Comprehensive Annual Financial Report 2012

Police Officers

RETIREMENT SYSTEM

For the Fiscal Year Ended June 30, 2012

A Pension Trust Fund of Fairfax County, Virginia

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October 29, 2012

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, 2012. 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 Management's Discussion and Analysis provides further detail to the financial statements.

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 1,276 active members, 73 in the Deferred Retirement Option Program (DROP) and 876 retirees participating in the System as of June 30, 2012.

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

During fiscal year 2012, the economy continued its gradual recovery from the global financial crisis of 2008 and unemployment rates remained high. As a result, it proved to be an extremely difficult and volatile year for the equity markets, with a poor first quarter, followed by two strong quarters and then a pull back in the final quarter. Equity investments outside of the U.S. were particularly disappointing in the face of the continuing economic crisis in Europe. The System's total portfolio was slightly negative with a return of -0.3% gross of fees (-0.6% after fees and expenses). This return was well below the long term target of 7.5% and also below the median public fund return of 1.1% and placed in the fourth quartile of the BNY Mellon universe of public funds. Investment returns for the three-year period were 14.9% per year, and placed in the 4^{th} percentile.

Additional details on the markets and the System's investments are provided in the Investment Section.

Internal and Budgetary Controls

The System's management is responsible for the financial information presented in this report in accordance with U.S. generally accepted accounting principles. Proper internal accounting controls exist to provide reasonable, but not absolute, assurance for both the safekeeping of assets and the fair presentation of the financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the valuation of costs and benefits requires estimates and judgments by management.

Investment Policies and Strategies

The Board of Trustees has adopted a 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 in safekeeping, on the system's behalf, by BNY Mellon Asset Servicing as agent. The BNY 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.

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 are expected to remain relatively level over time as a percentage of payroll, but will be adjusted as necessary to accumulate sufficient assets to meet the costs of benefit payments when due. The valuation of the System performed as of July 1, 2011, indicated that the ratio of assets accumulated by the System to total actuarial accrued liabilities for benefits showed an increase from 79.3%.to 80.5% The actuarial section contains further information on the results of the July 1, 2011, valuation.

Based on the July 1, 2011, actuarial valuation, the employer contribution rate for 2013 following the adopted corridor-based funding policy was 32.04%, an increase of 1.70% over the 2011 rate of 30.34%. This increase in the rate is required to amortize the increase in unfunded liability from FY 2011 actuarial experience. During establishment of the FY 2013 County budget, the Board of Supervisors adopted a higher contribution rate of 33.15%.

Major Initiatives

At the request of the Board of Supervisors, a review of post-retirement benefits was conducted by an external consulting firm. The review confirmed that provision of a defined benefit retirement plan continues to be the best vehicle for attracting and retaining employees and for providing career employees with retirement benefits. The study recommended several modifications to plan provisions for new hires and the Board of Supervisors directed staff to implement those changes to be effective January 1, 2013. The Code change adopted in September, 2012 for new hires on or after January 1, 2013 limits the use of accumulated sick leave in determining length of service for retirement eligibility and in the calculation of benefits to a maximum of 2,080 hours.

On the investment front, significant steps were taken to further diversify risk by revising new strategic allocation targets that include a 30% allocation to balanced risk strategies, generally referred to as "risk parity". During the second quarter, investments were made in Bridgewater Associates All Weather fund, AQR's Global Risk Premium Fund and Blackrock's Market Advantage Fund. As part of this strategy change, equity allocations were reduced and the accounts with Goldman Sachs Asset Management, ClariVest Asset Management and Pzena Investment Management were closed. Another change to the external manager line-up involved the liquidation of the FrontPoint Partners multi-strategy fund.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to The Fairfax County Police Officers Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2011. This was the second consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Other Information

Independent Audit and Actuarial Certifications

KPMG LLP performs a yearly audit of the financial statements of the plan to ensure compliance with government accounting, auditing and financial reporting standards. Additionally, Cheiron performs an annual actuarial valuation to assess the plan's ability to meet future obligations. The independent auditors' report and certification 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 organization that has worked hard throughout the year to provide service to members and to ensure the successful operation of the System. This report is intended to provide complete and reliable information for determining the financial status of the System. It is being submitted to the Board of Supervisors and other interested parties and is available to the public via the County's website located at www.fairfaxcounty.gov/retirement/.

