Fairfax County
Employees' Retirement System

Comprehensive Annual Financial Report

For Fiscal Year Ended June 30, 2007

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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 22, 2007

Dear Members of the Board of Trustees:

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

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

History

The Fairfax County Supplemental Retirement System was established on July 1, 1955. On February 26, 2001 the name of the System was changed to the Fairfax County Employees' Retirement System. The System is a cost-sharing multiple-employer public employee retirement system providing defined benefit pension plan coverage to full-time and certain part-time Fairfax County and Fairfax County Public Schools employees who are not covered by the Fairfax County Police Officers Retirement System, the Fairfax County Uniformed Retirement System, the Educational Employees' Supplementary Retirement System of Fairfax County (ERFC) or the Virginia Retirement System (VRS). There were 14,914 active members and 5,341 retirees participating in the System as of June 30, 2007.

Benefit Provisions

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

Capital Markets and Economic Conditions

Fiscal 2007 was a year of moderate growth in the economy and the domestic equity markets advanced at a remarkable pace. The international equity markets exhibited stunning returns fueled by strong

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EMPLOYEES' RETIREMENT SYSTEM
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http://www.fairfaxcounty.gov/retbrd/

economic growth, thus outpacing the returns in the U.S. market. The S&P 500 Index rose 20.6% during fiscal 2007, outperforming the smaller-capitalization Russell 2000 Index (+16.4%) for the first time in five years. International equity returns were quite a bit higher, with the developed markets index (EAFE) up 27.5% and the emerging markets index up 45.4%. Returns on REITs were also satisfactory despite weakness towards year end, with the NAREIT index up 12.6%. After struggling the previous year, bonds posted positive returns over the past year as the Lehman Brothers Aggregate Bond Index advanced 6.1%.

The diversified fund of the Employees' Retirement System returned 14.8% for fiscal 2007, after management fees. This return placed the fund in the fourth quartile of the Mellon Analytical Solutions public fund universe for 2007. The System's risk management strategy resulted in a low allocation to equities relative to other public plans. The fund's relative performance over longer periods has been outstanding with the returns for the five- and ten-year periods in the second quartile of the public funds universe.

After accounting for all cash flows, including contributions, expenses and benefit payments, the market value of the System's assets increased 13.1%, from $2.461 billion on June 30, 2005 to $2.783 billion on June 30, 2007.

Major Initiatives

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

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

Continuing with the focus on improving the risk/return efficiency of the total fund investment strategy, several changes were made in the investment program. Implementation of the portable alpha overlay structure for the U.S. Large-cap Equity allocation was completed with the addition of the Deephaven Market Neutral Fund. Results for this portion of the fund were excellent, the combination of diversified return strategies and market exposure using derivatives returning 10% above the S&P 500 index for 2007. The International allocation was improved by adding Marathon Asset Management to the developed segment and by changing the Emerging Markets allocation from the BGI Emerging Markets Index Fund to iShares to take advantage of securities lending spreads. In addition, the commodity futures collateral was revised to include a portion in PIMCO's Absolute Return Strategy IV. The Fixed Income allocation was further diversified and enhanced by the addition of the Highbridge Fixed Income Opportunity Fund.

Internal and Budgetary Controls

The System's management is responsible for maintaining internal accounting controls to provide reasonable assurance that transactions are properly authorized and recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America.

Funded Status

An actuarial valuation of the System to determine funding requirements is performed annually. The System's funding policy provides for periodic employer contributions at actuarially determined rates which will remain relatively level over time as a percentage of payroll and will accumulate sufficient assets to meet the costs of benefit payments when due. The valuation of the System performed as of July 1, 2006 indicated that the ratio of assets accumulated by the System to total actuarial accrued liabilities for benefits showed a modest decline from 82.3% to 82.0%. The actuarial section contains further information on the results of the July 1, 2006 valuation.

Based on the July 1, 2006 actuarial valuation, the employer contribution rate increased from 9.25% to 9.55%. With the ordinance change mentioned earlier (reduction in the social security offset to service-connected disability benefits) that occurred after the valuation, the final employer contribution rate for FY 2008 will be 9.59%.

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 from staff to ensure compliance with its stated objectives and policy. Staff also monitors the performance of the System and its investment managers and updates the Board on a monthly basis throughout the year. Rate of return information is included in the Investment Section.

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

Other Information

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

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

Respectfully submitted,

Laurnz A. Swartz
Executive Director

BOARD OF TRUSTEES

Administrative Organization

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Executive Director

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Investment Manager

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Retirement Administrator

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Post Advisory Group LLC
Los Angeles, CA

Pzena Investment
Management LLC
New York, NY

Sands Capital Management
Arlington, VA

Shenkman Capital
Management
New York, NY

Investment Managers (continued)

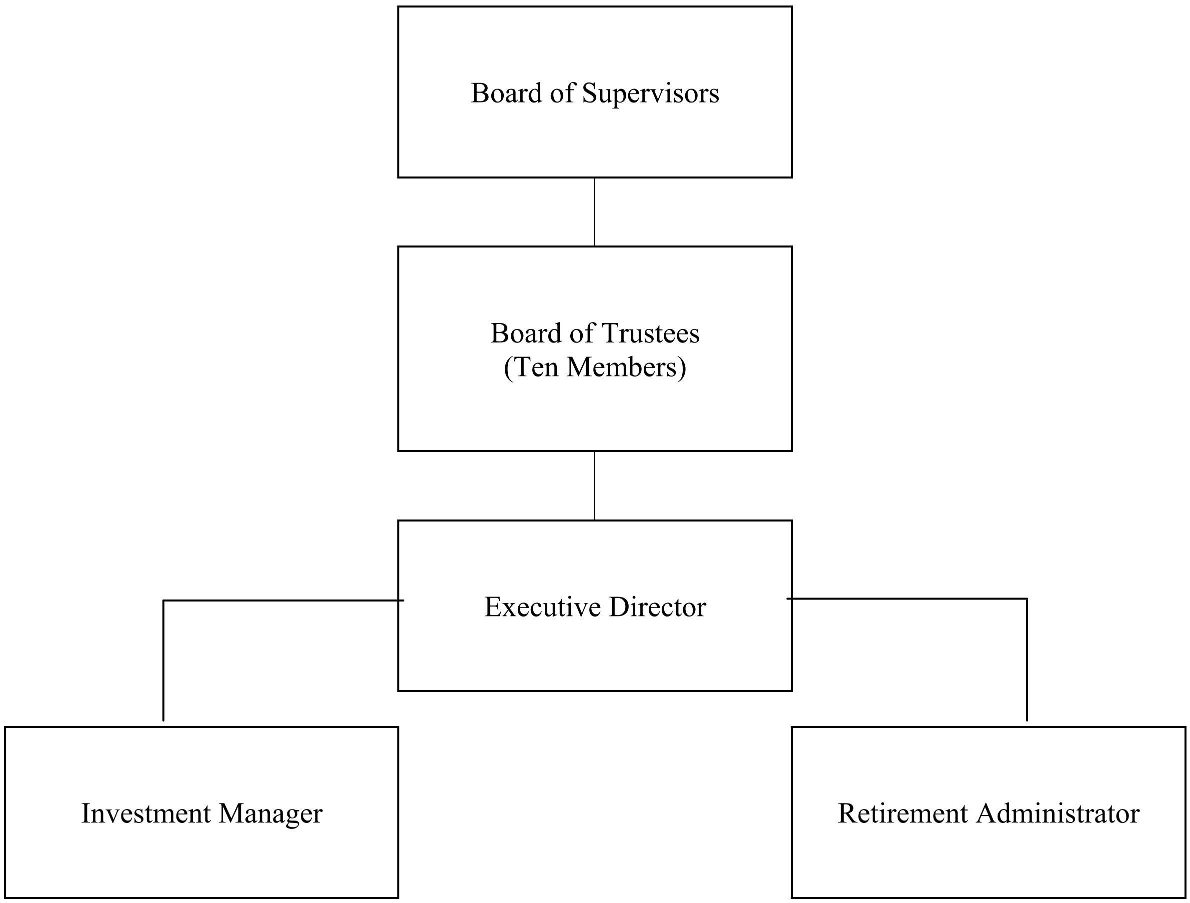
Standish Mellon Asset
Management
Pittsburgh, PA

Trust Company of the West
Los Angeles, CA

Custodial Bank

Mellon Global Securities Services
Pittsburgh, PA

Organizational Chart



Summary of Plan Provisions

Membership in the Fairfax County Employees' Retirement System includes most County employees working at least 20 hours per week as well as part-time and support staff employees from the Fairfax County Public Schools. The System consists of two Plans, Plan A and Plan B, which have slightly different employee contribution rates and slightly different benefits. In all other respects, the Plans are identical. The employee has the option to enroll in either Plan within 30 days of employment. This choice is irrevocable. Employees who make no election default to Retirement Plan A.

The general provisions of the Employees' Retirement System follow:

Plan A

Contribution Rate:
4% of base salary up to the maximum Social Security wage base plus 5.333% of base salary over the wage base.

Benefit:
1.8% of average final compensation (highest consecutive three years) up to the Social Security Breakpoint times creditable service plus 2% of average final compensation which exceeds the Social Security Breakpoint times creditable service. The total benefit is then increased by 3%. The Social Security Breakpoint is an average of Social Security wage bases for the last 35 years before a member reaches age 65.

In addition, at the time of normal service retirement, a Pre-Social Security Benefit is payable at the rate of 1% of average final compensation up to the Social Security Breakpoint times creditable service. This benefit will be payable until the member reaches the age of eligibility for unreduced Social Security benefits. The total benefit is then increased by 3%.

Plan B

Contribution Rate:
5.333% of base salary.

Benefit:
2% of average final compensation (highest consecutive three years) times creditable service. The total benefit is then increased by 3%.

In addition, at the time of normal service retirement, a Pre-Social Security Benefit is payable at the rate of 1% of average final compensation up to the Social Security Breakpoint times creditable service. This benefit will be payable until the member reaches the age of eligibility for unreduced Social Security benefits. The total benefit is then increased by 3%.

Both Plans

Normal Retirement:
is either age 65 with at least 5 years of service or at least age 50 when the member's age plus creditable service (including sick leave) totals 80 or more.

Summary of Plan Provisions
(continued)

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:
is at age 50 or older when the member's age plus creditable service totals 75 or more. Reduction factors are applied to the basic formula for early retirement and no Pre-Social Security Benefit is payable.

Deferred Vested Retirement:
is 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 65 or a reduced benefit earlier when they reach age 50 and age plus years of creditable service equal 75. This benefit is then increased by 3%.

Service-Connected Disability Retirement:
is available for members, regardless of their length of service, who become disabled as a result of a job-related illness or injury. Benefits are 66⅔% of average final compensation.

