Fairfax County
Police Officers 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 20, 2007

Dear Members of the Board of Trustees:

I am pleased to submit to you the annual report of the Fairfax County Police Officers 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 Police Officers Retirement System was created under authority granted by Chapter 303 of the Acts of Assembly (law of the Commonwealth of Virginia) on March 29, 1944 to provide defined benefit pension plan coverage for sworn full-time law enforcement officers of the Fairfax County Police Department. In 1981, Fairfax County enacted Article 7 of the Fairfax County Code, which adopted and continued Chapter 303 as amended. There were 1,406 active members and 745 retirees participating in the System as of June 30, 2007.

Benefit Provisions

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

Capital Markets and Economic Conditions

Fiscal 2007 was a year of moderate growth in the economy and the domestic equity markets advanced at a remarkable pace. The international equity markets exhibited stunning returns fueled by strong economic growth, thus outpacing the returns in the U.S. market. The S&P 500 Index rose 20.6% during fiscal 2007, outperforming the smaller-capitalization Russell 2000 Index (+16.4%) for the first time in five years. International equity returns were quite a bit higher, with the developed markets index (EAFE) up 27.5% and the emerging markets index up 45.4%. Returns on REITs were also satisfactory despite weakness towards year end, with the NAREIT index up 12.6%. After struggling

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POLICE OFFICERS RETIREMENT SYSTEM
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http://www.fairfaxcounty.gov/retbrd/

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 Police Officers Retirement System returned 17.5% for fiscal 2007, after management fees. This return placed the fund in the top half of the Mellon Analytical Solutions public fund universe in 2007. The returns for the total fund exceeded the policy benchmark for the year by 2.5%. The fund's relative performance over the last 10 years was within 0.3% of the median return of the public fund universe.

After accounting for all cash flows, including contributions, expenses and benefit payments, the market value of the System's assets increased 16.4%, from $800 million on June 30, 2006 to $932 million 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.

As a result of a continuing analysis of plan provisions and the need to attract and retain police officers, two ordinance changes were adopted in fiscal year 2007. The required employee contribution rate was reduced from 12% of pay to 11%. Also, the limit on benefits that capped service credit at thirty years was eliminated.

Changes were made to the U.S. Large-cap Equity segment to improve risk/return efficiency. At the beginning of the year, the Robert E. Torray account was closed and replaced with a value portfolio with Pzena Investment Management and the PIMCO account was enhanced by switching from the StocksPlus "B" strategy to the StocksPlus PARS III mandate. A portable alpha approach was also introduced into the large-cap equity allocation with the hiring of FrontPoint Partners and Mariner Alpha Plus. The International Equity allocation was improved by replacing the passive BGI Emerging Markets Index Fund with the actively-managed Acadian Emerging Markets 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 decreased from 88.4% to 87.9%. 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 19.55% to 20.00%. With the ordinance change mentioned earlier (a reduction in the employee contribution rate and the removal of the thirty year cap on service) that occurred after the valuation, the final employer contribution rate for fiscal year 2008 will be 21.00%.

Investment Policies and Strategies

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

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

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

Other Information

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

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

Respectfully submitted,

Laurnz A. Swartz
Executive Director

Administrative Organization

Administrative Staff

Laurnz A. Swartz
Executive Director

Jeffrey A. Willison
Investment Manager

John P. Sahm
Retirement Administrator

Professional Services

Actuary
CHEIRON
Actuaries
McLean, VA

Auditor
KPMG LLP
Certified Public Accountants
Washington, DC

Investment Managers

Acadian Asset Management
Boston, MA

Cohen & Steers Capital Management
New York, NY

Dodge & Cox Investment Managers
San Francisco, CA

FrontPoint Partners
Greenwich, CT

Grantham, Mayo, Van Otterloo & Co.
Boston, MA

Janus Capital Group
Denver, CO

Mariner Investment Group
Boston, MA

McKinley Capital Management
Anchorage, AK

PIMCO
Newport Beach, CA

Pzena Investment Management, LLC
New York, NY

Standish Mellon Asset Management
Pittsburgh, PA

Systematic Financial Management
Teaneck, NJ

Trust Company of the West
Los Angeles, CA

Veredus Asset Management
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Attorney
W. McCauley Arnold
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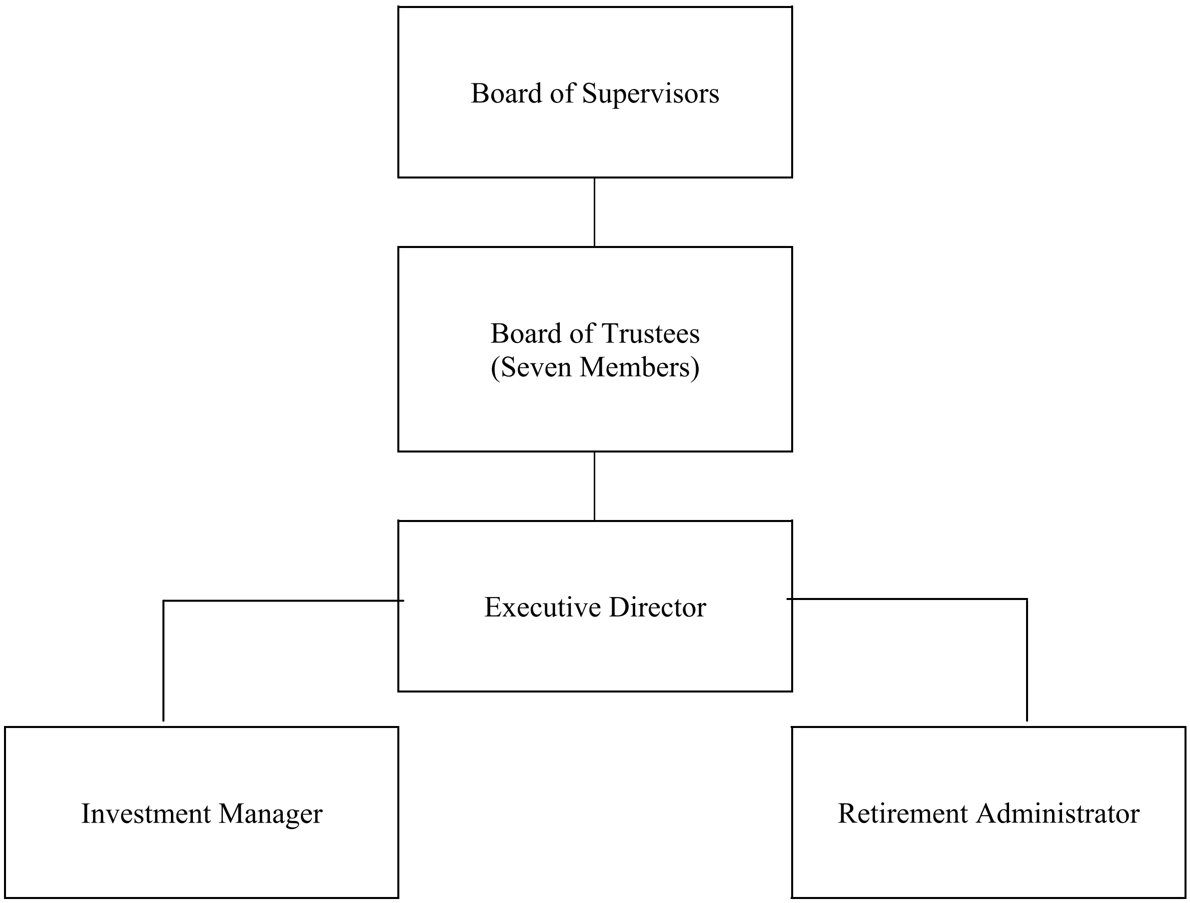
Fairfax, VA

Custodial Bank
Mellon Global Securities Services
Pittsburgh, PA

Investment Consultant
Mercer Investment Consulting, Inc.
Atlanta, GA

Organizational Chart



Summary of Plan Provisions

Membership in the Fairfax County Police Officers Retirement System includes full-time sworn law enforcement officers in the Fairfax County Police Department.

The general provisions of the Police Officers Retirement System follow:

Contribution Rate:
12% of base salary. Police Officers do not contribute to Social Security, except Police Officers hired after April 1, 1986 contribute to Medicare.

Benefit:
2.8% of average final compensation (highest consecutive three years) times creditable service up to a maximum of 84%. The total benefit is then increased by 3%.

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

Normal Retirement:
is either age 55 or at least 25 years of creditable service (20 years if sworn in before July 1, 1981).

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 20 years of creditable service if sworn in on or after July 1, 1981.

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 Police Department at age 55.

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 for total disability are 66⅔% of average final compensation if sworn in on or after July 1, 1981. If sworn in before July 1, 1981, the total disability benefit is based on 66⅔% of the salary the member would have received if he or she had not been disabled. Any member who is still disabled when they reach normal retirement date will have their benefit adjusted to 60% of the salary he or she would have received if he or she had not been disabled.

Non-Service Connected Disability Retirement:
is available for vested members who become disabled due to an injury or illness that is not job-related. Normal retirement benefits are paid (minimum is 10% of the member's salary).