Respectfully submitted,

Robert L. Mears
Executive Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Fairfax County

Police Officers Retirement System

Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

Board of Trustees

Administrative Organization

Administrative Staff

Robert L. Mears
Executive Director

Laurnz A. Swartz
Chief Investment Officer

Jeffrey A. Willison
Senior 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, LLC
Boston, MA

AQR Capital Management, LLC
Greenwich, CT

BlackRock, Inc.
San Francisco, CA

BlueCrest Capital Management, LLP
New York, NY

BNY Mellon Cash Investment Strategies
Pittsburgh, PA

Bridgewater Associates, L.P.
Westport, CT

The Clifton Group
Edina, MN

Cohen & Steers Capital Management, Inc.
New York, NY

Dodge & Cox Investment Managers
San Francisco, CA

DoubleLine Capital, L.P.
Los Angeles, CA

FrontPoint Partners, LLC
Greenwich, CT

Gramercy Advisors, LLC
Greenwich, CT

Investment Managers
(continued)

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

King Street Capital Management, L.P.
New York, NY

Loomis, Sayles & Company, L.P.
Boston, MA

McKinley Capital Management, Inc.
Anchorage, AK

MetWest Asset Management, LLC
Los Angeles, CA

Oaktree Capital Management, L.P.
Los Angeles, CA

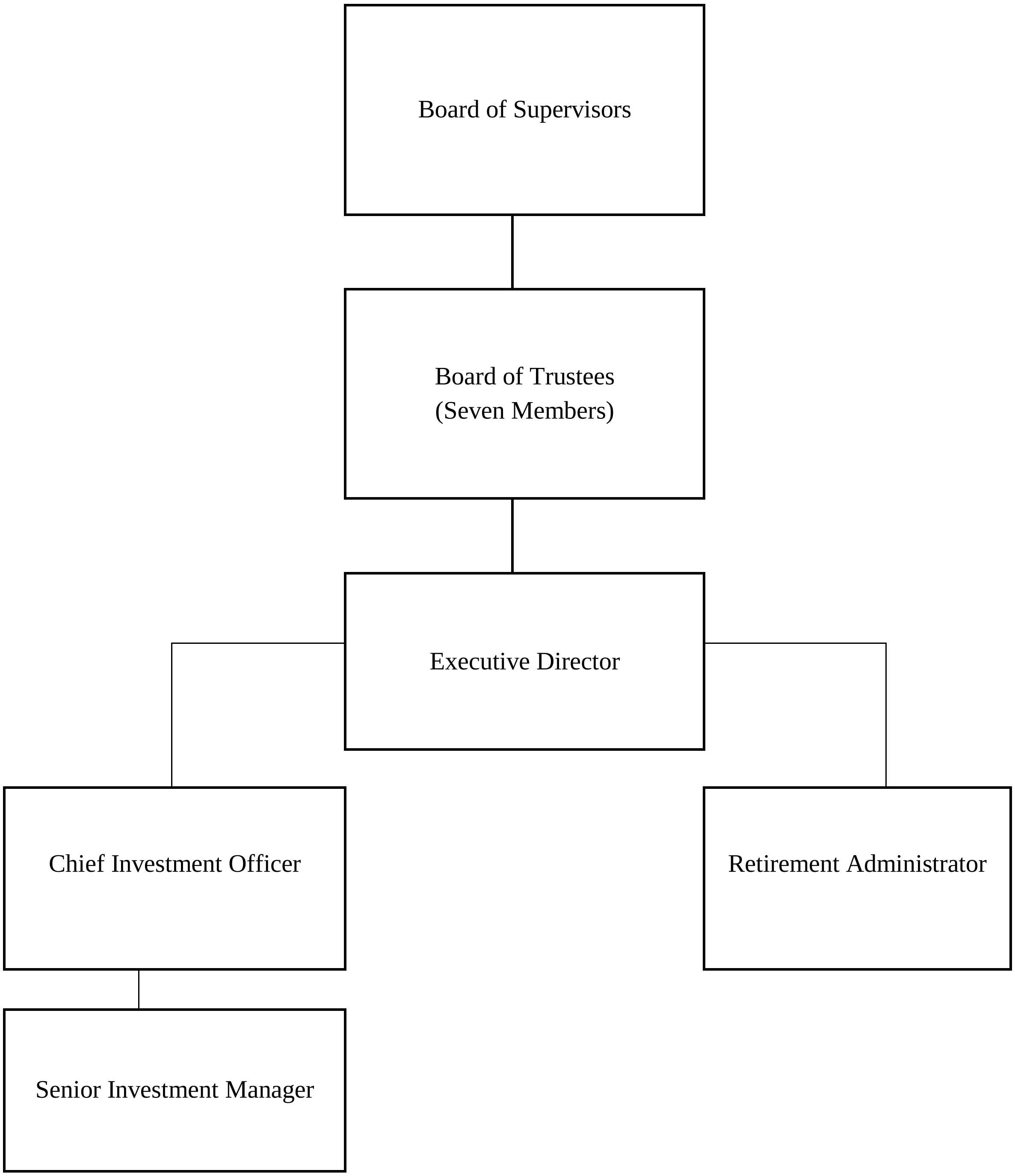
PIMCO
Newport Beach, CA

Starboard Value and Opportunity, Ltd
New York, NY

Custodian Bank

BNY Mellon Asset Servicing
Pittsburgh, PA

Organization 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 are as follows.

Contribution Rate:
The member contribution rate is set by the County Ordinance and is currently 10% of base salary. The County contribution rate is set by the actuarial process and was 31.30% for fiscal year 2012. Police Officers do not participate in Social Security.

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

Benefit Limit:
The 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:
Normal retirement occurs at either age 55 or at least 25 years of creditable service.

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

Early Retirement:
A member is eligible for early retirement upon attaining at least 20 years of creditable service.

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

Service-Connected Disability Retirement:
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 the salary. These benefits continue during the existence of the disability.

Non-Service Connected Disability Retirement:
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.

Summary of Plan Provisions
(continued)

Death Benefits:
If death occurs prior to retirement: An automatic monthly benefit is payable to the member's spouse and children. This benefit equals $2,126.96 for the spouse or surviving handicapped child (if there is no spouse), plus each eligible child receives $850.78 up to a total family benefit of $4,253.91 (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 death occurs after retirement: In addition to the automatic benefit detailed above, at the time the member retires, the plan provides for the member to elect survivor benefit options for the Surviving Spouse or a Handicapped Child at 100%, 66 2/3% or 50% of the retiree's benefit.