Ordinary Disability Retirement:
is available for vested members who become disabled due to an injury or illness that is not job-related. Benefits are 2% of average final compensation (highest consecutive three years) times creditable service. The total benefit is then increased by 3%.

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

After Retirement – A refund of any of the member's contributions and interest not already paid in benefits will be payable 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.

Summary of Plan Provisions
(continued)

Cost of Living Benefit:

Annual cost of living adjustments 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.

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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 Employees' Retirement System:

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

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

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

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

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

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

KPMG LLP

November 20, 2007

Management's Discussion and Analysis

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

Overview of Financial Statements and Accompanying Information

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

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

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

Financial Analysis

Summary of Plan Net Assets. As indicated in the following Summary Statement of Plan Net Assets, the net assets held in the System increased $322.3 million or 13.1% during fiscal 2007. This change was primarily due to increases in the fair value of investments during fiscal 2007.

Return on Investments. The System's return on investments net of investment management fees for fiscal 2007 was 14.8%. The System's domestic equities had a 22.9% return. The international developed equity portfolios returned 32.6%. Emerging markets returned 43.3% for the year. The System's fixed income investments returned 6.8%. The System's REIT portfolio returned 15.2% for the year. The Commodity Futures account returned 1.2% and the alternatives "All Weather" Portfolio returned a negative 6.2%. Additional investment market commentary is provided in the Investment Section of this document.

Additions. Total additions increased $164.8 million from fiscal 2006 to 2007 primarily due to investment returns. Employer contributions increased $8.0 million or 16% from fiscal 2006 to 2007. This increase was attributable to an increase in the employer contribution rate in 2007 and an increase in the covered payroll base during the year. The System experienced net investment gains during fiscal 2007. The net appreciation in the fair value of investments was $292.1 million during the fiscal year. Interest and dividend income was $76.9 million during fiscal 2007. Investment activity expense increased $973 thousand during the fiscal year due to investment management fees computed on the increasing invested asset values. Net securities lending income increased $1.6 million or 213.0% from fiscal 2006 to 2007, a result of a greater amount of securities on loan and the increased securities lending spreads for emerging market securities.

Deductions. Benefit payments increased 8.4% during fiscal 2007. The number of retirees and beneficiaries collecting benefits and the amount of the average benefit increased in both years and were responsible for the increase in benefits. Retirees received cost of living increases of 3.3% as of July, 2006. Refunds to terminated employees decreased 35% from fiscal year 2006 to 2007. The amount of refunds varies from year to year based on changes in employee turnover rates and decisions of former employees. Transfer of assets declined by $11.8 million. A one-time transfer of assets to the Uniformed Retirement System occurred in 2006 as a result of the transfer of public safety communications employees and the associated retirement benefit liabilities to the Uniformed System. Administrative expenses increased by $850 thousand mostly due to one-time costs associated with the purchase and installation of a new defined benefit administration system.

The actuarial valuation performed as of July 1, 2006 showed the System's funded status at 82.03, a decrease of 0.26 percentage points from the July 1, 2005 funded percentage of 82.29%

Contacting the System's Financial Management

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

Summary Statement of Plan Net Assets

Assets	**2007**	**2006**	**Difference**
Total cash and investments	$ 3,321,023,665	$ 2,787,837,817	$ 533,185,848
Total receivables	267,589,462	193,449,802	74,139,660
Total Assets	3,588,613,127	2,981,287,619	607,325,508
Liabilities	805,312,229	520,336,121	284,976,108
Net Assets	$ 2,783,300,898	$ 2,460,951,498	$ 322,349,400

Summary of Additions and Deductions

Additions	**2007**	**2006**	**Difference**
Contributions			
Employer	$ 57,452,711	$ 49,436,463	$ 8,016,248
Plan members	29,805,266	27,605,933	2,199,333
Net investment income	358,779,626	204,149,214	154,630,412
Total additions	446,037,603	281,191,610	164,845,993
Deductions			
Benefit payments	117,885,907	108,735,741	9,150,166
Transfer of assets to URS	0	11,750,084	(11,750,084)
Refunds	3,935,886	6,059,597	(2,123,711)
Administrative Expense	1,866,410	1,016,293	850,117
Total Deductions	123,688,203	127,561,715	(3,873,512)
Net Change	$322,349,400	$153,629,895	$168,719,505

Statement of Plan Net Assets
as of June 30, 2007

Assets		
Cash and short-term investments		
Equity in County's pooled cash and temporary investments	$ 2,885,447	
Cash collateral received for securities on loan	500,913,475	
Short-term investments	225,454,278	
Total cash and short-term investments		$ 729,253,200
Receivables		
Prepaid & Other Assets	1,114	
Contributions	2,531,334	
Accrued interest and dividends	11,229,225	
Securities sold	253,827,789	
Total receivables		267,589,462
Investments, at fair value		
Corporate bonds	282,787,691	
U.S. Government obligations	195,352,720	
Asset-backed securities	117,150,168	
Common and preferred stock	1,205,436,409	
Pooled and mutual funds	791,043,477	
Total investments		2,591,770,465
Total assets		3,588,613,127
Liabilities		
Purchase of investments	301,117,142	
Cash collateral received for securities on loan	500,913,475	
Accounts payable and accrued expenses	3,281,612	
Total liabilities		805,312,229
Net assets held in trust for pension benefits		$2,783,300,898

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

See accompanying notes to financial statements.

Statement of Changes in Plan Net Assets

For the Year Ended June 30, 2007

Additions		
Contributions		
Employer	$ 57,452,711	
Plan members	29,805,266	
Total contributions		$ 87,257,977
Investment income from investment activities		
Net appreciation in fair value of investments	292,059,431	
Interest	50,961,785	
Dividends	25,895,956	
Total investment income	368,917,172	
Investment activity expense		
Management fees	11,641,036	
Custodial fees	176,400	
Consulting fees	45,161	
Allocated administration expense	583,372	
Total investment expense	12,445,969	
Net income from investment activities		356,471,203
From securities lending activities		
Securities lending income	22,936,447	
Securities lending expenses		
Borrower rebates	19,738,487	
Management fees	889,537	
Total securities lending activities expense	20,628,024	
Net income from securities lending activities		2,308,423
Total net investment income		358,779,626
Total additions		446,037,603
Deductions		
Annuity benefits	108,782,484	
Disability benefits	6,414,723	
Survivor benefits	2,688,700	
Refunds	3,935,886	
Administrative expense	1,866,410	
Total deductions		123,688,203
Net increase		322,349,400
Net assets held in trust for pension benefits		
Beginning of fiscal year		2,460,951,498
End of fiscal year		$ 2,783,300,898

See accompanying notes to financial statements.

Notes to the Financial Statements

For the Year ended June 30, 2007

The Fairfax County Employees' Retirement System ("System" or "plan") is 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 the 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.

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, 2007 the bank balance of the County's public deposits was either insured by the Federal Deposit Insurance Corporation or through the State Treasury Board pursuant to the provisions of the Security for Public Deposit Act.

B. Plan Description and Contribution Information

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

Retirees and beneficiaries receiving benefits		5,119
Terminated plan members entitled to but not yet receiving benefits		330
DROP participants		207
Active plan members		14,300
	Total	19,956

Plan Description. The System is a cost-sharing multiple-employer defined benefit pension plan which covers employees of the County and its component units. The plan covers full-time and certain part-time County, Public Schools, Economic Development Authority and Fairfax County Redevelopment and Housing Authority employees 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 65 with five years of service, or (b) attain the age of 50 with age plus years of service being greater than or equal to 80. The normal retirement 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). Participating members continue working up to an additional three years after eligibility for normal retirement. In lieu of continuing to earn service credit, DROP members accrue a lump sum benefit. 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. Members may elect to join Plan A or Plan B. Plan A requires member contributions of 4 percent of compensation up to the social security wage base and 5.33 percent of compensation in excess of the wage base. Plan B requires member contributions of 5.33 percent of compensation. The County is required to contribute at an actuarially determined rate; the rates for the years ended June 30, 2007 and 2006 were 9.25 percent and 8.24 percent of annual covered payroll.

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

C. Investments

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

The System has adopted the Employees' Retirement System Investment Policy Statement to provide a well-managed investment program to meet the long-term needs of the System. 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. The Board of Trustees believes that risks can be managed, but not eliminated by establishing constraints on the investment portfolio and by properly monitoring the investment markets, the System's asset allocation and the investment managers hired by the System. Each individual investment portfolio is managed by an investment management firm selected by the Board. Each investment manager has a specific benchmark and investment guidelines appropriate for the type of mandate they are managing and that fits within the total risk tolerance of the fund. 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 System is not subject to the provisions of the Employment Retirement Income Security Act (ERISA), the Board wishes to comply with the spirit of ERISA to the extent that it does not conflict with the Code of Virginia. The investment policy states that the securities of any one issuer shall not exceed 10% at market value. At June 30, 2007 the System did not have investments (other than U.S. Government and U.S. Government guaranteed obligations) in any one organization that represented 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 investment quality ratings at June 30, 2007 were as follows:

Type of Investment	Fair Value	Ratings	Percent of Fixed
U.S. Government obligations	195,352,720	AAA	32.8%
Corporates and others	55,868,905	AAA	9.4%
	2,791,295	AA	0.5%
	26,832,395	A	4.5%
	3,002,208	BBB	0.5%
	41,200,025	BB	6.9%
	105,683,492	B	17.8%
	28,293,867	CCC	4.8%
	1,147,005	D	0.2%
	17,968,499	UNRATED	3.0%
Asset-backed	91,266,574	AAA	15.3%
	28,210	CCC	0.0%
	25,855,384	UNRATED	4.3%
Total fixed income	595,290,579	A	100.0%
Short Term	24,177,596	AAA	
Short Term	201,276,680	UNRATED	
Cash collateral investment pool	500,913,475	N/A	
Common and preferred stock	1,205,436,409	N/A	
Pooled and mutual funds	791,043,477	N/A	
Equity in County's pooled cash	2,885,447	N/A	
Total Investments	$ 3,321,023,665		

As of June 30, 2007 the fixed income portfolio excluding pooled funds exhibited an overall credit quality rating of "A", and approximately 30% of the total fixed income 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 fixed income 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, thus reducing the portfolio's sensitivity to rising rates. The System's investments' sensitivity to interest rates at June 30, 2007 follows:

Investment Type	**Fair Value**	**Effective Duration (yrs)**	**Percentage of Fixed**
U S Government obligations	$ 195,352,720	6.5	32.8%
Corporate and other	282,787,691	2.3	47.5%
Asset-backed	117,150,168	19.9	19.7%
Total fixed income	595,290,579	7.1	100.0%
Short-term investments	225,454,278	0.1	
Cash collateral investment pool	500,913,475	0.1	
Common and preferred stock	1,205,436,409	N/A	
Pooled and mutual funds	791,043,477	N/A	
Equity in County's pooled cash	2,885,447	N/A	
Total investments	$ 3,321,023,665		

As of June 30, 2007 duration of the System's overall fixed income portfolio excluding pooled funds was 7.1 years compared with a 4.7 year duration of the Lehman Brothers Aggregate Bond Index.