Summary of Plan Provisions
(continued)

Death Benefits:
Before Retirement – An automatic monthly benefit is payable to the member's spouse and children. This benefit equals $1,823.62 for the spouse (until remarriage before age 60) or surviving handicapped child (if there is no spouse), plus each eligible child receives $729.44 up to a total family benefit of $3,647.22 (these benefits are indexed to inflation).If the death occurred in the line of duty, the spouse or surviving handicapped child (if there is no spouse) may elect to receive 66⅔% of the member's regular salary at the time of death in lieu of the automatic benefits. If no automatic benefit is payable, contributions will be refunded to the member's beneficiary.

After Retirement – For those retiring on a regular service or service-connected disability retirement, an automatic monthly benefit is payable to the member's spouse and children. This benefit equals $1,823.62 for the spouse (until remarriage before age 60) or surviving handicapped child (if there is no spouse), plus each eligible child receives $729.44 up to a total family benefit of $3,647.22 (these benefits are indexed to inflation). In addition, members who retire on a regular service retirement may elect a Joint and Contingent Spouse and Handicapped Child option which provides 100%, 66⅔% or 50% of the retiree's reduced benefit to the spouse or eligible handicapped child for life. 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. If no automatic benefit is payable, contributions not yet paid out in benefits will be refunded to the member's beneficiary.

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-Baltimore Metropolitan Statistical Area.

KPMG LLP
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Independent Auditors' Report

The Board of Supervisors
County of Fairfax, Virginia

The Board of Trustees
of the Fairfax County Police Officers Retirement System:

We have audited the statement of plan net assets of the Fairfax County Police Officers 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 Police Officers Retirement System's ("System" or "plan") financial performance and provides an overview of the financial activities for the fiscal year ended June 30, 2007. The information in this section should be reviewed in conjunction with the letter of transmittal provided at the beginning of this report.

Overview of Financial Statements and Accompanying Information

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

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

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

Financial Analysis

Summary of Plan Net Assets. As indicated in the following Summary Statement of Plan Net Assets, the net assets held in the System increased $131.5 million or 16.4% during fiscal 2007. The change was primarily due to an increase in fair value of investments during the fiscal year.

Return on Investments. The System's return on investments net of investment management fees for fiscal 2007 was 17.5%. The System's domestic equities had a 20.8% return. The international equity portfolio returned 31.5%. The System's fixed income investment returned 6.7%. The System's REIT portfolio returned 12.7%. Additional investment market commentary is provided in the Investment Section of this document.

Additions. Total additions increased $72.3 million from fiscal 2006 to 2007 primarily due to increased investment returns. Employer contributions increased $2.5 million, or 14.9% from fiscal 2006 to fiscal 2007. The 2007 employer contribution rate of 19.55% of covered payroll was a 1.11% increase over the 2006 rate. Plan member contributions increased during fiscal 2007 as a result of an increase in covered payroll. The System experienced net investment gains during the fiscal year. Net appreciation in the fair value of investments was $118.2 million. Interest and dividend income was $23.9 million. Net securities lending income decreased $21 thousand from fiscal 2006 to 2007 due to a slightly less favorable environment for lending securities.

Deductions. Benefit payments increased 19.2% during the fiscal year. 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 the expense. Retirees received cost of living increases of 4.3% as of July, 2006. Payments under the Deferred Retirement Option Program (DROP) also continued to increase. Refunds to terminated employees declined by $93 thousand in 2007. The amount of refunds varies from year to year based on changes in employee turnover rates and decisions of former employees. Administrative expenses increased in 2007 by $211 thousand due largely to one-time costs associated with the purchase and installation of new defined benefit administration software. Investment activity expense increased $65,090 or 1.7% from fiscal 2006 to 2007.

The actuarial valuation performed as of July 1, 2006 showed the System's funded status at 87.9%.

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	$1,043,774,104	$877,007,559	$ 166,766,545
Total receivables	7,404,541	5,722,048	1,682,493
Total Assets	1,051,178,645	882,729,607	168,449,038
Liabilities	119,251,436	82,305,080	36,946,356
Net Assets	$ 931,927,209	$800,424,527	$131,502,682

Summary of Additions and Deductions

Additions	**2007**	**2006**	**Difference**
Contributions			
Employer	$19,222,753	$16,727,287	$ 2,495,466
Plan members	11,796,129	10,899,659	896,470
Net investment income	138,659,208	69,755,417	68,903,791
Total additions	169,678,090	97,382,363	72,295,727
Deductions			
Benefit payments	37,310,748	31,302,806	6,007,942
Refunds	435,566	528,718	(93,152)
Administrative	429,093	218,345	210,748
Total Deductions	38,175,407	32,049,869	6,125,538
Net Change	$131,502,683	$ 65,332,494	$ 66,170,189

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	$ 1,611,919	
Cash collateral received for securities on loan	105,999,745	
Short-term investments	34,537,876	
Total cash and short-term investments		$ 142,149,540
Receivables		
Prepaid	90	
Contributions	1,186,878	
Accrued interest and dividends	2,637,609	
Securities sold	3,579,964	
Total receivables		7,404,541
Investments, at fair value		
Corporate bonds	63,538,137	
U.S. Government obligations	22,277,709	
Pooled and mutual funds	331,568,758	
Asset-backed securities	137,079,959	
Common and preferred stock	347,160,001	
Total investments		901,624,564
Total assets		1,051,178,645
Liabilities		
Cash collateral received for securities on loan	105,999,745	
Purchase of investments	12,258,373	
Accounts payable and accrued expenses	993,318	
Total liabilities		119,251,436
Net assets held in trust for pension benefits		$ 931,927,209

(A schedule of funding progress is presented on page 19.)

See accompanying notes to financial statements.

Statement of Changes in Plan Net Assets

For the Year Ended June 30, 2007

Additions		
Contributions		
Employer	$ 19,222,753	
Plan members	11,796,129	
Total contributions		$ 31,018,882
Investment income from investment activities		
Net appreciation in fair value of investments	118,210,061	
Interest	16,437,650	
Dividends	7,529,298	
Total investment income	142,177,009	
Investment activity expense		
Management fees	3,413,991	
Custodial fees	95,550	
Consulting fees	142,216	
Allocated administration expense	139,582	
Total investment expense	3,791,339	
Net income from investment activities		138,385,670
From securities lending activities		
Securities lending income	5,156,427	
Securities lending expenses		
Borrower rebates	4,764,954	
Management fees	117,935	
Total securities lending activities expense	4,882,889	
Net income from securities lending activities		273,538
Total net investment income		138,659,208
Total additions		169,678,090
Deductions		
Annuity benefits	34,077,659	
Disability benefits	1,318,451	
Survivor benefits	1,914,638	
Refunds	435,566	
Administrative expense	429,093	
Total deductions		38,175,407
Net increase		131,502,683
Net assets held in trust for pension benefits		
Beginning of fiscal year		800,424,526
End of fiscal year		$ 931,927,209

See accompanying notes to financial statements.

Notes to the Financial Statements
For the Year ended June 30, 2007

The Fairfax County Police Officers Retirement System is a legally separate single-employer defined benefit pension plan established under the Code of Virginia to provide defined pension benefits to certain Fairfax County, Virginia ("County") police and park police officers. As such, the System is considered part of the County reporting entity and its financial statements are included in the County's basic financial statements as a pension trust fund.

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

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

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		727
Terminated plan members entitled to but not yet receiving benefits		16
DROP participants		38
Active plan members		1,291
	Total	2,072

Plan Description. The System is a single-employer defined benefit pension plan. The plan covers County police officers who are not covered by other plans of the County or the Virginia Retirement System and former park police officers who elected to transfer to the System effective January 22, 1983. 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) if employed before July 1, 1981; attained the age of 55 or completed 20 years of service, or (b) if employed on or after July 1, 1981; attained the age of 55 or completed 25 years of service. The normal retirement benefit is calculated using average final compensation (i.e., the highest consecutive three years) and years (or partial years) of service at date of termination. The plan provides that unused sick leave credit may be used in the calculation of average final compensation by projecting the final salary during the unused sick leave period. Members eligible for normal retirement have the option of participating in a deferred retirement option program (DROP). 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 payable at retirement To be eligible for early retirement, the employee must have 20 years of service (does not apply if hired before July 1, 1981). Benefits are determined based on the normal retirement benefit calculated using average final compensation and service at early retirement actuarially reduced.

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. Member contributions are based on 12 percent of compensation. The County is required to contribute at an actuarially determined rate; the rate for the year ended June 30, 2007 was 19.55 percent.

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

C. Investments

The authority to establish the System is set forth in Chapter 303 of the Acts of Assembly (law of the Commonwealth of Virginia). Section 26-45.1 of the *Code of Virginia* (Code), and updated by Section 51.1-803 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's Board of Trustees has adopted a Statement of Investment Objectives and Policy which establishes a broad set of investment objectives, guidelines, risk tolerance and performance standards for the assets of the System. While the System is not subject to the provisions of the Employee Retirement Income Security Act (ERISA), the Board has elected to incorporate the standards of ERISA in the System's Statement of Investment Objectives and Policy. The Board recognizes that investing in worldwide capital markets inherently entails the assumption of risk. The Board believes that part of the risk involved in managing the System's assets can be reduced by investing in diversified, lowly-correlated asset classes and employing different philosophies and investment management styles. The Board has selected a long-term strategic asset allocation strategy which provides a high degree of diversification, maintains appropriate asset coverage of plan liabilities, and also optimizes investment return without introducing higher volatility to contribution levels. Investment decisions for these assets are made by the Board of Trustees or investment managers selected by the Board. The Board hires each of its investment managers on the basis of its specific area of expertise as well as its fit with the total risk and return objectives of the System. Each manager exercises investment discretion around specifically mandated quality, concentration, benchmark and performance guidelines, and practices active risk controls in order to achieve the System's investment expectations.