Cost of Living Benefit:
Annual cost of living adjustments are provided to retirees and beneficiaries and are equal to the lesser of 4% or the percentage increase in the Consumer Price Index for the Metropolitan Statistical Area that includes Fairfax County.

Note: Detailed provisions may be found in the Employee Handbook:
http://www.fairfaxcounty.gov/retirement/pdfs/policehandbook.pdf

KPMG LLP
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1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

The Board of Supervisors
County of Fairfax, Virginia:

The Board of Trustees
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, 2012, and the related Statement of Changes in Plan Net Assets for the year then ended. These basic financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, 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, 2012, and the Changes in Plan Net Assets for the year then ended in conformity with U.S. generally accepted accounting principles.

Management's Discussion and Analysis on pages 9 to 11 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 on page 21. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the System's basic financial statements. The supplementary information presented on page 22 is for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and is derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information 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

October 25, 2012

Management's Discussion and Analysis (unaudited)

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, 2012. 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 and Statement of Changes in Plan Net Assets as of June 30, 2012. 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, employer contributions and administrative expenses. The Required Supplementary Information and related notes are immediately following the Notes to Financial Statements.

Financial Analysis

Plan Net Assets. For fiscal year 2012 the assets of the Police Officers' Retirement System decreased 1.7%, resulting in a total net asset value of $1.02 billion, reflecting a decrease of $17.7 million from fiscal year 2011. The reduction in assets was due to benefit payments and expenses exceeding current year contributions by $11 million and investment losses of $6.7 million.

The actuarial value of the assets as of the last valuation on June 30, 2011, was $982.2 million while actuarial liabilities as of the same period were $1.2 billion. This resulted in a funded ratio of 80.5%.

The Plan's investments are exposed to various risks including interest rate, market and credit risks. These risks may be influenced by changes in economic conditions and market conditions. Therefore, it is reasonable to assume that there will be changes in the values of the investments held in trust which could materially affect the amounts reported in the financial statements. Detailed information on investment results are in the Investment Section of this report.

