731
2004	533	194	17	22	766
2005	569	193	17	20	799
2006	618	189	17	21	845
2007	672	187	17	21	897
2008	732	187	18	24	961

Schedule of Average Monthly Benefit Amounts

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Average
2002	$ 2,853	$ 2,527	$ 1,368	$ 1,436	$ 2,683
2003	3,166	2,659	1,460	1,477	2,948
2004	3,529	2,684	1,442	1,735	3,217
2005	3,718	2,855	1,471	1,843	3,415
2006	3,827	2,942	1,518	1,909	3,535
2007	4,252	2,908	1,596	1,936	3,864
2008	4,448	3,031	1,606	1,997	4,052

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