For the most part, the overall investment policy does not identify a specific level of credit risk, interest rate risk or foreign currency risk. That is addressed at the individual account level. The guideline for "concentration of risk" is system-wide, however. The System does not hold investments (other than U.S. Government and U.S. Government-guaranteed obligations) in any one organization that represents 5 percent or more of net assets available for benefits. All investments, except for the pooled and mutual funds, short-term investment fund and a short-term collateral investment pool are held by an unaffiliated custodian. There is no custodial credit risk since the custodian's records establish the System's interest in the securities and the custodian provides insurance for all custodied assets.

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

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

Type of Investment	Fair Value	Ratings	Percent of Fixed
U.S. Government obligations	$ 22,277,709	AAA	10.0%
Corporates and others	727,147	AAA	0.3%
	7,305,577	AA	3.3%
	14,847,590	A	6.7%
	23,758,309	BBB	10.7 %
	9,138,719	BB	4.1%
	7,760,795	B	3.5%
Asset-backed	126,346,978	AAA	56.7%
	576,167	A	0.1%
	10,156,814	UNRATED	4.6%
Total fixed income	222,895,805	AA	100.00%
Short-term	34,537,876	UNRATED	
Cash collateral investment pool	105,999,745	UNRATED	
Common and preferred stock	347,160,001	N/A	
Pooled and mutual funds	331,568,758	N/A	
Equity in County's pooled cash	1,611,919	N/A	
Total investments	$ 1,043,774,104		

As of June 30, 2007 the fixed income portfolio exhibited an overall credit quality rating of "AA", and approximately 8% of the portfolio was invested in below-investment grade securities.

The Lehman Brothers Aggregate Bond Index (LAGG) is the standard benchmark against which the industry and the System's Board measures its 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 and thus reducing the portfolio's sensitivity to rising rates. The System's investments' sensitivity to interest rates at June 30, 2007 follow:

Investment Type	Fair Value	Effective Duration (yrs)	Percentage of Fixed
US Government obligations	$ 22,277,709	0.8	10.0%
Corporate and other	63,538,137	6.1	28.6%
Asset-backed	137,079,959	8.5	61.4%
Total fixed income	222,895,805	7.0	100.00%
Short-term investments	34,537,876	0.1	
Cash collateral investment pool	105,999,745	0.1	
Common and preferred stock	347,160,001	N/A	
Pooled and mutual funds	331,568,758	N/A	
Equity in County's pooled cash	1,611,919	N/A	
Total investments	$ 1,043,774,104		

As of June 30, 2007 the System's overall fixed income portfolio duration was 7.0 years compared with the 4.7 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 included 5.7% of investments held in currencies other than US dollars. The System's investments at June 30, 2007 were held in the following currencies:

International Securities	Equity	Fixed Income	Short-term and Other	Total
Euro Currency Unit	$24,231,200	---	$3,953	$24,235,153
British Pound Sterling	9,788,987	---	13	9,789,000
Japanese Yen	7,168,828	---	40,461	7,209,289
Swedish Krona	2,419,428	---	---	2,419,428
Swiss Franc	2,344,062	---	48,809	2,392,871
Australian Dollar	2,257,810	---	35,775	2,293,585
Hong Kong Dollar	1,599,988	---	---	1,599,988
Canadian Dollar	1,233,001	---	79	1,233,080
Singapore Dollar	833,319	---	---	833,319
Other currencies	858,720	---	---	858,720
Total	$52,735,343	---	$129,090	$52,864,433

Derivative Financial Instruments. As of June 30, 2007, the System was not a party to derivative financial instruments that were not reported at fair value on the financial statements.

Securities Lending. Board of Trustees' policies permit the System to lend its securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The System's custodian is the agent in lending the plan's domestic securities for collateral of 102 percent and international securities of 105 percent. The custodian receives cash or securities as collateral from the borrower.

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

Securities Lent	**Underlying Securities**	**Securities Collateral Value**	**Cash Collateral Investment Value**
Lent for Cash Collateral			
US Government obligations	$26,202,131	---	$26,616,949
Asset-backed securities	2,309,739	---	2,816,894
Corporate and other bonds	2,115,012	---	2,170,270
Common and preferred stock	71,696,976	---	74,395,633
Lent for Other Collateral			
US Government obligations	356,754	$366,300	---
Common and preferred stock	2,503,497	2,680,883	---
Total	$105,184,109	$3,047,183	$105,999,746

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 exceed the amounts the borrowers owed the System. The custodian provides full indemnification to the System for any losses that might occur in the program due to the failure of a broker/dealer to return a borrowed security or failure to pay the System income earned on the securities while on loan.

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

D. Income Taxes

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

Required Supplementary Information

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

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (in thousands) (a)	Actuarial Accrued Liability-AAL Entry Age (in thousands) (b)	Unfunded AAL-UAAL (in thousands) (b-a)	Funded Ratio (a/b)	Covered Payroll (in thousands) (c)	UAAL as a Percentage of Covered Payroll (in thousands) ((b-a)/c)
7/1/2000	$568,942	$586,939	$17,997	96.9%	$64,946	27.7%
7/1/2001	611,514	617,510	5,996	99.0%	66,755	9.0%
7/1/2002	618,383	656,615	38,232	94.2%	69,197	55.3%
7/1/2003	644,405	703,977	59,572	91.5%	71,401	83.4%
7/1/2004	685,495	749,344	63,849	91.5%	78,080	81.8%
7/1/2005	732,582	828,702	96,120	88.4%	83,939	114.5%
7/1/2006	788,766	897,478	108,712	87.9%	89,062	122.1%

Analysis of the dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing plan net assets as a percentage of the actuarial accrued liability provides one indication of the System's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the system. Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the system's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the System.

Schedule of Employer Contributions

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2000	$ 11,950,073	100%
2001	17,149,427	100%
2002	15,077,920	100%
2003	14,918,405	87%
2004	17,356,995	85%
2005	20,744,793	72%
2006	22,641,707	74%
2007	26,518,550	72%

Notes to Required Supplementary Information

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

Valuation date	July 1, 2006
Actuarial cost method	Entry Age
Amortization method	Level percent open
Remaining amortization period	15 years
Asset valuation method	3-year smoothed market
Actuarial assumptions:	
Investment rate of return *	7.5%
Projected salary increases *	4.5% - 10.0%
* Includes inflation at	4.0%
Cost of living adjustments	3.0%

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

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

The actuarial valuation performed as of July 1, 2006 resulted in a contribution rate of 27.61% for fiscal 2008 per the GASB methodology, an increase of 0.64% over the fiscal 2007 rate of 26.97% 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 results in an adopted rate of 21.00% for fiscal 2008, an increase of 0.45% over the fiscal 2007 adopted rate of 19.55%.

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

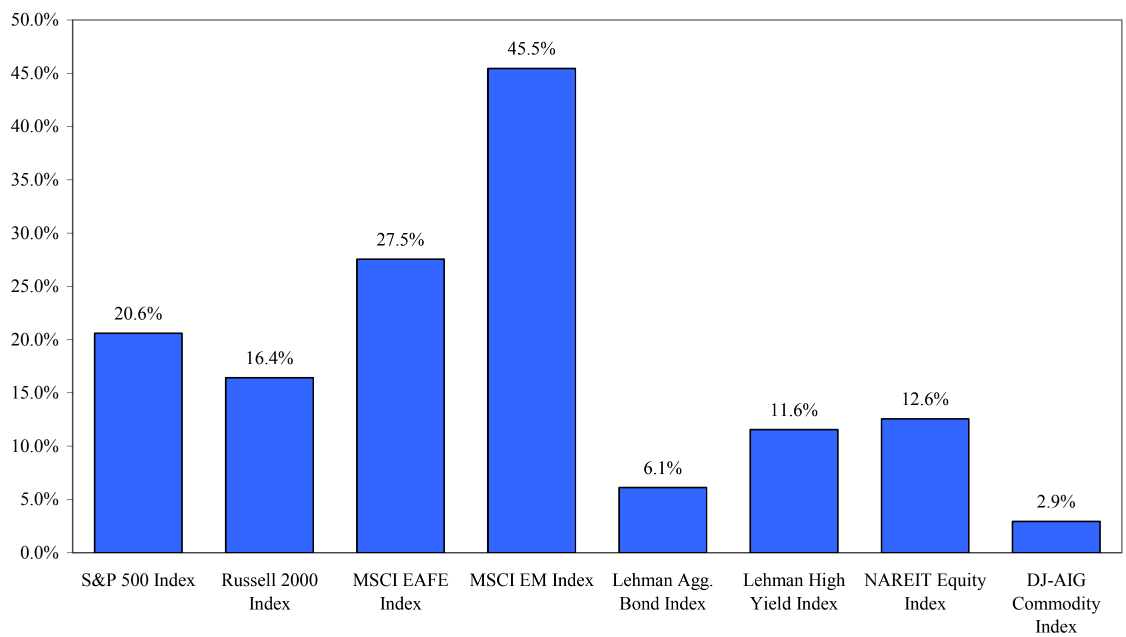
Real Estate markets continued their strong performance for the first half of the fiscal year but gave up significant ground in the second half of fiscal 2007 as high valuations, rising interest rates and a more uncertain economy led to widespread price declines. The NAREIT Equity Index of REIT securities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