Additions and Deductions. The employer contributions for FY12 increased by 8.7% due to an increase in the employer contribution rate from 28.31% to 31.30% of salary. Investment returns were lower for FY12 reflecting lower returns in the capital markets. Benefit payments increased due to a cost-of-living increase of 3%, an increase in the number of retirees and higher benefits for new retirees. Refunds of contributions declined as a result of lower employee turnover.

The following table details the Police Officers System's fund balances for the current and prior fiscal year:

Fiscal Year	Ending Balances (millions)	Net Change in Dollars (millions)	Net Change in Percent
2011	$1,035	$199.1	23.8
2012	$1,017	($17.7)	(1.7)

Contacting the System's Financial Management

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

Summary Statement of Plan Net Assets

Assets	2012	2011	Difference
Total cash and investments	$1,020,508,872	$1,075,170,533	($54,661,661)
Total fixed assets	1,359	---	1,359
Total receivables	8,762,430	12,514,340	(3,751,910)
Total assets	1,029,272,661	1,087,684,873	(58,412,212)
Total liabilities	11,821,431	52,538,912	(40,717,481)
Net assets held in trust	**$1,017,451,230**	**$1,035,145,961**	**($17,694,731)**

Summary of Additions and Deductions

Additions	2012	2011	Difference
Contributions			
Employer	$31,700,690	$29,174,611	$2,526,079
Plan Members	10,109,068	10,142,459	(33,391)
Total investment (loss)/income	(6,731,294)	210,054,206	(216,785,500)
Total Additions	35,078,464	249,371,276	(214,292,812)
Deductions			
Benefit payments	52,043,157	49,429,119	2,614,038
Refunds	357,901	466,363	(108,462)
Administrative expense	372,137	362,889	9,248
Total deductions	52,773,195	50,258,371	2,514,824
Net increase/(decrease)	**($17,694,731)**	**$199,112,905**	**($216,807,636)**

Statement of Plan Net Assets

As of June 30, 2012

Assets		
Cash and short-term investments		
Equity in County's pooled cash and temporary investments	$2,622,955	
Cash collateral received for securities on loan	5,439,154	
Short-term investments	24,038,761	
Total cash and short-term investments		$32,100,870
Fixed Assets		
Equipment	1,359	
Total fixed assets		1,359
Receivables		
Accounts receivable	1,627,449	
Accrued interest and dividends	2,419,737	
Securities sold	4,715,244	
Total receivables		8,762,430
Investments, at fair value		
Common and preferred stock	89,179,070	
Fixed income		
Asset-backed securities	82,627,172	
Corporate and other bonds	86,664,584	
U.S. Government obligations	39,567,050	
Pooled and mutual funds	690,370,126	
Total investments		988,408,002
Total assets		1,029,272,661
Liabilities		
Purchase of investments	4,862,799	
Cash collateral received for securities on loan	5,439,154	
Accounts payable and accrued expenses	1,519,478	
Total liabilities		11,821,431
Net assets held in trust for pension benefits		**$1,017,451,230**

See accompanying notes to financial statements.

Statement of Changes in Plan Net Assets

For the Year Ended June 30, 2012

Additions		
Contributions		
Employer	$31,700,690	
Plan members	10,109,068	
Total contributions		$ 41,809,758
Investment income from investment activities		
Net depreciation in fair value of investments	(28,163,515)	
Interest	17,188,920	
Dividends	7,128,221	
Total investment expense	(3,846,374)	
Investment activity expense		
Management fees	(2,666,034)	
Custodial fees	(104,000)	
Allocated administration expense	(168,447)	
Total investment expense	(2,938,481)	
Net loss from investment activities		(6,784,855)
Securities lending activities		
Securities lending income	76,730	
Securities lending expenses	(23,169)	
Net income from securities lending activities		53,561
Total net investment loss		(6,731,294)
Total additions		35,078,464
Deductions		
Annuity benefits	47,757,201	
Disability benefits	1,329,912	
Survivor benefits	2,956,044	
Refunds of employee contributions	357,901	
Administrative expense	372,137	
Total deductions		52,773,195
Net decrease		(17,694,731)
Net assets held in trust for pension benefits		
Beginning of fiscal year		1,035,145,961
End of fiscal year		**$1,017,451,230**

See accompanying notes to financial statements.