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

International Securities	**Equity**	**Fixed Income**	**Short-term and Other**	**Total US Dollar**
European Currency Unit	$114,461,587	$14,507,650	$2,639,434	$131,608,671
British Pound Sterling	57,639,817	8,915,746	12,019,176	78,574,739
Japanese Yen	49,477,721	(10,035)	(2,435,607)	47,032,079
Australian Dollar	19,636,516	13,331,336	11,607,886	44,575,738
Swiss Franc	18,822,234	---	(1,288,345)	17,533,889
Hong Kong	16,604,372	---	313,407	16,917,779
Swedish Krona	9,655,129	4,733,493	270,817	14,659,439
Polish Zloty	5,755,019	8,847,876	(133,066)	14,469,829
Canadian Dollar	2,261,031	3,241,218	6,487,587	11,989,836
Other currencies	25,509,379	40,502,062	(2,098,344)	63,913,097
Total International	$319,822,805	$94,069,346	$27,382,945	$441,275,096

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

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

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

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

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

As of June 30, 2007 the System held the following derivatives contracts:

Derivative	**Notional Value Par or Local Face**	**Fair Value Dollars**	**Maturity**
Money Market Futures	(22,500,000)	(21,380,513)	12/07 - 06/09
Government Futures	159,103,680	155,248,775	09/07
US Equity Futures	397,363,504	387,441,020	09/07
International Equity Futures	(76,039,149)	(76,624,523)	09/07
Foreign Currency Futures	(67,814,893)	(68,290,569)	09/07
Options	7,400,000	31,622	08/07 - 06/08
Currency Forwards	N/A	394,032	07/07 - 03/08
Other Forwards	15,533,770	16,168,314	01/07 - 07/37
Swaps	866,011,209	(381,704)	07/07 -12/37

Securities Lending. Board of Trustees' policies permit the System to lend its securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The System's custodian is the agent in lending the plan's domestic securities for collateral of 102 percent and international securities of 105 percent of fair value. The custodian receives cash or securities as collateral from the borrower. All securities loans can be terminated on demand by either the System or the borrower. Cash collateral is invested in the lending agents' collective collateral investment pool, which at June 30, 2007 had a weighted average maturity of 31 days. The relationship between the maturities of the investment pool and the System's loan is affected by the maturities of securities loans made by other plan entities that invest cash collateral in the investment pool.

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

Securities Lent	**Underlying Securities**	**Securities Collateral Value**	**Cash Collateral Investment Value**
Lent for Cash Collateral			
US Government obligations	$166,911,984	---	$169,571,499
Corporate and other bonds	42,021,690	---	43,303,608
Common and preferred stock	277,474,180	---	288,036,861
Lent for Other Collateral			
Letter of credit (straight pricing)		$ 1,508	---
US Government obligations	9,740,222	9,944,533	---
Corporate and other bonds	7,690,160	7,850,137	---
Common and preferred stock	12,793,577	13,681,164	---
Total	$516,631,813	$31,477,342	$500,911,968

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

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

Required Supplementary Information

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

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (in thousands) (a)	Actuarial Accrued Liability-AAL Entry Age (in thousands) (b)	Unfunded AAL-UAAL (in thousands) (b-a)	Funded Ratio (a/b)	Covered Payroll (in thousands) (c)	UAAL as a Percentage of Covered Payroll (in thousands) ((b-a)/c)
7/1/2000	$1,694,416	$1,690,538	$(3,878)	100.23%	$449,232	-0.86%
7/1/2001	1,807,813	1,857,802	49,989	97.31%	476,327	10.49%
7/1/2002	1,854,089	2,051,677	197,588	90.37%	507,905	38.90%
7/1/2003	1,903,970	2,251,187	347,217	84.58%	530,216	65.49%
7/1/2004	2,030,539	2,411,135	380,596	84.22%	552,738	68.86%
7/1/2005	2,202,515	2,676,418	473,903	82.29%	565,063	83.87%
7/1/2006	2,363,844	2,881,780	517,936	82.03%	574,294	90.19%

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	29,960,984	100%
2002	31,083,805	100%
2003	36,408,121	88%
2004	51,992,031	66%
2005	67,996,277	69%
2006	74,548,972	66%
2007	81,551,794	70%

Notes to Required Supplementary Information

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

Valuation date	July 1, 2006
Actuarial cost method	Entry Age
Amortization method	Level percent open
Remaining amortization period	15
Asset valuation method	3-year smoothed
Actuarial assumptions:	
Investment rate of return *	7.5%
Projected salary increases *	4.0% - 6.5%
* Includes inflation at	4.0%
Cost of living adjustments	3.0%

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

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

The actuarial valuation performed as of July 1, 2006 resulted in a contribution rate of 13.70% for fiscal 2008 per the GASB methodology, an increase of 0.57% over the fiscal 2007 rate of 13.13% per the GASB methodology. Beginning with fiscal 2003, the funding policy was revised to further stabilize the contribution rate. The methodology now in place sets the employer contribution rate equal to the normal cost and allowance for administrative expense.

Amortization of the unfunded liability is included in the contribution rate only for any benefit and actuarial assumption changes or if the actuarial funding ratio falls outside a corridor of 90% and 120%. Use of the corridor method, with adjustments for plan changes effective after the valuation date, results in an adopted rate of 9.59% for fiscal 2008, an increase of 0.34% over the fiscal 2007 adopted rate of 9.25%.

Capital Markets and Economic Conditions

Fiscal Year 2007 Economic Environment

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

Equity Markets

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

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

Real Estate Markets

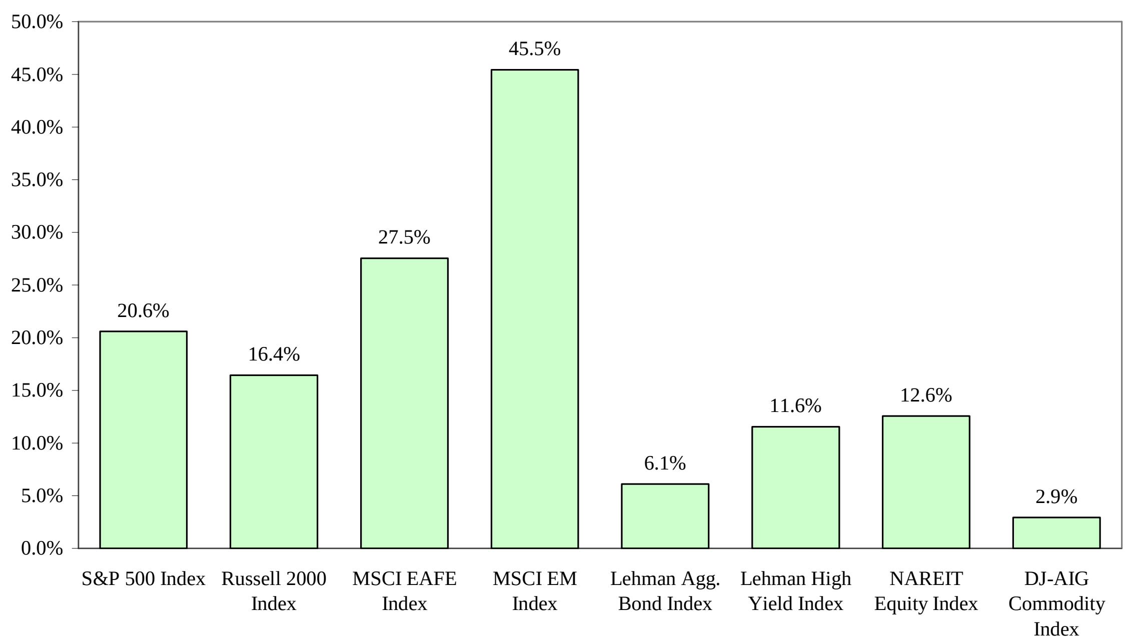
Real Estate markets continued their strong performance for the first half of the fiscal year but gave up significant ground in the second half of fiscal 2007 as high valuations, rising interest rates and a more uncertain economy led to widespread price declines. The NAREIT Equity Index of REIT securities still returned 12.6% for the year but declined 9.0% in the final quarter of the fiscal year. The NCREIF Index which measures the performance of privately held real estate fared better than the public REITs at a 17.4% gain. The success of the private real estate index relative to REITs can be traced to better fundamentals in institutional classes of real estate, a slower repricing of assets because values are based on annual appraisals, and significantly less leverage than in REITs (NCREIF is an unlevered benchmark).