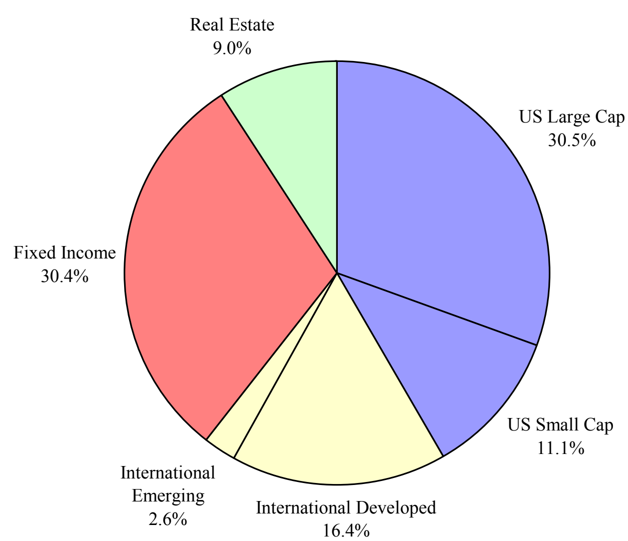
Police Officers System

The Police Officers 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.

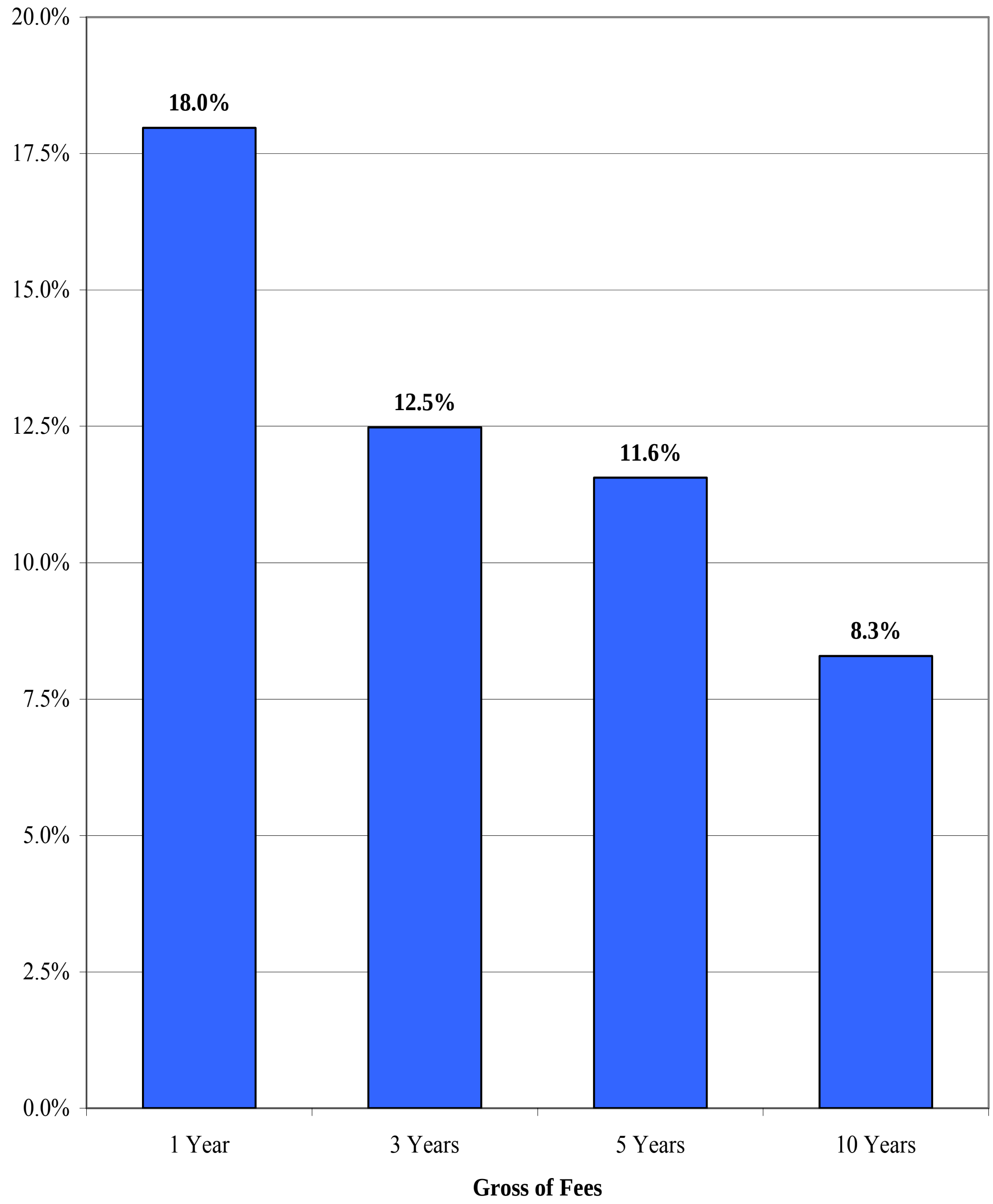
On a market value basis, the total net assets held in trust rose from $800.4 million at June 30, 2006 to $931.9 million at June 30, 2007. For fiscal 2007, investments provided a return of +17.5%, net of fees, reflecting an expansionary economic environment. The System's annualized rate of return, net of fees, was +12.0% over the last three years and +11.1% over the last five years. These System returns ranked in the 50th percentile of the Mellon universe of public plans in 2007, in the 66th percentile for the latest 3-year period, and in the 69th percentile of public plans for the last 5 years. The Police Officers Retirement System's annualized ten-year net return of 7.8% has surpassed the 7.5% long-term threshold return used for actuarial purposes.

During the past twelve months, changes were made to the asset allocation of the System to help further diversify the investment program. At the beginning of the year, the Robert E. Torray account was closed and replaced with a value portfolio managed by Pzena Investment Management. In addition, the PIMCO equity overlay account was enhanced by switching from the StocksPlus "B" strategy to the StocksPlus PARS III mandate. A portable alpha approach was also introduced into the large-cap equity allocation with the hiring of FrontPoint Partners and Mariner Alpha Plus. The International Equity allocation was improved by replacing the passive BGI Emerging Markets Index Fund with the actively-managed Acadian Emerging Markets Fund.

Police Officers 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				
PIMCO StocksPlus LP *	Enhanced S&P 500 Index	$	55,111,643	5.9%
JANUS Capital	Large Cap Growth		56,401,085	6.1%
Pzena Investment Mgt.	Large Cap Value		58,203,925	6.2%
Systematic Financial	Small Cap Value		53,669,385	5.8%
Veredus Asset Mgt.	Small Cap Growth		49,374,373	5.3%
Mariner Investment Group*	Enhanced S&P 500 Index		55,249,605	5.9%
FrontPoint Partners*	Enhanced S&P 500 Index		58,836,621	6.3%
International Equities				
Granthem Mayo*	Developed Markets Value		61,739,185	6.6%
McKinley Capital	Developed Markets Growth		57,738,607	6.2%
Acadian Asset Mgt.*	Developed Mkt. Small Cap		32,974,413	3.5%
Acadian Asset Mgt.*	Emerging Markets		24,092,471	2.6%
Fixed Income				
Dodge & Cox	Domestic Core Bonds		190,885,087	20.5%
Mellon Bank*	Lehman Brothers Aggregate Bond Index		43,307,870	4.6%
Trust Company of the West	Mortgage-Backed Securities		45,488,806	4.9%
Real Estate				
Cohen & Steers	Real Estate Investment Trusts		84,039,847	9.0%
Short-term				
Standish Mellon	Plan Level Cash Accounts		2,960,910	0.3%
Cash Held at County Treasurer	Operating Cash Account		1,599,546	0.2%
Net Assets		$	931,673,378	100.0%