Notes to the Financial Statements

As of and For the year ended June 30, 2012

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. 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 basic 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. 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 Statement 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, 2012, the bank balance of the County's public deposits was either insured by the Federal Deposit Insurance Corporation or through the State Treasury Board pursuant to the provisions of the Security for Public Deposit Act.

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

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

Membership. At July 1, 2011, the date of the latest actuarial valuation, membership in the System consisted of:

Retirees and beneficiaries receiving benefits	850
Terminated plan members entitled to but not yet receiving benefits	34
Deferred Retirement Option Program (DROP) participants	59
Active plan members	1,293
Total	**2,236**

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. 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 Consolidated Metropolitan Statistical Area.

Contributions. The contribution requirements of the System's members are established and may be amended by County ordinances. Member contributions are based on 10 percent of compensation. The County is required to contribute at an actuarially determined rate; the rate for the year ended June 30, 2012, was 30.34% of annual covered payroll. The decision was made to commit additional funding and a rate of 31.30% was adopted for fiscal year 2012.

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

Plan's Funded Status Information. The actuarial valuation performed as of July 1, 2011, showed the System's funded status at 80.5%, an increase of 1.2 percentage points from the July 1, 2010, funded percentage of 79.3%. The table below displays the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial accrued liability, the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the unfunded actuarial liability to annual covered payroll.

Actuarial Validation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability	Funded Ratio	Covered Payroll	Unfunded Percent of Covered Payroll
	(a)	**(b)**	**(b-a)**	**(a/b)**	**(c)**	**((b-a)/c)**
7/1/2011	$982,153,681	$1,219,609,107	$237,455,426	80.5%	$99,070,327	239.7%

The required schedule of funding progress, which presents multiyear trend information, is reported immediately following the Notes to Financial Statements.

Actuarial Methods and Assumptions Information.

Valuation date	July 1, 2011
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 *	4.8% - 11.0%
* Includes inflation at	1.0% in 2012, 3.0% thereafter
Cost of living adjustments	1.0% in 2012, 2.75% thereafter

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 2011.

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, 2011, in accordance with the GASB methodology resulted in a contribution rate of 42.00% for fiscal 2013, an increase of 3.09 percentage points over the fiscal 2012 rate of 38.91%. 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, resulted in a rate of 32.04% for fiscal year 2013. The decision was made to commit additional funding for fiscal year 2013 and a rate of 33.15% was adopted, an increase of 1.85% over the fiscal year 2012 adopted rate of 31.30%.

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. 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 advisory firms 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, 2012, were as follows:

Type of Investment	Fair Value	Ratings	Percent of Fixed
U. S. Government obligations	$39,567,050	AA	18.9%
Corporate & other bonds	2,217,484	AA	1.1%
	15,460,237	A	7.4%
	20,531,533	BBB	9.8%
	12,563,953	BB	6.0%
	18,016,259	B	8.6%
	6,535,855	CCC	3.1%
	632,075	D	0.3%
	10,707,188	Unrated	5.1%
Asset- backed securities	3,380,128	AAA	1.6%
	48,539,488	AA	23.3%
	2,146,462	A	1.0%
	92,305	BBB	0.1%
	1,527,661	BB	0.7%
	1,250,249	B	0.6%
	10,086,804	CCC	4.8%
	2,208,318	CC	1.1%
	7,625,345	D	3.7%
	5,770,412	Unrated	2.8%
Total fixed income	**$208,858,806**	**BBB**	100.0%
Short-term investments	**$24,038,761**	Unrated	

As of June 30, 2012, the fixed income portfolio exhibited an overall credit quality rating of "BBB", and approximately 28.9% of the portfolio was invested in securities rated below-investment-grade. This overall rating reflects the change in credit rating of U.S. Government Obligations to "AA".

The Barclays Capital Aggregate Bond Index (BCAG) 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 BCAG if they forecast falling interest rates (and thus higher bond prices). Conversely, if managers anticipate that the general level of interest rates will rise, they have the ability to shorten the duration of their portfolio and thus reduce the portfolio's sensitivity to rising rates.

The System's investments' sensitivity to interest rates at June 30, 2012, follows:

Investment Type	Fair Value	Option - Adjusted Durations (yrs)	Percentage of Fixed
U.S. Government obligations	$39,567,050	6.8	18.9%
Corporate and other bonds	86,664,584	5.6	41.5%
Asset-backed securities	82,627,172	3.2	39.6%
Total fixed income	**$208,858,806**	4.9	100.00%
Short-term investments	**$24,038,761**	0.1	

As of June 30, 2012, the System's overall fixed income portfolio option-adjusted duration was 4.9 years compared with the 5.1 duration of the BCAG.