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

Fixed Income Markets

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

Fiscal Year 2007 Market Asset Class Returns



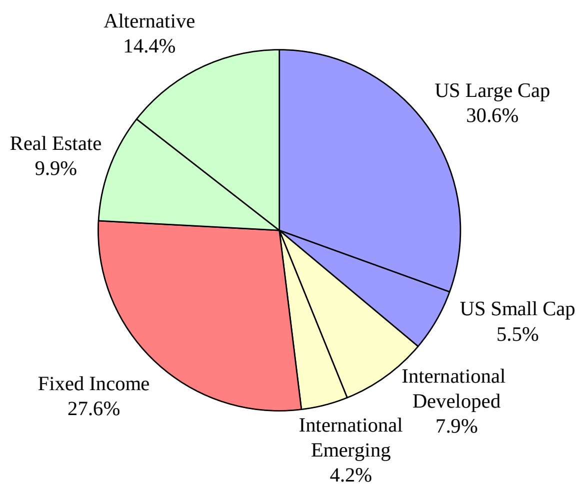
Employees' System

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

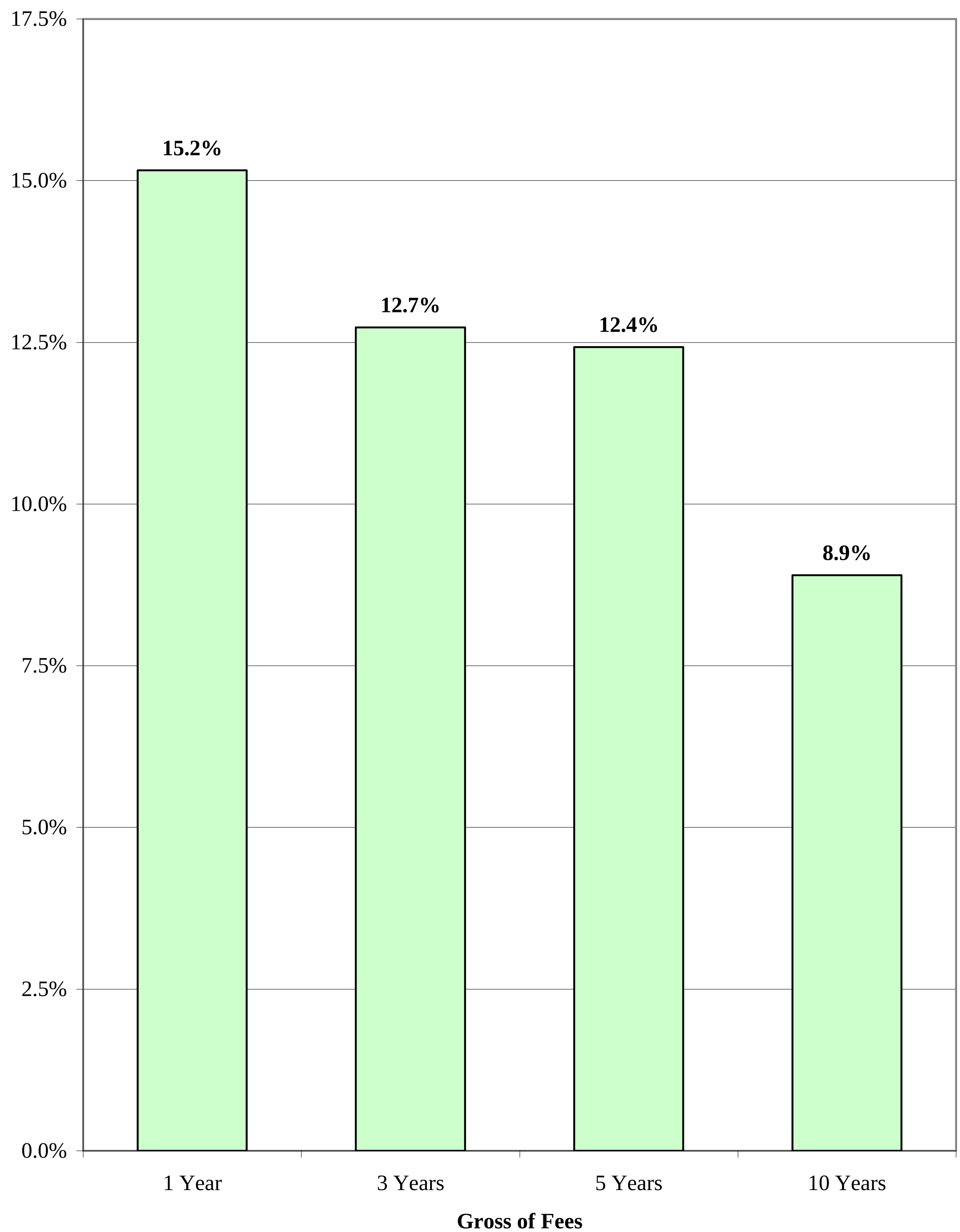
On a market value basis, the total net assets held in trust rose from $2,461.0 million at June 30, 2006 to $2,780.8 million at June 30, 2007. For fiscal 2007, investments provided a return of +14.8%, net of fees, reflecting an expansionary economic environment. The System's annualized rate of return, net of fees, was +12.4% over the last three years and +12.1% over the last five years. The System's returns ranked below the 50th percentile in the Mellon public fund universe over the one-year and three-year periods. Over the longer-term period (five- and ten-year periods), the System ranked in the top 50th percentile of the universe. The Employees' Retirement System's annualized ten-year net return of 8.6% has surpassed the 7.5% long-term threshold return used for actuarial purposes.

During the past twelve months, several changes were made to the asset allocation of the System to help further diversify the investment program. Implementation of the portable alpha overlay structure for the U.S. Large-cap Equity allocation was completed with the addition of the Deephaven Market Neutral Fund. Results for this portion of the fund were excellent, the combination of diversified return strategies and market exposure using derivatives returning 10% above the S&P 500 index for 2007. The International allocation was improved by adding Marathon Asset Management to the developed segment and by changing the Emerging Markets allocation from the BGI Emerging Markets Index Fund to iShares to take advantage of securities lending spreads. In addition, the commodity futures collateral was revised to include a portion in PIMCO's Absolute Return Strategy IV. The Fixed Income allocation was further diversified and enhanced by the addition of the Highbridge Fixed Income Opportunity Fund.

Employees' Retirement System – Allocation of Market Exposures



Compounded Annual Rates of Return



Investments by Category and Investment Manager
June 30, 2007

Asset Class / Manager	Investment Style		Total Assets	% of Total Net Assets
Domestic Equities				
Columbia Wanger Asset Mgt.	Small Cap Core	$	177,528,021	6.4%
DePrince, Race & Zollo	Large Cap Value		141,981,657	5.1%
Enhanced Inv. Technologies (INTECH)	Large Cap Growth		129,965,978	4.7%
Pzena Investment Mgt.	Large Cap Value		135,449,437	4.9%
Sands Capital Mgt.	Large Cap Growth		42,002,451	1.5%
Domestic Equity Overlay				
The Clifton Group	S&P 500 Futures		44,599,781	1.6%
BGI Global Ascent Fund*	Global Macro Absolute Return Fund		62,297,614	2.2%
FrontPoint Partners*	Multi-Strategy Absolute Return Fund		60,569,050	2.2%
First Quadrant Partners*	Global Macro Absolute Return Fund		51,420,650	1.8%
Deephaven Capital Mgt.*	Multi-Strategy Absolute Return Fund		58,499,380	2.1%
Deerfield Capital Mgt.	Long/Short Duration Mgt.		47,751,364	1.7%
International Equities				
LSV Asset Mgt.	Developed Markets Value		130,557,377	4.7%
Julius Baer Investment Mgt.	Developed Markets		132,442,740	4.8%
Marathon Asset Mgt.*	Developed Markets		40,844,652	1.5%
BGI Emerging Markets Fund *	Emerging Markets Index		79,271,116	2.8%
TCW Worldwide Opportunity Fund*	Emerging Markets		37,627,841	1.4%
BNY Currency Overlay	Currency Overlay Program		1,975,387	0.1%
Fixed Income				
The Clifton Group	Fixed Income Futures		63,105,282	2.3%
Bridgewater Associates	Enhanced TIPS Index		126,831,631	4.6%
Highbridge Capital Mgt.*	Fixed Income Opportunity Fund		61,658,557	2.2%
Trust Company of the West	Mortgage-Backed Securities		115,272,180	4.1%
JP Morgan Investment Mgt.	Investment-Grade Bonds		63,801,387	2.3%
Brandywine Asset Mgt.	Global Bonds		123,651,303	4.4%
Post Advisory	High Yield Bonds		68,768,435	2.5%
MacKay Shields	High Yield Bonds		66,970,874	2.4%
Shenkman Capital Mgt.	High Yield Bonds		62,651,360	2.3%
Alternative Investments				
Cohen & Steers Capital Mgt.	US Real Estate Inv. Trusts		200,044,978	7.2%
Cohen & Steers Capital Mgt.	Int'l Real Estate Securities		57,578,482	2.1%
Bridgewater Associates	Enhanced Multi-Asset Real Return		246,560,509	8.9%
Pacific Investment Mgt. Co. (PIMCO)	Collateralized Commodity Futures		134,455,596	4.8%
Short-term				
The Clifton Group	Policy Implementation Overlay		11,736,021	0.4%
Standish Mellon	Plan Level Cash Accounts		2,962,665	0.1%
Cash Held at County Treasurer	Operating Cash Account		2,885,447	0.1%
Net Assets		$	2,783,719,204	100.0%

* Pooled fund

Largest Holdings for Separately Managed (Non-Pooled) Accounts

Asset Class Manager Security	Market Value	% of Account
Domestic Equities		
DePrince, Race & Zollo		
General Electric Co.	$ 2,982,012	2.10%
Northern TR Corp.	$ 2,845,832	2.01%
Rohm & Haas Co.	$ 2,799,616	1.97%
Kraft Foods Inc.	$ 2,745,975	1.94%
Wal Mart Stores Inc.	$ 2,713,404	1.91%
INTECH		
Exxon Mobil Corp.	$ 6,240,420	4.80%
Baxter Int'l Inc.	$ 3,346,145	2.58%
Kohls Corp.	$ 2,983,260	2.30%
Stryker Corp.	$ 2,902,140	2.23%
Apple Computer Inc.	$ 2,864,401	2.21%
Sands Capital Mgt.		
Google Inc.	$ 4,233,870	10.08%
Apple Computer Inc.	$ 2,684,880	6.39%
Genentech Inc.	$ 2,383,290	5.67%
Starbucks Corp.	$ 2,335,360	5.56%
Schlumberger Ltd.	$ 2,208,440	5.26%
Pzena Investment Mgt.		
Freddie Mac	$ 6,282,450	4.64%
XL Cap Ltd.	$ 6,005,663	4.44%
Fannie Mae	$ 5,904,199	4.36%
Citigroup Inc.	$ 5,563,683	4.11%
Wal Mart Stores Inc.	$ 5,389,523	3.98%
Wanger Asset Mgt.		
American Tower Corp.	$ 3,780,000	2.09%
Coach Inc.	$ 3,317,300	1.84%
Genlyte Group Inc.	$ 2,905,980	1.61%
Ametek Inc.	$ 2,460,160	1.36%
Time Warner Telecommunications Inc.	$ 2,211,000	1.23%

Largest Holdings for Separately Managed (Non-Pooled) Accounts
(continued)