*Pooled Fund

Largest Holdings for Separately Managed (Non-Pooled) Accounts

Asset Class / Manager / Security	Market Value	% of Account
Domestic Equities		
Janus Capital Mgt.		
Roche Holdings Ltd. (ADR)	$ 3,002,190	5.33%
Qualcomm Inc.	$ 2,217,880	3.93%
Apple Inc.	$ 2,205,263	3.91%
Yahoo! Inc.	$ 2,009,248	3.56%
Gilead Sciences Inc.	$ 1,845,716	3.27%
Systematic Financial Mgt.		
Infinity Ppty & Cas Corp.	$ 938,505	1.75%
Sketchers USA Inc.	$ 925,640	1.73%
Steven Madden Ltd.	$ 912,366	1.70%
Triumph Group Inc.	$ 818,375	1.53%
Downey Financial Corp.	$ 818,152	1.53%
Pzena Investment Mgt.		
Freddie Mac	$ 2,689,010	4.56%
Citigroup Inc.	$ 2,655,540	4.50%
XL Cap Ltd.	$ 2,553,987	4.33%
Fannie Mae	$ 2,538,071	4.30%
Wal Mart Stores Inc.	$ 2,302,064	3.90%
Veredus Asset Mgt.		
Warnaco Group Inc.	$ 1,907,007	3.81%
Intuitive Surgical	$ 1,668,709	3.34%
Hologic Inc.	$ 1,588,780	3.18%
Perini Corp.	$ 1,507,485	3.02%
Aspen Technology Inc.	$ 1,498,700	3.00%
International Equities		
McKinley Capital Mgt.		
Bayer AG	$ 1,657,757	2.88%
Groupe Danone	$ 1,613,905	2.81%
China Mobile Ltd.	$ 1,599,988	2.78%
Akzo Nobel	$ 1,586,822	2.76%
Roche Holdings AG Genusscheine	$ 1,584,026	2.75%

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

Asset Class Manager Security	Market Value	% of Account
Real Estate Securities		
Cohen & Steers Capital Mgt.		
Public Storage Inc.	$ 5,092,321	6.10%
Simon Property Group Inc.	$ 4,987,037	5.97%
Boston Properties Inc.	$ 4,606,063	5.52%
Equity Residential	$ 4,284,657	5.13%
Prologis Int	$ 4,115,918	4.93%
Core Fixed Income		
Dodge & Cox		
US Treasury Notes, 3.00%, 11/15/2007	$ 17,184,090	8.74%
FNMA GTD Pass Thru CTF, 6.00%, 11/01/2035	$ 7,492,616	3.81%
FNMA Mortgage Pool, 6.50%, 10/01/2026	$ 4,581,136	2.33%
FNMA Mortgage Pool, 4.50%, 10/01/2033	$ 4,355,956	2.22%
FNMA Mortgage Pool, 6.00%, 07/01/2035	$ 3,688,152	1.88%
TCW Asset Mgt.		
FNMA GTD REMIC P/T 03-14 MZ, 6.00%, 01/25/2024	$ 2,758,185	6.09%
FHLMC Multiclass Mortgage, 5.50%, 10/15/2032	$ 2,489,302	5.49%
FHLMC Multiclass Mortgage 2774 PO, 0.00%, 04/15/2034	$ 1,119,031	2.47%
FHLMC Multiclass Mortgage 2323 PS VAR RT, 06/15/2031	$ 1,108,729	2.45%
GNMA GTD REMIC P/T 05-93 PO, 0.00%, 06/20/2035	$ 1,092,206	2.41%

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CHEIRON Classic Values, Innovative Advice

December 22, 2006

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

Funding Objective

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

Assumptions

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

The assumptions and methods used in performing this valuation meet the parameters set by 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 Police Officers 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 2005 and 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 Police Officers 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 Police Officers 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 Police Officers 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) 17.00% of payroll, plus an expense rate, currently 0.30% 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 inception of the Corridor Funding Method, benefit changes have added 2.05% to the contribution rate and assumption changes have added 0.65% to the contribution rate for a total Corridor Funding Contribution of 20.00% 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 (including a credit for the amortization piece of prior benefit increases) remains within the corridor and so there is no required increase in the rate at this time.

The calculated calculation 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 9.52%. On an actuarial value basis, the assets returned 8.30% compared with an assumed rate of return of 7.5%. The gain recognized for funding purposes was $5 million.

The measurement of liabilities produced a loss this year in the amount of $9 million. This loss was due to experience not meeting our assumptions about salary increases, retirement behavior, death, etc. The liability also increased by $4 million due to the granting of an ad hoc COLA increase to retirees.

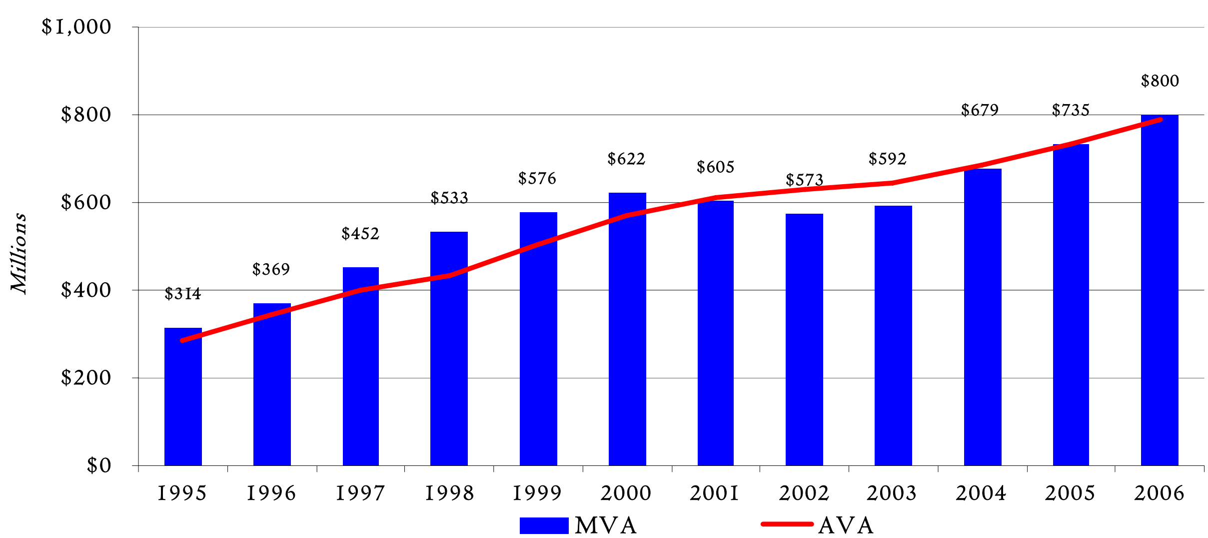
The combination of liability and investment experience over the last year led to the System's funding ratio (actuarial value of assets over actuarial accrued liability) decreasing from 88.4% at July 1, 2005 to 87.9% at July 1, 2006. For purposes of measuring whether the System remains within the funding 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 91.0% at July 1, 2005 to 90.8% at July 1, 2006.

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

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

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

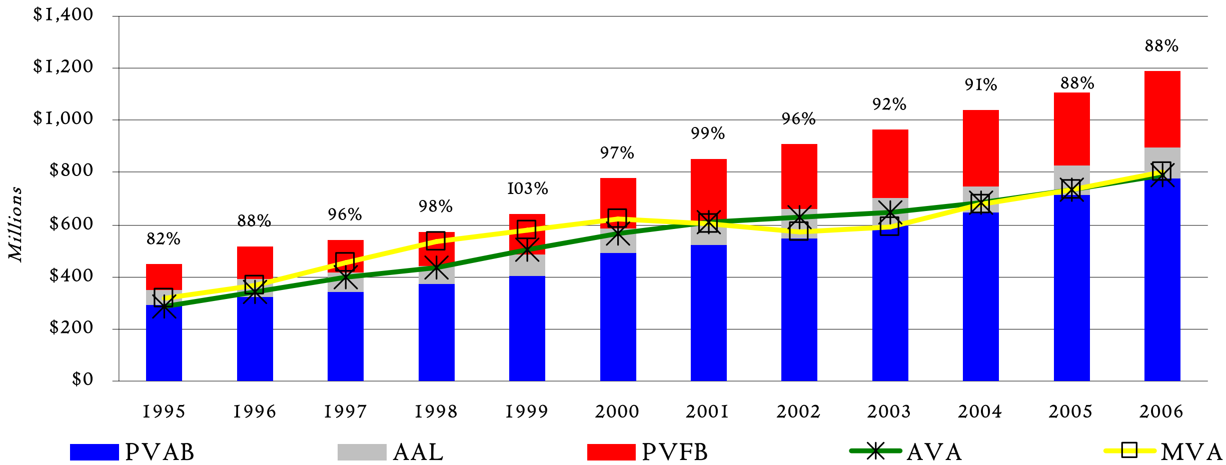
Growth of Assets



The positive growth in the market value of assets (MVA) continued this year with a return of over 9%. Due to the asset smoothing method in place, the actuarial value of assets (AVA) did not increase by as much as the market value, since a portion of this year's excess investment return is being held for future recognition.

Over the period July 1, 1995 to June 30, 2006 the System's assets returned approximately 9.31% per year measured at actuarial value, compared to a valuation assumption of 7.5% per year.