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, 2012, held in currencies other than U.S. dollars were as follows:

International Securities	Short Term Investments & Other	EQUITY	Convertible and Fixed Income	Total
Euro Currency Unit	$18,136	$10,526,037	$1,706,146	$12,250,319
British Pound Sterling	---	10,916,117	225,485	11,141,602
Hong Kong Dollar	18,813	10,162,887	---	10,181,700
Japanese Yen	52,195	8,505,829	---	8,558,024
Australian Dollar	10	4,093,172	639,363	4,732,545
Canadian Dollar	5,689	2,469,341	236,206	2,711,236
Brazil Real	---	460,110	1,830,561	2,290,671
Singapore Dollar	---	2,269,261	---	2,269,261
Philippines Peso	---	422,767	1,837,778	2,260,545
South Koran Won	---	1,918,014	---	1,918,014
Swiss Franc	31,679	1,875,721	---	1,907,400
Mexican New Peso	---	101,956	1,723,813	1,825,769
Thailand Baht	---	1,216,897	---	1,216,897
Swedish Krona	---	1,020,388	---	1,020,388
Other Currencies	4	1,437,909	380,326	1,818,239
Total International	**$126,526**	**$57,396,406**	**$8,579,678**	**$66,102,610**

Derivative Financial Instruments. In accordance with the Board's investment policies, the System may invest in derivative financial instruments with off-balance-sheet risk in the normal course of its investing activities to manage exposure to certain risks and to gain exposure to currencies and markets where derivatives are the most cost-effective instrument. During fiscal 2012, the System invested directly in various derivatives. Investment managers are prohibited from purchasing securities on margin or using leverage unless specifically permitted within the investment manager's guidelines. These investments generally contain market risk resulting from fluctuations in interest and currency rates. The credit risk of these investments is associated with the creditworthiness of the related parties to the contracts. The System could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. The Board's investment policy seeks to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. In addition, the System has indirect exposure to market and credit risk through its ownership interests in certain mutual and commingled funds which may use, hold or write derivative financial instruments.

As permitted by the Board's policies, the System holds off-financial statement derivatives. As of June 30, 2012, the system held S&P 500 futures with a net exposure of $85.4 million. Gains and losses on derivative securities are determined based upon fair values and recorded in the Statement of Change in Plan Net Assets.

Securities Lending. The 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% and international securities of 105%. 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, 2012.

Securities Lent	**Underlying Securities**	**Cash Collateral Investment Value**	**Securities Collateral Investment Value**
Lent for cash collateral			
Common and preferred stock	$4,952,542	$5,439,154	---
Lent for securities collateral			
US Government securities	8,139,466	---	$8,308,182
Corporate and other bonds	9,344,368	---	10,422,420
Total	**$22,436,376**	**$5,439,154**	**$18,730,602**

The System did not impose any restrictions during fiscal 2012 on the amounts of loans the lending agent made on its behalf. At year end, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts the borrowers owed the System. The custodian provides full indemnification to the System for any losses that might occur in the program due to the failure of a broker/dealer to return a borrowed security or failure to pay the System income earned on the securities while on loan.

All securities loans can be terminated on demand by either the system or the borrower. Cash collateral is invested in the lending agent's collective collateral investment pool which at June 30, 2012 had a weighted-average maturity of 4 days.

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 (unaudited)

Ten-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 (in thousands)

Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded % of Covered Payroll ((b-a)/c)
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%
7/1/2007	870,975	968,735	97,760	89.9%	95,904	101.9%
7/1/2008	908,077	1,031,333	123,256	88.0%	99,714	123.6%
7/1/2009	879,543	1,076,039	196,496	81.7%	99,647	197.2%
7/1/2010	899,543	1,135,015	235,472	79.3%	100,500	234.3%
7/1/2011	982,154	1,219,609	237,455	80.5%	99,070	239.7%

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
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%
2008	28,198,891	76%
2009	27,625,460	85%
2010	30,759,259	77%
2011	36,872,751	80%
2012	39,408,110	81%