Asset Class / Manager / Security	Market Value	% of Account
International Equities		
Julius Baer Investment Mgt.		
OTP Bank	$ 3,480,800	2.72%
Vodafone Group	$ 2,160,113	1.69%
Komercni Banka	$ 2,081,282	1.62%
Total SA	$ 1,908,784	1.49%
CLSA Financial Pro Hyb/Wts	$ 1,621,410	1.27%
LSV Asset Mgt.		
Vodafone Group	$ 2,703,088	2.09%
Toyota Motor Corp	$ 2,633,791	2.04%
Credit Suisse Group	$ 2,551,509	1.98%
Daimlerchrysler AG	$ 2,516,379	1.95%
Royal Dutch Shell	$ 2,287,458	1.77%
Real Estate Securities		
Cohen & Steers Capital Mgt. (US)		
Public Storage Inc.	$ 12,119,738	6.09%
Simon Property Group Inc.	$ 11,874,881	5.97%
Boston Properties Inc.	$ 10,978,975	5.52%
Equity Residential	$ 10,193,742	5.12%
Prologis Int	$ 9,798,351	4.92%
Cohen & Steers Capital Mgt. (Int'l)		
Mitsui Fudosan Co.	$ 4,174,582	7.25%
Mitsubishi Estate Co.	$ 3,851,978	6.69%
Land Securities Group	$ 3,268,430	5.68%
British Land	$ 2,864,633	4.97%
Cheung Kong Holdings	$ 2,506,212	4.35%
Core Fixed Income		
Brandywine Global Asset Mgt.		
US Treasury Bonds, 5.375%, 02/15/2031	$ 16,065,252	13.20%
Government of Poland Bonds, 5.750%, 06/24/2008	$ 8,840,152	7.26%
MEXICO UTD MEX ST, 8.000%, 12/19/2013	$ 5,896,094	4.84%
Government of Brazil Bonds, 12.500%, 01/05/2016	$ 5,424,511	4.46%
US Treasury Bonds, 5.250%, 02/15/2029	$ 5,383,431	4.42%
Bridgewater Associates		
US Treasury Inflation Index Notes, 2.000%, 07/15/2014	$ 16,631,430	13.15%
US Treasury Inflation Index Notes, 4.250%, 01/15/2010	$ 12,495,450	9.88%
US Treasury Inflation Index Notes, 0.875%, 04/15/2010	$ 9,533,330	7.54%
US Treasury Inflation Index Notes, 0.875%, 07/15/2013	$ 8,096,501	6.40%
US Treasury Inflation Index Notes, 2.500%, 07/15/2016	$ 3,947,468	3.12%

Largest Holdings for Separately Managed (Non-Pooled) Accounts
(continued)

Asset Class Manager Security	Market Value	% of Account
Core Fixed Income (continued)		
TCW Asset Mgt.		
FHLMC Multiclass Mortgage, 5.000%, 04/15/2033	$ 6,197,458	5.35%
FHLMC Multiclass Mortgage, 0.000%, 05/15/2034	$ 3,108,500	2.68%
FHLMC Multiclass Mortgage, Variable Rate, 12/15/2032	$ 2,652,883	2.29%
FHLMC Multiclass Mortgage, Variable Rate, 10/15/2033	$ 2,433,492	2.10%
FHLMC Multiclass Mortgage, Variable Rate, 02/15/2032	$ 2,402,948	2.07%
High Yield Fixed Income		
MacKay Shields, LLC		
Calpine Corp. 2nd Priority 144A, 8.500%, 07/15/2010	$ 1,147,005	1.70%
General Motors Acceptance Corp. Note, 8.000%, 11/01/2031	$ 1,119,802	1.66%
Kosa Lux Financial B V 144A, 9.250%, 05/01/2012	$ 803,700	1.19%
AES Corporation 144A, 9.000%, 05/15/2015	$ 571,725	0.85%
Nortel Networks Corp. Senior Note CVT, 4.250%, 09/01/2008	$ 553,000	0.82%
Post Advisory		
Insight Communications Inc. Senior SC Note, Step, 02/15/2011	$ 1,306,250	1.88%
Symbion Inc., Variable Rate, 06/26/2008	$ 1,000,000	1.44%
CCH I LLC / CCH I Cap Corp., 11.000%, 10/01/2015	$ 892,406	1.28%
Advanstar Communications Inc. Senior Sub Note, 12.000%, 02/15/2011	$ 884,000	1.27%
Owens Brockway Glass Container, 8.250%, 05/15/2013	$ 776,250	1.12%
Shenkman Capital Mgt.		
Idearc Inc. Senior Note, 8.000%, 11/15/2016	$ 580,750	0.94%
Ford Motor Credit Co. Global Landmark, 7.250%, 10/25/2011	$ 579,012	0.94%
Edison Mission Energy 144A, 7.625%, 05/15/2027	$ 543,375	0.88%
Hexion US Financial Corp., 9.750%, 11/15/2014	$ 543,375	0.88%
General Motors Corp. Senior Note, 7.125%, 07/15/2013	$ 539,781	0.87%
Alternative Assets & Strategies		
PIMCO Commodity Real Return		
US Treasury Inflation Index Notes, 1.875%, 07/15/2015	$ 16,369,411	10.05%
US Treasury Inflation Index Notes, 3.500%, 01/15/2011	$ 16,084,693	9.87%
US Treasury Inflation Index Bonds, 2.375%, 01/15/2025	$ 14,235,279	8.74%
US Treasury Inflation Index Notes, 2.375%, 01/15/2017	$ 14,140,785	8.68%
FNMA Mortgage Pool TBA, 5.500%, 07/01/2037	$ 11,669,240	7.16%
Deerfield Capital Mgt. RPM		
US Treasury Notes, 4.750%, 05/15/2014	$ 26,769,380	47.08%
BNY Overlay Associates		
Japanese Yen Forward Foreign Exchange Contracts	$ (26,530,534)	n/a
British Pound Sterling Forward Foreign Exchange Contracts	$ 19,112,364	n/a
Singapore Currency Forward Foreign Exchange Contracts	$ (16,937,364)	n/a
Euro Currency Forward Foreign Exchange Contracts	$ 16,654,437	n/a
Australian Dollar Forward Foreign Exchange Contracts	$ 11,681,079	n/a

CHEIRON Classic Values, Innovative Advice

December 22, 2006

Fairfax County Employees'
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 Employees' Retirement System as of July 1, 2006. The results of the valuation are contained in this report.

Funding Objective

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

Assumptions

The actuarial assumptions used in performing the July 1, 2006 valuation were recommended by the actuary and adopted by the Board of Trustees based on our most recent review of the System's experience for the five year period ending June 30, 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

December 22, 2006
Fairfax County Employees' Retirement System
Page 2

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

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

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

Although there is no formal procedure for making this comparison, we compared the least valuable rate under the Employees' 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 Employees' 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, 2006 actuarial valuation of the Fairfax County Employees' Retirement System. The primary purposes of performing the annual actuarial valuation are to:

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

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

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

General Comments

Fairfax County's annual contribution to this System is determined by using a Corridor Funding Method. Under this funding approach, the County's contribution rate is based on the normal cost rate plus expense rate determined as of the implementation date of the corridor method (July 1, 2001) 5.85% of payroll plus an expense rate, currently 0.15% of payroll. This rate is adjusted for benefit 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 2002 ad hoc COLA added 0.13% to the contribution rate, the 2006 assumption changes added 1.28% to the contribution rate, the implementation of a Deferred Retirement Option Plan (DROP) this year added 0.13% and the transfer of Department of Public Communication employees reduced the rate by 0.04%. The basic Corridor Funding Contribution is currently 7.50% 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 the normal cost rate plus expense rate, and any remaining amortization for benefit or assumption changes.

The valuation as of July 1, 2006 shows that the actuarial funded ratio of this Plan (including a credit for the amortization piece of prior benefit increases and assumption changes) has fallen out of the corridor and there is a required increase in the rate at this time of 2.05% of payroll.

The County's contribution rate for FY 2008 will increase from 9.16% to 9.55% of payroll, on the basis of this valuation's results.

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

Trends

The financial markets performed above expectation during the fiscal year ending in 2006, which produced an actuarial gain on the asset side of the System. The actual return on a market value basis was approximately 8.41%. On an actuarial value basis, the assets returned 9.73% compared with an assumed rate of return of 7.5%. The gain recognized for funding purposes was $48 million.

The measurement of liabilities produced a loss this year in the amount of $66 million. This loss was due to several assumptions not being met. Among these were retirement, salary growth and COLA.

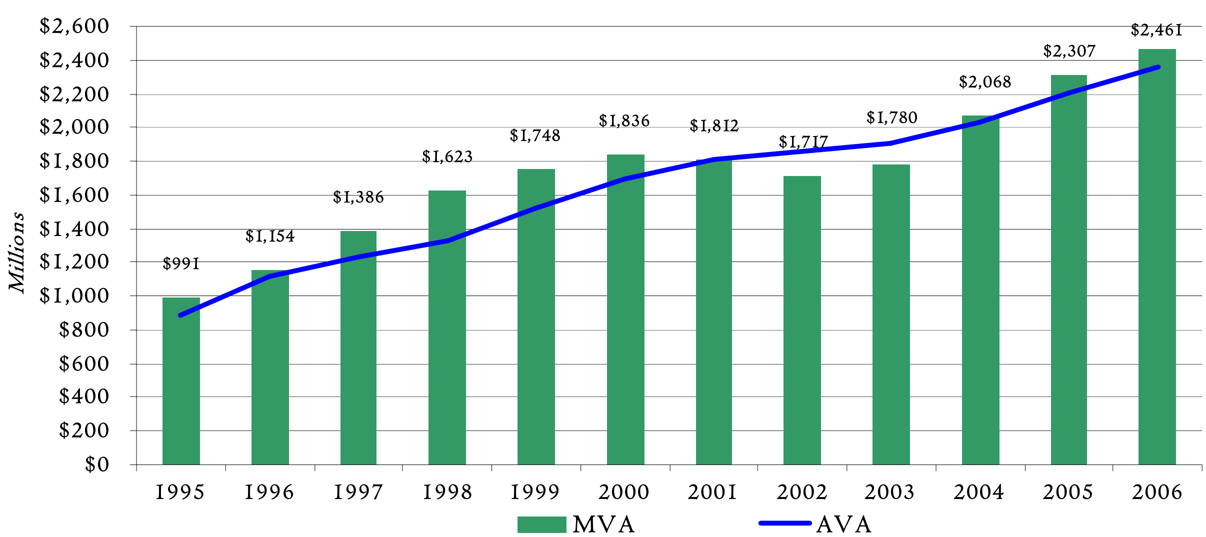
The combination of these components over the last year produced a slight deterioration in the System's funding ratio (actuarial value of assets over actuarial accrued liability) from 82.3% at July 1, 2005 to 82.0% at July 1, 2006. For purposes of measuring whether the System remains within the funding corridor, an adjusted funding ratio is used. In this ratio there is an additional asset recognized in the amount of the unfunded actuarial liability (UAL) payments being made by the County to pay for benefit increases and assumption changes. On this basis, the System's actuarial funded ratio decreased from 85.6% at July 1, 2005 to 85.2% at July 1, 2006.