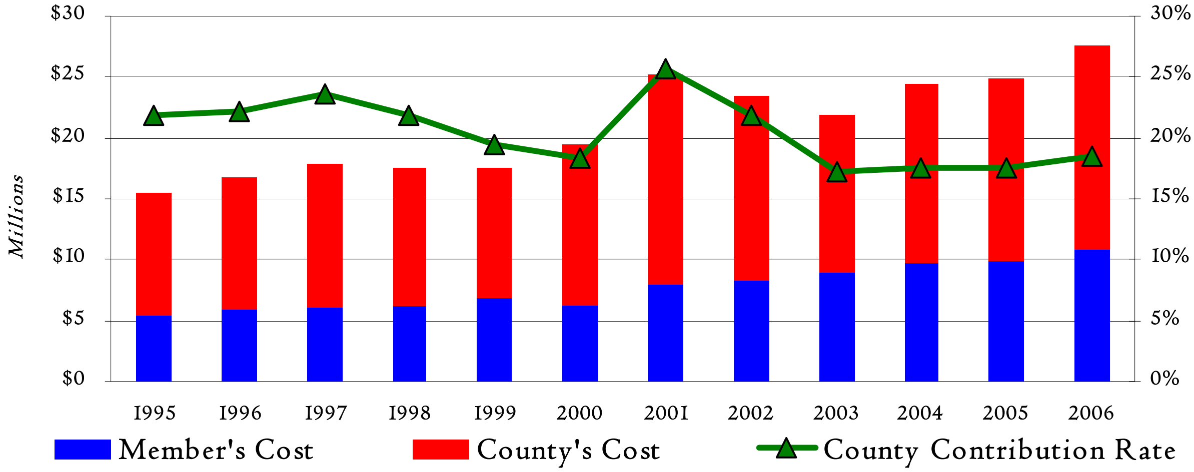
Assets and Liabilities



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

As you can see, the System had its highest funded percentage (103%) at July 1, 1999, before a combination of benefit improvements and the three-year market slide at the start of the decade. The amount represented by the top of the red bars, the Present Value of Future Benefits (PVFB), is the amount needed to provide all benefits for the current participants and their beneficiaries. If the System had assets equal to the PVFB no contributions would, in theory, be needed for the current members.

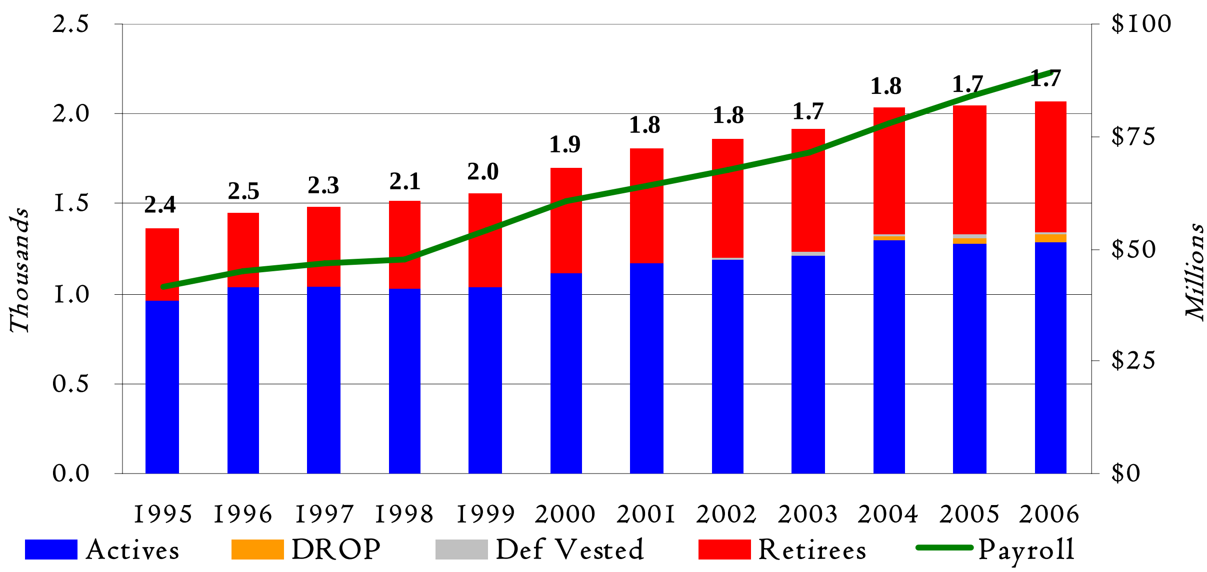
Contribution Rates



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

The member contribution rate is set by the County Ordinance. The County contribution rate is set by the actuarial process, as constrained by the Corridor Method. Note, there is a lag in the rate shown. For example, the 2006 value is the rate prepared by the period July 1, 2005 to June 30, 2006.

Participant Trends



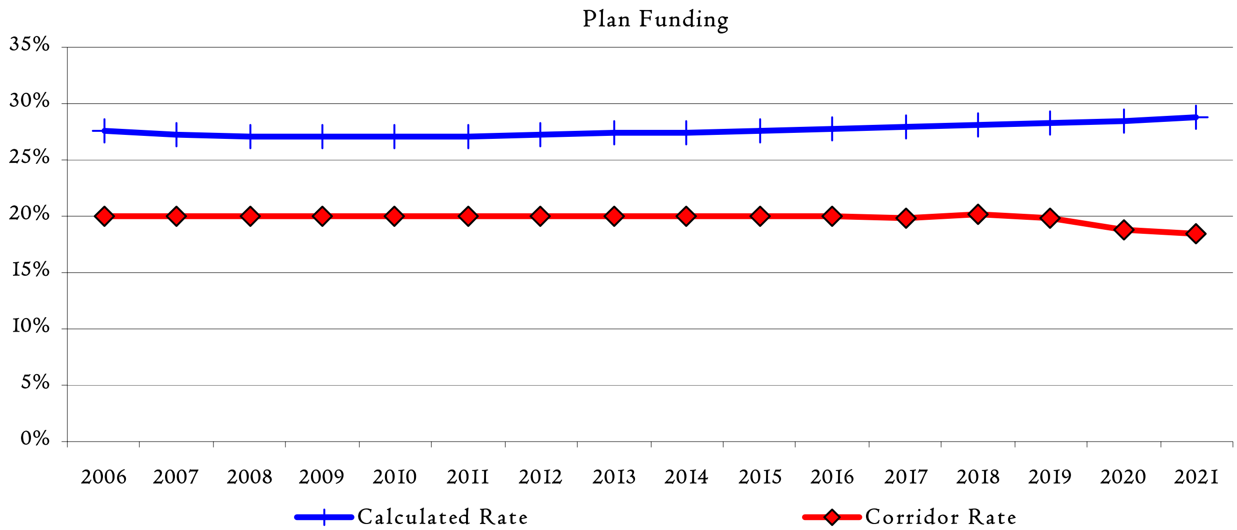
As with many funds in this country, there has been a steady growth in the number of retired members as the System has matured. The active-to-inactive ratio has decreased from 2.4 actives to each inactive in 1995 to 1.7 actives for each inactive today. While this would be an alarming trend in a pay-as-you-go system, the pool of invested assets has been established in anticipation of this development.

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

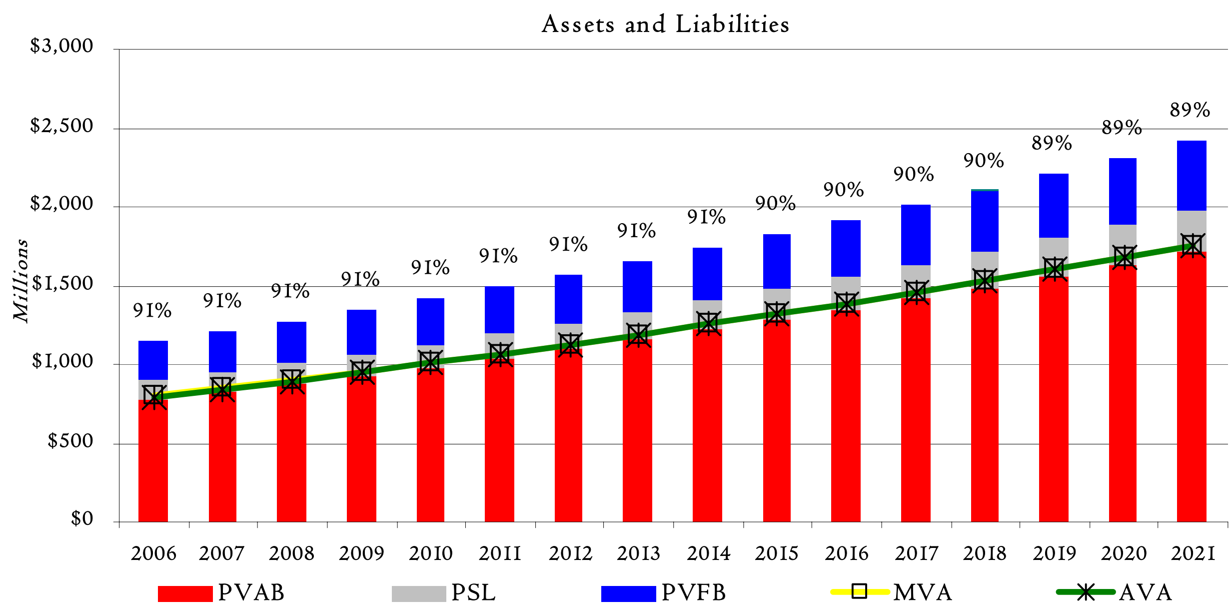
Future Outlook

Base Line Projections

The two graphs below show the expected progress of the Plan over the next 15 years assuming the System's assets earn 7.5% on their *market value*. The chart entitled "Plan Funding" shows that the corridor may be breached with the 2019 valuation (if all other actuarial assumptions are met as well as the 7.5% interest rate) but the subsequent contribution rate increase is offset by amortization periods ending. The blue line shows the actuarially calculated rate if the corridor were not in place.