Additional Supplementary Information

Schedule of Administrative Expenses For the Year Ended June 30, 2012

Personnel services		
Salaries and wages	$199,406	
Fringe benefits	72,637	
Total personnel services		$272,043
Professional services		
Actuarial	16,206	
Audit	5,600	
Total professional services		21,806
Communications		
Phone charges	2,504	
Printing, binding and copying	2,717	
Postage	7,042	
Total communications		12,263
Supplies		
Office supplies	2,222	
Total supplies		2,222
Other services and charges		
Board and staff travel and development	1,117	
Professional memberships	223	
Insurance	6,023	
Building rent	17,109	
Computer systems	32,636	
Other operating	6,695	
Total other services and charges		63,803
Total Administrative Expenses		**$372,137**

Capital Markets and Economic Conditions (unaudited)

Fiscal Year 2012 Economic Environment

The 2012 fiscal year ending June 30th proved to be an extremely difficult and volatile year for investors. The year was a "risk on/risk off" roller coaster ride driven largely by headline risks related to the European debt crisis and fears of a global slowdown, interspersed with hope for solutions and fundamental recovery. The fiscal year began with U.S. stocks selling off sharply as investors fretted about the debt limit debacle in Congress. International stocks suffered even worse declines than U.S. equities as investors fled from risk. The S&P 500 Index fell 13.8% in the fiscal first quarter, and international indices fell closer to 20%. U.S. stocks rallied in the second fiscal quarter, as domestic growth prospects improved and investors increasingly came to terms with the European sovereign debt crisis. U.S. equity markets continued to gain the advantage over non-U.S. stocks, and European markets lagged. In the third fiscal quarter of 2012, macro fears subsided and attention returned to improving fundamentals. In fact, the quarter proved to be the strongest quarter for equity returns over the fiscal year as U.S. stocks posted their strongest quarterly gain in more than 10 years and continued to outpace international and emerging markets. The final quarter of the fiscal year once again experienced the "risk off" environment similar to the start of the fiscal year. Greater political concerns in Europe, slowing GDP in China, and fears that Greek political parties would be unable to support the country's austerity measures, all led to negative returns across equity markets for the final quarter of the fiscal year.

The broad domestic equity market, as measured by the S&P 500 Index, produced a 5.5% return for fiscal year 2012. The domestic bond market, as measured by the Barclays Aggregate Bond Index, returned 7.5% in fiscal year 2012, outperforming all equity indices. The global equity market, as measured by the MSCI All Country World Index (net), returned -5.0% in fiscal year 2012 relative to a 30.1% gain in fiscal 2011.

Treasury yields fell to remarkably low levels across the yield curve during the year, particularly at the long end, as The Fed's "Operation Twist" drove long-term interest rates to historic lows. And for the first time since the 1950's, the S&P 500 dividend yield was significantly higher than the yield on a 10- year Treasury; an example of the market re-valuing the premium applied to owning equities versus Treasuries, and a demand by investors to be significantly compensated for taking on more risk. The 30-year Treasury Bond Index led fixed-income returns over the fiscal year at 45.0%, followed by Corporate Bonds at 9.5%, High Yield bonds at 7.3%, and Mortgage bonds at 5.0%.

Domestic Equity Markets

U.S. equity markets struggled to keep pace with the extremely high returns of fiscal year 2011, but were able to produce positive returns for the one year period. Throughout the year, investors were cautious of risky assets and sought greater safety in their investments. Thus, large cap stocks outperformed small cap stocks by 7.6 percentage points as the S&P 500 Index returned 5.5% and the Russell 2000 returned -2.1%. Large cap growth outperformed large cap value, with the Russell 1000 Growth Index up 5.8% compared to 3.0% for the Russell 1000 Value. The reverse was true in smaller cap names as the Russell 2000 Value returned -1.4% as compared with the Russell 2000 Growth Index return of -2.7%.

International Markets

The trend of "risk on/risk off" continued over the fiscal year and the European debt crisis, along with China's slowing growth, were the main drivers of the international markets. International developed market equities as measured by the MSCI EAFE (net) Index (a broad index of the international developed market equities) returned -13.8% for the year ended June 30, 2012, as the European debt crisis continued to weigh on investor concerns. Emerging markets equities, as measured by the MSCI EM Index, returned -16.0%. However, the emerging market consumer fared far better than the MSCI EM index. The JPM EMBI Global Diversified Index, a key barometer for emerging market debt, returned 11.2% for the year. The Citigroup World Government Bond Index also posted a positive return at 2.7%.