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

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

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

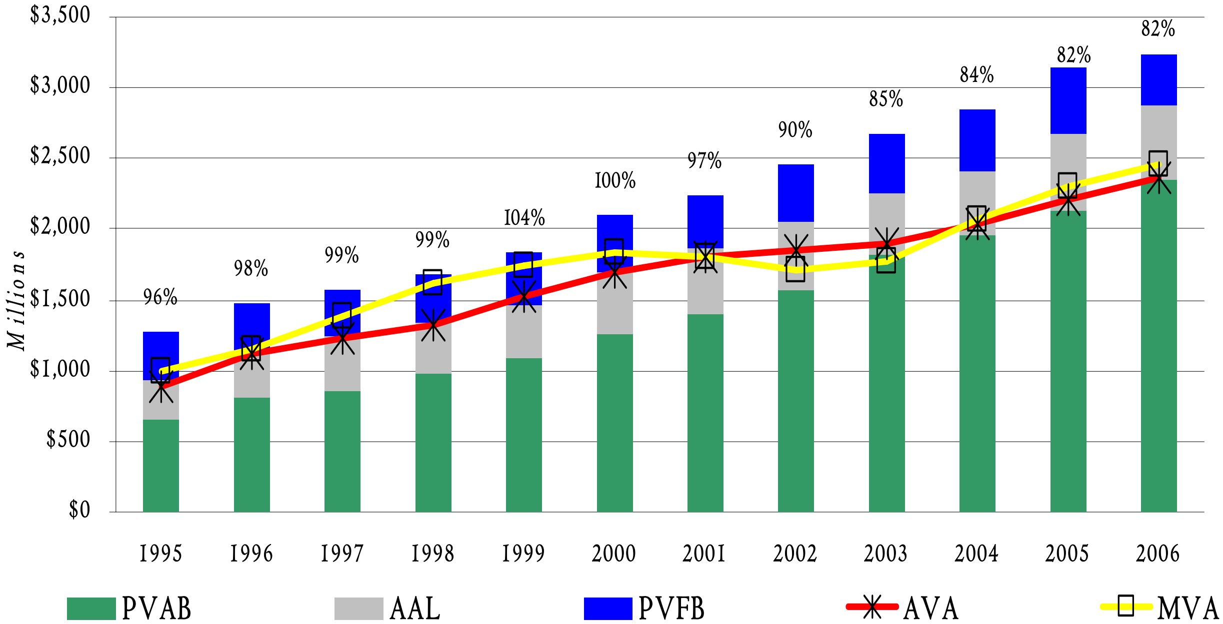
Growth in Assets



The positive growth in the market value of assets (MVA) continued with a return of around 8%. Due to the asset smoothing method in place, the actuarial value of assets increased by more than the market value, since a portion of last year's excess investment return is being recognized.

Over the period July 1, 1995 to June 30, 2006 the System's assets returned approximately 9.7% per year measured at actuarial value, compared to a valuation assumption of 7.5% per year.

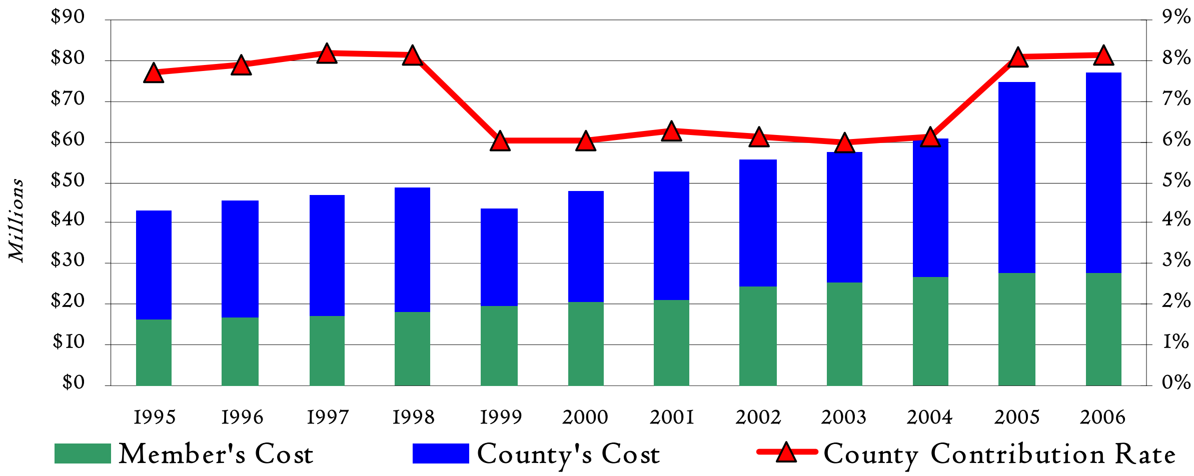
Assets and Liabilities



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

The combination of asset losses at the start of the decade, with lower County contribution requirements has led to a slower recovery of this funded percent than might otherwise have occurred. Both the asset returns and contribution rates have increased. The amount represented by the top of the blue bars, the Present Value of Future Benefits (PVFB), is the amount needed to provide all benefits for the current participants and their beneficiaries. If the System had assets equal to the PVFB no contributions would, in theory, be needed for the current members.

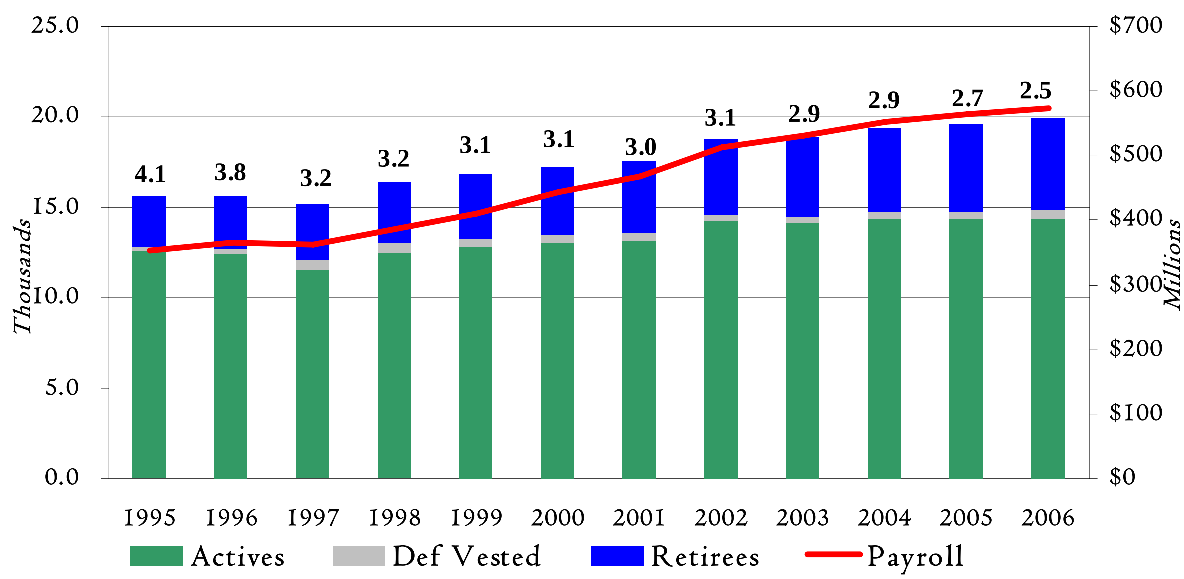
Contribution Rates



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

The member contribution rate is set by the County Ordinance, depending on which plan the member participates in. The County contribution rate is set by the actuarial process, as constrained by the Corridor Method. Please note there is a lag in the rate shown. For example, the 2006 value is the rate prepared by the 2004 valuation and implemented for the period July 1, 2005 to June 30, 2006. County contributions for the next two periods will come in at over 9% of payroll.

Participant Trends

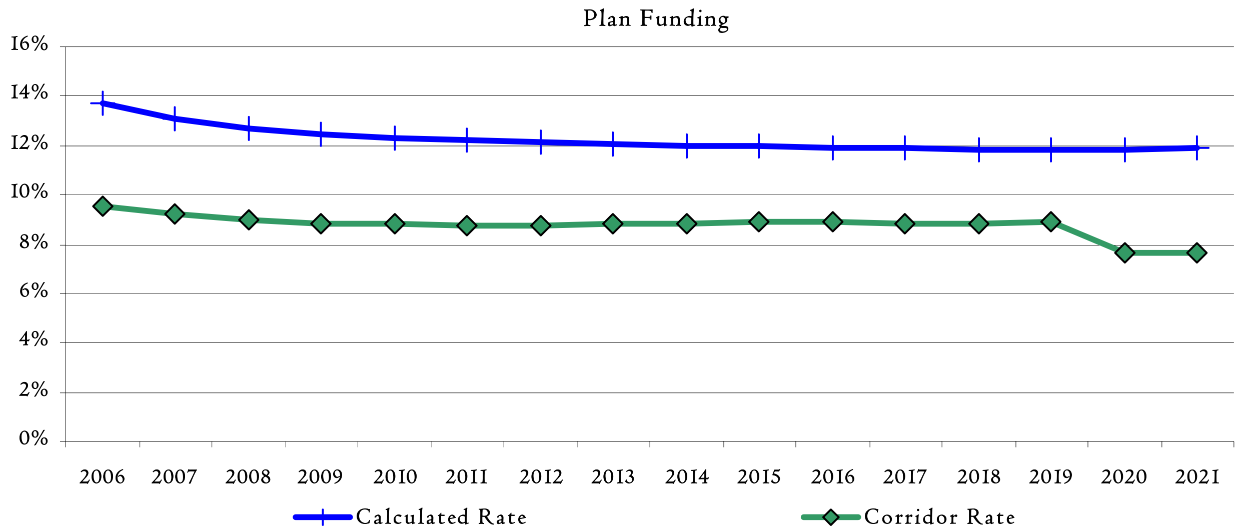


As with many funds in this country, there has been a steady growth in the number of retired members as the System has matured. The active-to-inactive ratio has decreased from 4.1 actives to each inactive in 1995 to 2.5 actives for each inactive today. While this would be an alarming trend in a pay-as-you-go system, the pool of invested assets has been established in anticipation of this development.