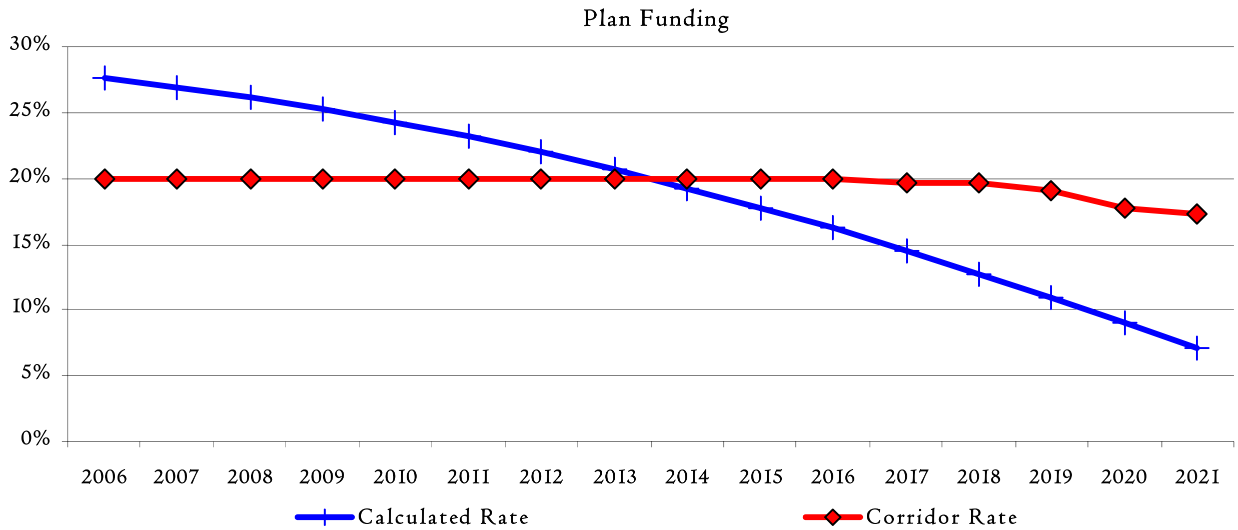


The "Assets and Liabilities" graph shows the projected funding status over the next decade. Note that the 2006 funded level differs from that shown earlier, the ratio used here reflects the corridor method. The System's funded status is projected to drop from the current level of 91% to around 89%. Once outside of the 90% corridor floor, the County's rate will increase.

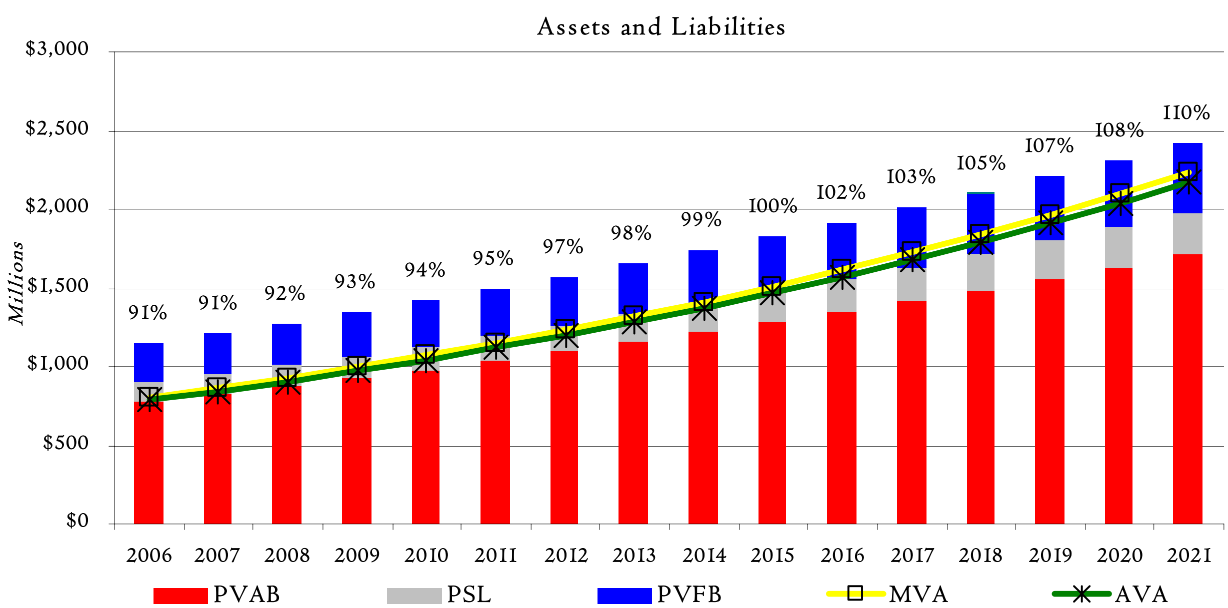


Projections With Asset Returns of 9.0%

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

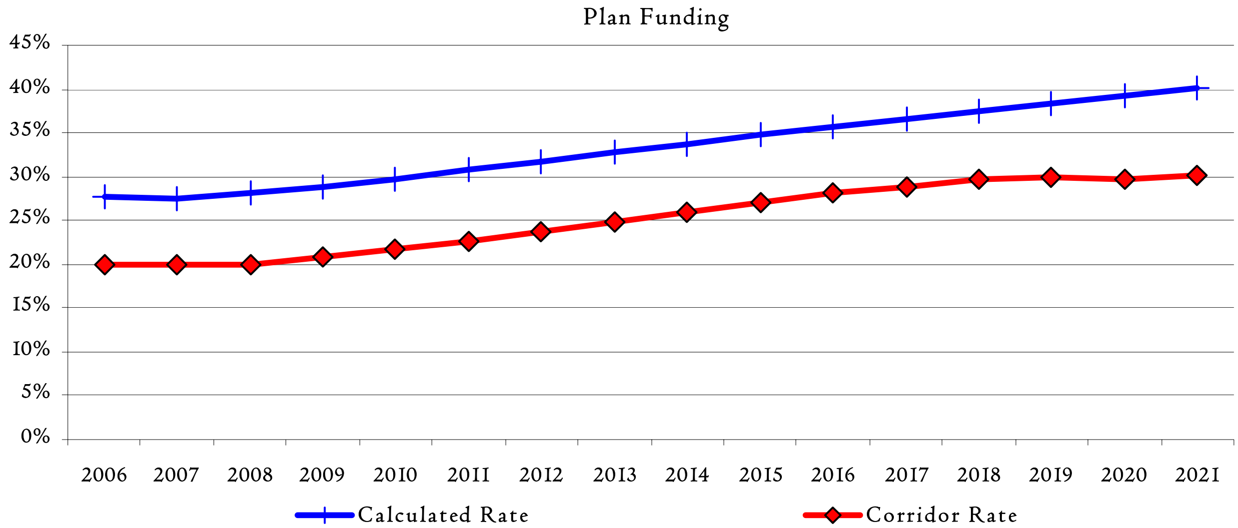


As you can see, the corridor contribution rate would remain adequate for the entire 15 year period and the System would return to its fully funded position. The reduction in contribution rate shown in years 2017 on has to do with 15 year amortization bases dropping out of the calculation.

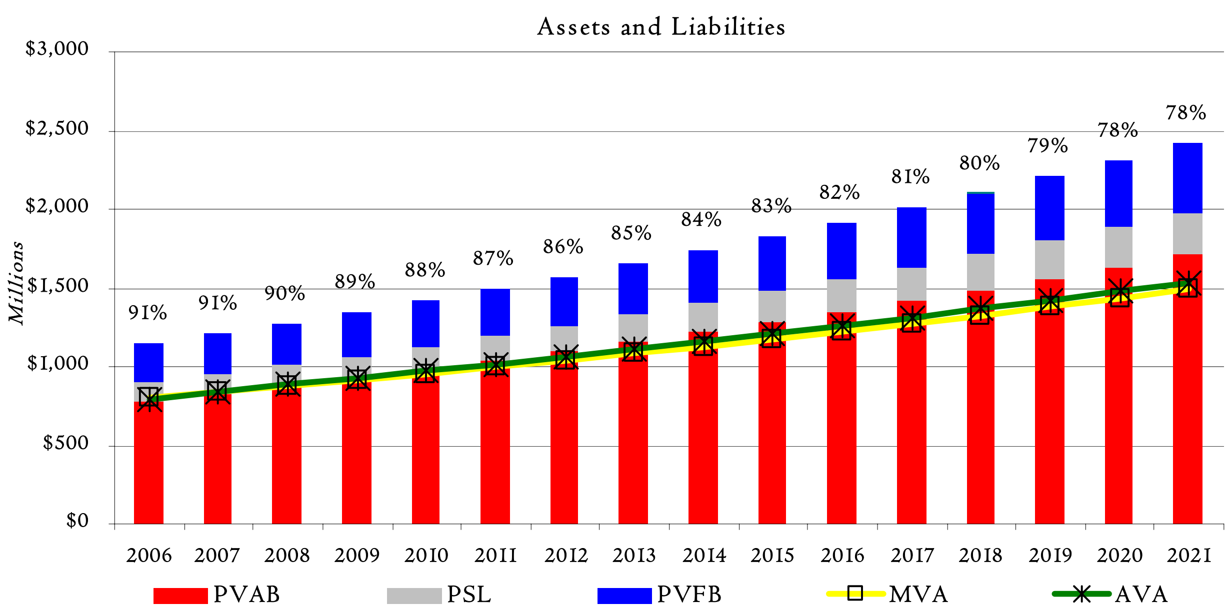


Projections With Asset Returns of 6.0%

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



The projection shows a deterioration of the System's funded status from the current 91% down to 78% by the end of the period.