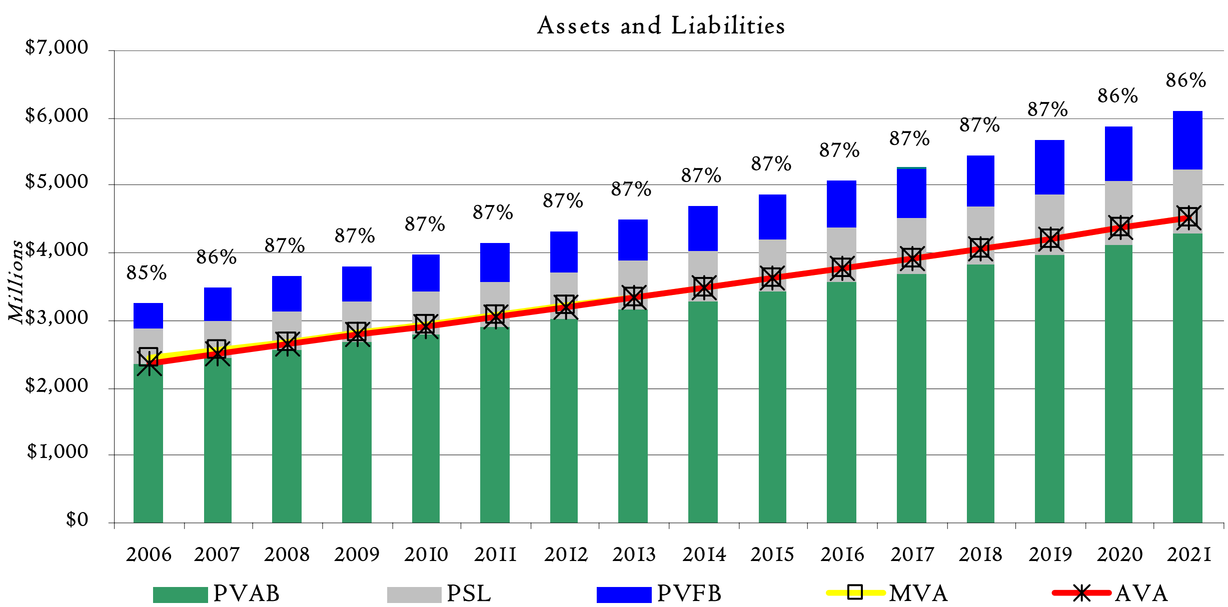
Future Outlook

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 not re-entering the corridor (if all other actuarial assumptions are met as well as the 7.5% interest rate). The blue line shows the actuarially calculated rate if the corridor were not in place.

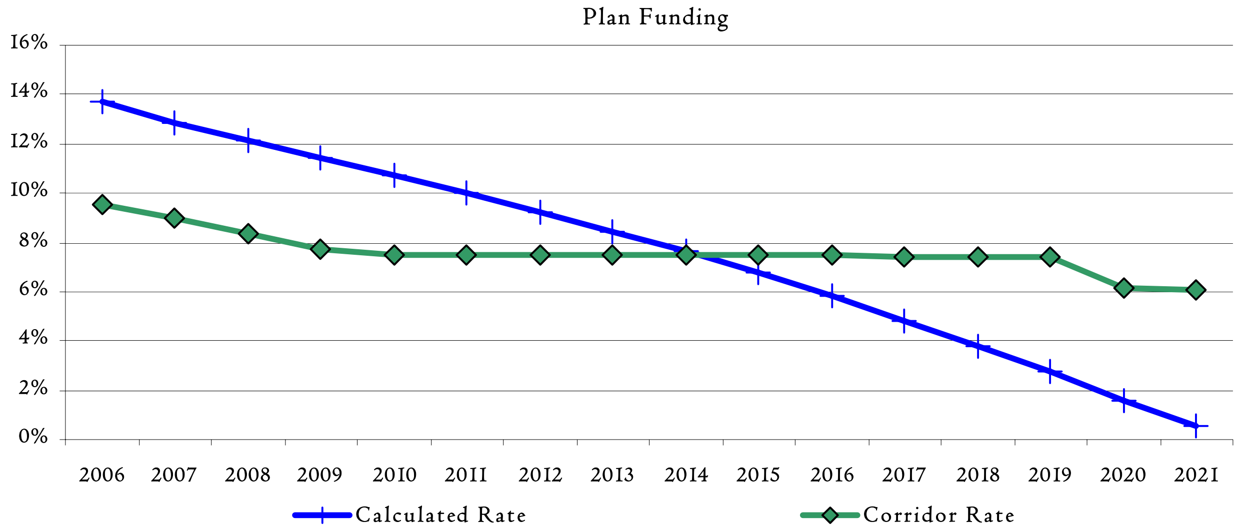


The "Assets and Liabilities" graph shows the projected funding status over the next 15 years. Note that the 2006 funded level differs from that shown earlier, the ratio used here reflects the corridor method. Since last year's excellent market return has erased the prior losses, resulting in a market value slightly in excess of the actuarial value, the System's funded status is projected to increase slightly from the current level of 85%.

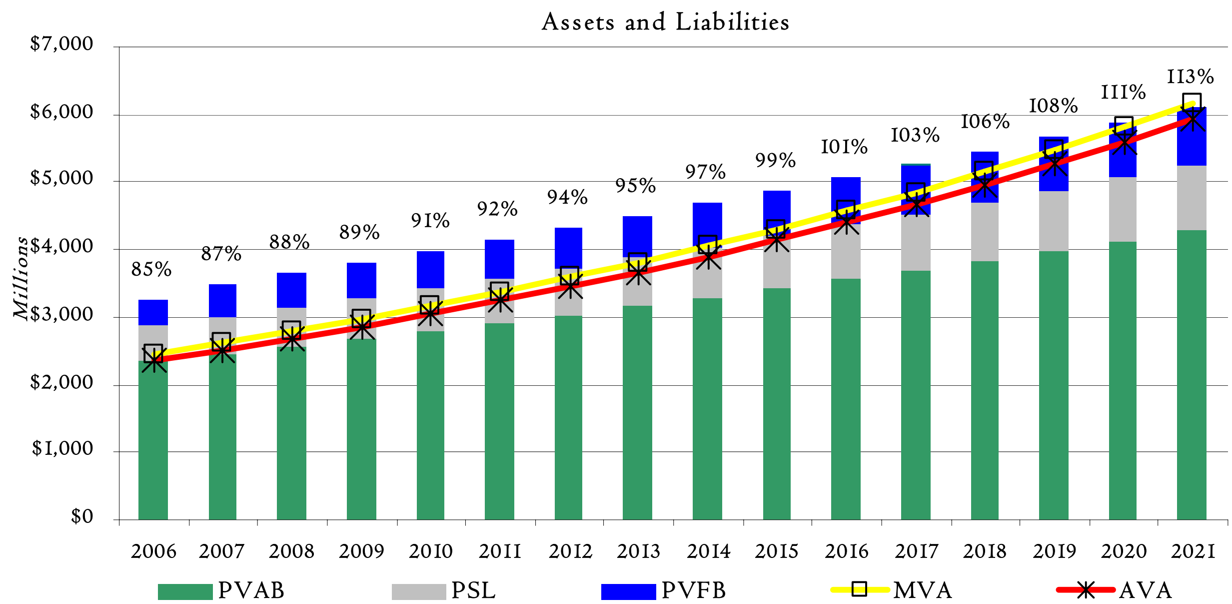


Projections with Asset Returns of 9.5%

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 9.5% annual return in each year. The System has earned an average 9.8% per year over the ten-year period ending June 30, 2006.

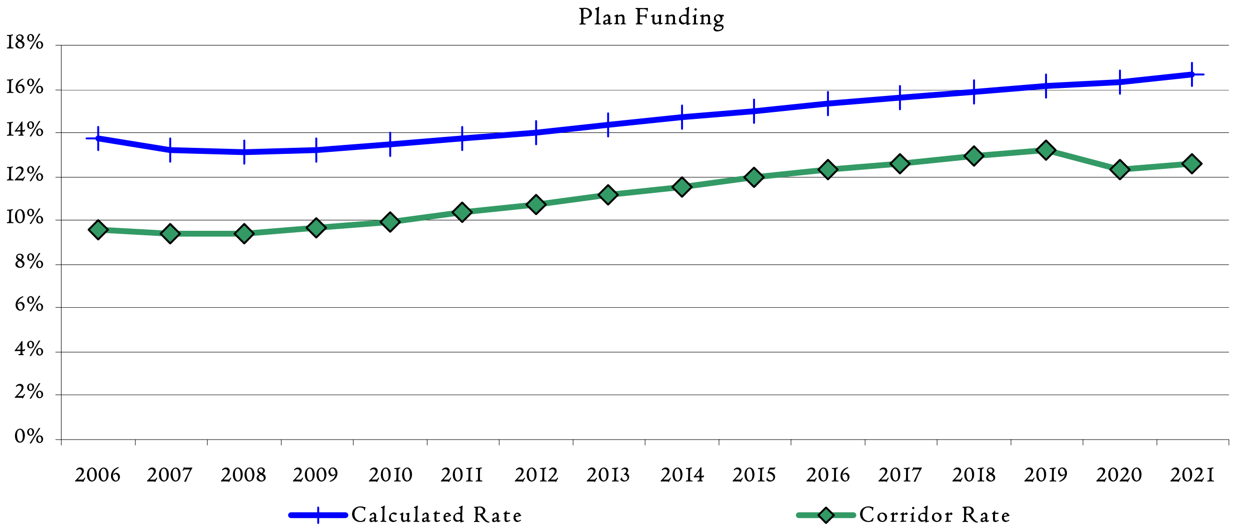


As you can see, the System would re-enter the corridor by 2010, and would be fully funded by 2016. The contribution rate slowly drops back down to reflect the level of the System's normal cost plus expenses, and the calculated (or GASB) contribution rate eventually reaches zero by the end of the period.

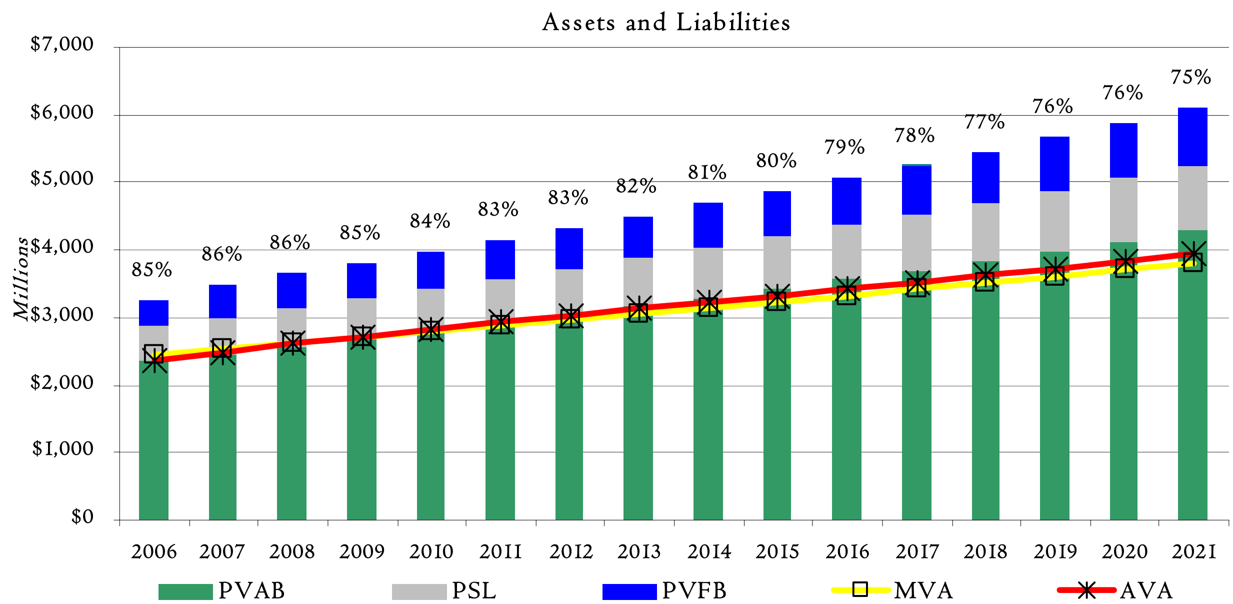


Projections with asset returns of 6.0%

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



The projection shows a deterioration of the System's funded status from the current 85% down to 75% by the end of the period.