Fairfax County Police Officers Retirement System
Summary of Principal Plan Results

Valuation as of:			
Participant Counts	**7/1/2005**	**7/1/2006**	**% Change**
Actives (excluding DROP)	1,282	1,291	0.7%
DROP	27	38	40.7%
Terminated Vesteds	19	16	-15.8%
In Pay Status	715	727	1.7%
Total	2,043	2,072	1.4%
Annual Salaries of Active Members	$ 83,939,294	$ 89,061,574	6.1%
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 30,752,741	$ 32,711,241	6.4%
Assets and Liabilities			
Actuarial Accrued Liability	$ 828,702,325	$ 897,478,184	8.3%
Assets for Valuation Purposes	732,581,566	788,765,775	7.7%
Unfunded Actuarial Liability	$ 96,120,759	$ 108,712,409	13.1%
Funding Ratio	88.40%	87.89%	
Present Value of Accrued Benefits	$ 718,097,705	$ 778,674,711	8.4%
Market Value of Assets	735,092,033	800,424,526	8.9%
Unfunded FASB Accrued Liability (not less than $0)	$ 0	$ 0	
Accrued Benefit Funding Ratio	102.4%	102.8%	
Contributions as a Percentage of Payroll	**Fiscal Year 2007**	**Fiscal Year 2008**	
GASB Method:			
Normal Cost Contribution	17.00%	17.00%	
Unfunded Actuarial Liability Contribution	9.67%	10.31%	
Administrative Expense	0.30%	0.30%	
Total Contribution	26.97%	27.61%	
Corridor Method:			
Normal Cost Contribution	17.00%	17.00%	
Increase Due to Amortized Changes	2.25%	2.70%	
Administrative Expense	0.30%	0.30%	
Corridor Method	19.55%	20.00%	

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.

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.

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.

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

* 20% of deaths are assumed to be service-connected.

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

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

Termination of Employment: (Prior to Normal Retirement Eligibility)

Annual Terminations Per 1,000 Members

Years of Service	Terminations
0	80
1	60
2	40
3	40
4	40
5	50
6	35
7 or more	15

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

Disability

Annual Disabilities per 1,000 Members*

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

* 70% of disabilities are assumed to be service-connected. Of these, 100% are assumed to receive Workers Compensation benefits.

Retirement

Probability of Retirement*

Years of Service	Hired pre-7/1/81	Hired post-7/1/81
20	25%	N/A
21	25%	N/A
22	25%	N/A
23	25%	N/A
24	25%	N/A
25	25%	25%
26	35%	35%
27	45%	45%
28	55%	55%
29	70%	70%
30	85%	85%

* 50% are assumed to take DROP.

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

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

* Spikes of 8.0% at 14 years of service and 6.7% at 19 years of service.

Family Composition

For purposes of valuing the pre-retirement death benefit, an assumption concerning how many employees are married is needed. The assumption used in this valuation is that 80% of active employees are married at death and that the female spouse is 5 years younger than the male spouse. In addition, each married employee is assumed to have two children, 22 and 24 years younger than the employee.

Sick Leave Credit

Active members are assumed to receive an additional 3.5% for both service credit and average final compensation due to unused sick leave.

Economic Assumptions

Investment Return:	7.50% compounded per annum.
Rate of General Wage Increase:	4.00% compounded per annum.
Rate of Increase in Cost-of-Living:	4.00% compounded per annum. (Benefit increases limited to 4% per year. We will use an assumption that post-retirement cost-of-living increases will be 3% per year.)
Total Payroll Increase (For amortization):	4.00% compounded per annum.
Administrative Expenses:	0.30% of payroll.

Changes Since Last Valuation

There have been no changes since the last valuation.

Analysis of Financial Experience

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

	Gain (or Loss) for Year ending June 30,			
Type of Activity	**2003**	**2004**	**2005**	**2006**
Investment Income	$ (26,257,081)	$ (3,173,508)	$ 1,255,233	$ 5,829,376
Combined Liability Experience	(5,036,286)	6,811,657	(16,909,876)	(9,007,438)
Gain (or Loss) During Year from Financial Experience	(31,293,367)	3,638,149	(15,654,643)	(3,178,062)
Non-Recurring Items	0	5,916,282	(12,861,015)	(4,472,878)
Composite Gain (or Loss) During Year	(31,293,367)	9,554,431	(28,515,658)	(7,650,940)

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	35	$3,754,716	9	$205,494	586	$20,698,621	20.70%	$35,322
2001	60	2,993,514	12	296,497	634	23,395,638	13.03%	36,902
2002	34	1,870,218	10	274,297	658	24,991,559	6.82%	37,981
2003	34	2,303,608	9	181,377	683	27,113,790	8.49%	39,698
2004	26	1,714,726	11	251,466	698	28,577,050	5.40%	40,941
2005	27	2,472,428	10	296,737	715	30,752,740	7.61%	43,011
2006	19	2,206,550	7	248,080	727	32,711,210	6.37%	44,995

Solvency Test

	Aggregate Accrued Liability For:				Portion of Accrued Liabilities by Reported Assets		
	(1)	(2)	(3)				
Valuation Date July 1,	Active Member Contributions	Retirees Vested Terms, Beneficiaries & DROP	Active Members (Employer Financed Portion)	Reported Assets	(1)	(2)	(3)
2001	$54,082,616	$359,197,834	$204,229,762	$611,514,245	100%	100%	97%
2002	62,004,264	380,114,653	214,496,324	628,383,173	100%	100%	87%
2003	66,312,754	406,321,385	231,342,959	644,404,891	100%	100%	74%
2004	70,693,277	441,029,277	237,621,713	685,494,589	100%	100%	73%
2005	76,108,950	477,539,874	275,053,501	732,581,566	100%	100%	65%
2006	81,953,700	514,169,426	301,355,058	788,765,775	100%	100%	64%

Schedule of Additions by Source

Fiscal Year	Plan Member Contributions	Employer Contributions	Employer Contributions % of Covered Payroll	Net Investment Income (loss)	Total Additions
2000	$ 7,521,134	$ 11,950,073	18.40%	$ 44,579,345	$ 64,050,552
2001	8,038,085	17,149,427	25.69%	(19,333,682)	5,853,830
2002	8,335,903	15,077,920	21.79%	(30,661,679)	(7,247,856)
2003	8,941,529	12,923,806	17.30%	23,248,712	45,114,047
2004	9,689,253	14,682,201	17.62%	91,176,999	115,548,453
2005	9,930,883	14,901,070	17.96%	61,323,112	86,155,065
2006	10,899,659	16,727,287	18.44%	69,755,418	97,382,364
2007	11,796,129	19,222,753	19.55%	138,659,208	169,678,090

Schedule of Deductions by Type

Fiscal Year	Benefit Payments	Refunds of Contributions	Administrative Expenses	Total Deductions
2001	$ 21,722,991	$ 388,850	$ 217,122	$ 22,328,963
2002	24,024,119	599,127	199,138	24,822,384
2003	25,803,466	525,574	210,934	26,539,974
2004	27,682,363	350,894	258,352	28,291,609
2005	29,242,384	739,440	228,780	30,210,604
2006	31,302,806	528,718	218,347	32,049,871
2007	37,310,748	435,566	429,093	38,175,407

Schedule of Benefit Payments by Type

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Total
2001	$ 19,534,126	$ 1,068,524	$ 136,889	$ 983,452	$ 21,722,991
2002	21,668,153	995,832	150,434	1,209,700	24,024,119
2003	23,352,203	995,254	154,408	1,301,601	25,803,466
2004	24,982,292	1,110,494	159,948	1,429,629	27,682,363
2005	26,542,408	1,043,212	164,651	1,492,113	29,242,384
2006	28,426,759	1,134,848	144,476	1,596,723	31,302,806
2007	34,077,659	1,194,359	124,092	1,914,638	37,310,748

Schedule of Retired Members by Benefit Type

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Total
2001	522	37	9	63	631
2002	545	33	9	70	657
2003	569	33	9	72	683
2004	582	32	9	75	698
2005	597	32	9	77	715
2006	608	32	8	79	727
2007	618	32	7	88	745

Schedule of Average Monthly Benefit Amounts

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Average
2001	$ 3,360	$ 2,432	$ 1,397	$ 1,465	$ 3,088
2002	3,456	2,449	1,430	1,482	3,167
2003	3,602	2,617	1,482	1,561	3,311
2004	3,713	2,699	1,525	1,609	3,412
2005	3,895	2,908	1,599	1,691	3,584
2006	4,063	3,111	1,467	1,825	3,750
2007	4,511	3,266	1,401	1,985	4,130