Fairfax County Employees' Retirement System
Summary of Principal Plan Results

Valuation as of:	**7/1/2005**	**7/1/2006**	**% Change**
Participant Counts			
Actives	14,378	14,300	-0.5%
DROP	0	207	N/A
Terminated Vesteds	373	330	-11.5%
In Pay Status	4,889	5,119	4.7%
Total	19,640	19,956	1.6%
Annual Salaries of Active Members	$ 565,062,951	$ 574,294,039	1.6%
Annual Retirement Allowances for Retired Members and Beneficiaries (Base amount only – not supplements)	$ 87,471,764	$ 94,965,419	8.6%
Assets and Liabilities			
Actuarial Accrued Liability	$ 2,676,418,358	$ 2,881,779,593	7.7%
Assets for Valuation Purposes	2,202,515,466	2,363,844,055	7.3%
Unfunded Actuarial Liability	$ 473,902,892	$ 517,935,538	9.3%
Funding Ratio	82.29%	82.03%	
Present Value of Accrued Benefits	$ 2,136,682,785	$ 2,348,411,001	9.9%
Market Value of Assets	2,307,321,603	2,460,951,498	6.7%
Unfunded FASB Accrued Liability (not less than $0)	$ 0	$ 0	
Accrued Benefit Funding Ratio	108.0%	104.8%	
Contributions as a Percentage of Payroll	**Fiscal Year 2007**	**Fiscal Year 2008**	
GASB Method:			
Normal Cost Contribution	5.90%	5.93%	
Unfunded Actuarial Liability Contribution	7.08%	7.62%	
Administrative Expense	0.15%	0.15%	
Total Contribution	13.13%	13.70%	
Corridor Method:			
Normal Cost Contribution	5.90%	5.93%	
Increase Due to Amortized Changes	1.36%	1.42%	
Amortization of Amount Outside Corridor	1.75%	2.05%	
Administrative Expense	0.15%	0.15%	
Corridor Method	9.16%	9.55%	

Summary of Actuarial Assumptions and Methods

Funding Method

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

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

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

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

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

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

Age	Male	Female
45	43	24
50	48	28
55	53	33
60	58	38
65	64	44
70	73	51
75	89	63
80	107	80

Termination of Employment: (Prior to Normal Retirement Eligibility)

Annual Termination Rates Per 1.000 Members – Male
Years of Employment With County

Age	0-3	3-5	5+
20	283	174	80
25	270	150	80
30	210	122	65
35	130	103	50
40	125	89	35
45	125	74	20
50	125	59	20
55	125	50	20

Annual Termination Rates Per 1,000 Members – Female
Years of Employment With County

Age	0-3	3-5	5+
20	333	150	150
25	320	150	150
30	260	150	150
35	180	138	100
40	175	125	50
45	168	113	50
50	160	100	50
55	153	100	50

It is assumed that members who terminated before age 45 with age plus service equal to 60 elect to receive a refund of contributions instead of vested benefits.

Disability

Annual Disabilities Per 10,000 Members*

Age	Male	Female
25	3	2
30	3	2
35	3	3
40	6	4
45	15	12
50	28	22
55	43	34
60	53	43

* 30% of disabilities are assumed to be service-connected. Of these, 5% are assumed to receive Social Security benefits and 31% are assumed to receive Workers' Compensation benefits.

Retirement

Annual Retirements Per 1,000 Eligible Members*
(Male and Female)

Age	Early	Normal**
50	0	500
51	0	450
52	25	400
53	25	350
54	25	320
55	25	290
56	25	260
57	28	230
58	31	230
59	34	230
60	40	250
61	60	200
62	80	200
63	100	200
64	125	200
65	N/A	250
66	N/A	150
67	N/A	150
68	N/A	150
69	N/A	150
70	N/A	1,000

* To further account for unused sick leave we are assuming that members can retire early on Rule of 74 (instead of Rule of 75) and normal on Rule of 79 (instead Rule of 80).
**Upon reaching 1st eligibility for normal retirement we assume members retire at the above rates plus 5%.

Merit/Seniority Salary Increase (in addition to across-the-board increase)

Service	Merit/Seniority Increase
0	2.50%
5	1.45%
10	1.20%
15	0.90%
20	0.40%
25	0.00%
30	0.00%

Family Composition

For purposes of valuing the pre-retirement death benefit, an assumption is made 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% of service credit due to sick leave and an additional 1.8% for average final compensation.

Economic Assumptions

Investment Return:	7.5% 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. Post-retirement cost-of-living increases are assumed to be 3% per year.)
Total Payroll Increase (For amortization):	4.00% compounded per annum.
Administrative Expenses:	0.15% of payroll.

Changes Since Last Valuation

Normal retirement rates increased 5% upon first eligibility.

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	*Gain (or Loss) for Year ending June 30,* 2003	2004	2005	2006
Investment Income	$ (61,928,161)	$ 18,488,228	$ 52,403,068	$ 48,113,093
Combined Liability Experience	(91,356,217)	(57,139,063)	(48,719,014)	(66,263,080)
Gain (or Loss) During Year from Financial Experience	(153,284,378)	(38,650,835)	3,684,054	(18,149,987)
Non-Recurring Items	0	0	(82,052,042)	(4,777,614)
Composite Gain (or Loss) During Year	(153,284,378)	(38,650,835)	(78,367,988)	(22,927,601)

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

	Added to Rolls		Removed From Rolls		On Rolls @ Yr. End			
Year Ended June 30	No.	Annual Allowance	No.	Annual Allowance	No.	Annual Allowance	% Increase Allowance	Average Allowance
2000	285	$7,669,426	118	$1,807,025	3,757	$58,782,760	11.08%	$15,646
2001	353	9,384,327	136	1,544,050	3,974	66,623,037	13.34%	16,765
2002	298	9,757,867	108	1,129,458	4,164	75,251,446	12.95%	18,072
2003	375	11,302,793	149	1,766,319	4,390	84,787,920	12.67%	19,314
2004	365	11,473,126	136	2,478,847	4,619	93,782,199	10.61%	20,304
2005	410	13,203,836	140	2,578,496	4,889	104,407,539	11.33%	21,356
2006	572	17,985,243	135	2,924,626	5,326	119,468,156	14.42%	22,431

Solvency Test

	Aggregate Accrued Liability For:						
	(1)	**(2)**	**(3)**				
Valuation Date July 1,	**Active Member Contributions**	**Retirees Vested Terms, Beneficiaries & DROP**	**Active Members (Employer Financed Portion)**	**Reported Assets**	**Portion of Accrued Liabilities by Reported Assets (1)**	**(2)**	**(3)**
2001	$194,412,262	$731,698,653	$931,691,000	$1,807,813,497	100%	100%	95%
2002	207,072,630	820,951,804	1,023,653,031	1,854,088,532	100%	100%	81%
2003	229,276,020	945,552,585	1,076,358,791	1,903,970,061	100%	100%	68%
2004	243,581,448	1,046,687,178	1,120,866,834	2,030,538,870	100%	100%	66%
2005	260,335,634	1,155,976,307	1,260,106,417	2,202,515,466	100%	100%	62%
2006	259,773,091	1,351,131,274	1,270,875,228	2,363,844,055	100%	100%	59%

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Schedule of Additions by Source

Fiscal Year	Plan Member Contributions	Employer Contributions	Employer Contributions % of Covered Payroll	Net Investment Income (loss)	Total Additions
2000	$ 20,561,280	$ 27,133,595	6.04%	$ 101,648,889	$ 149,343,764
2001	22,553,731	29,960,984	6.29%	(9,245,125)	43,269,590
2002	24,217,436	31,083,805	6.12%	(75,059,747)	(19,758,506)
2003	25,467,082	31,983,708	6.00%	89,440,289	146,891,079
2004	27,716,595	34,418,051	6.13%	319,741,487	381,876,133
2005	27,563,754	46,958,113	8.08%	271,340,627	345,862,494
2006	27,605,933	49,436,463	8.24%	204,149,213	281,191,609
2007	29,805,266	57,452,711	9.25%	358,779,626	446,037,603

Schedule of Deductions by Type

Fiscal Year	Benefit Payments	Refunds of Contributions	Administrative Expenses	Transfers	Total Deductions
2001	$ 62,431,928	$ 4,503,567	$ 776,563		$ 67,712,058
2002	70,703,829	3,774,942	807,528		75,286,299
2003	79,442,355	3,425,017	845,537		83,712,909
2004	89,675,104	3,780,390	1,019,054		94,474,548
2005	98,494,430	6,545,800	1,015,986		106,056,216
2006	108,735,741	6,059,597	1,016,292	$ 11,750,084	127,561,714
2007	117,885,907	3,935,886	1,866,410		123,688,203

Schedule of Benefit Payments by Type

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Total
2001	$ 55,890,164	$ 2,469,474	$ 2,503,087	$ 1,569,203	$ 62,431,928
2002	63,723,688	2,553,198	2,738,462	1,688,480	70,703,828
2003	71,933,909	2,634,434	2,918,607	1,955,406	79,442,356
2004	81,795,303	2,749,554	3,155,573	1,974,674	89,675,104
2005	90,329,194	2,748,877	3,257,053	2,159,306	98,494,430
2006	100,083,209	2,736,141	3,479,564	2,436,827	108,735,741
2007	108,782,484	2,768,116	3,646,607	2,688,700	117,885,907

Schedule of Retired Members by Benefit Type

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Total
2001	3,274	176	361	163	3,974
2002	3,459	174	366	165	4,164
2003	3,674	172	364	178	4,388
2004	3,888	168	375	188	4,619
2005	4,137	167	378	207	4,889
2006	4,365	156	378	220	5,119
2007	4,565	155	385	236	5,341

Schedule of Average Monthly Benefit Amounts

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Average
2001	$ 1,521	$ 1,223	$ 593	$ 886	$ 1,397
2002	1,629	1,259	680	879	1,500
2003	1,750	1,326	687	886	1,610
2004	1,840	1,333	708	915	1,692
2005	1,932	1,401	740	939	1,780
2006	1,987	1,460	777	998	1,839
2007	2,068	1,608	816	1,030	1,919