Fixed Income Markets

For the fiscal year, U.S. Fixed Income returns were very strong and outperformed the prior fiscal year. Throughout the year investors experienced a consistent trend of falling Treasury yields and a flattening of the yield curve. Long Treasurys returned 45.0% during the year, followed by credit at 9.5%. The Barclays Aggregate Bond Index returned 7.5%, beating out high yield bonds, 7.3%, and mortgage bonds, 5.0%, for the one-year period ended June 30, 2012. The 10-Year U.S. Treasury bond finished the fiscal year yielding 1.7%.

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. This disciplined investment process has been effective in achieving a long-term record of consistent asset growth.

For fiscal 2012, investments provided a negative return of 0.32%, gross of fees (-0.6%, net of fees). The System's annualized rates of return, gross of fees, were 14.9% (14.6%, net of fees) over the last three years and 3.4%, (3.0%, net of fees), over the last five years. These System returns ranked in the 85th percentile of The Bank of New York Mellon universe of public plans in 2012, in the 4th percentile for the latest 3-year period, and in the 16th percentile of public plans for the last 5 years.

During the past twelve months there were a few changes made to the manager lineup of the System. The System eliminated Goldman Sachs Asset Management, Pzena Investment Management, and ClariVest Asset Management from the domestic equities allocation. The System added the BlueCrest AllBlue Fund, AQR Global Risk Premium Fund, BlackRock Market Advantage Fund, and Bridgewater All Weather Fund to provide expanded diversification to the investment program.

Investments by Category and Investment Manager
June 30, 2012

Asset Class Manager	Investment Style	Total Assets	% of Total Net Assets
Domestic Equities			
King Street Capital*	Enhanced S&P 500 Index	$43,918,319	4.3%
PIMCO StocksPlus PARS*	Enhanced S&P 500 Index	43,702,081	4.3%
Starboard Value and Opportunity*	Small Cap Value Activist	27,214,116	2.7%
BlueCrest Capital Management*	Enhanced S&P 500 Index	26,154,088	2.6%
AQR Capital Management*	Small Cap Core	25,142,020	2.5%
The Clifton Group	S&P 500 Beta Manager	10,830,761	1.1%
FrontPoint Partners*	Enhanced S&P 500 Index	734,555	0.1%
International Equities			
Grantham, Mayo, Van Otterloo*	Developed Markets Value	34,307,049	3.4%
McKinley Capital	Developed Markets Growth	33,085,930	3.3%
Acadian Asset Management*	Emerging Markets	23,795,301	2.3%
Acadian Asset Management*	Developed Markets Small Cap	11,279,283	1.1%
Fixed Income			
DoubleLine Capital	Mortgage-Backed Securities	72,885,514	7.2%
Loomis, Sayles & Company	High Yield Bonds	59,162,137	5.8%
Dodge & Cox Investment Managers	Domestic Core Bonds	56,246,008	5.5%
The Clifton Group	TIPS	38,777,386	3.8%
Oaktree Capital Management*	Convertible Bonds	21,539,123	2.1%
Real Estate			
Cohen & Steers Capital Management	Global Real Estate Securities	56,282,744	5.5%
Alternative Investments			
Bridgewater Pure Alpha*	Global Macro Absolute Return Fund	42,433,798	4.2%
BlueCrest Capital Management*	Global Macro Absolute Return Fund	27,035,019	2.7%
Gramercy*	Emerging Markets Multi-Strategy	26,245,128	2.6%
Pacific Investment Management Co. (PIMCO)*	Distressed Senior Credit	23,538,243	2.3%
MetWest TALF Fund*	Distressed Opportunity	4,595,778	0.5%
Balanced Portfolios			
Bridgewater All Weather*	Risk Parity	107,583,290	10.6%
AQR Global Risk Premium*	Risk Parity	100,624,731	9.9%
Blackrock Market Advantage*	Risk Parity	95,190,195	9.4%
Short-term			
Cash Held at County Treasurer	Operating Cash Account	2,622,955	0.3%
BNY Mellon Cash Investment Strategies	Plan Level Cash Accounts	2,412,710	0.2%
Total Investments		**$1,017,338,262**	**100.0%**

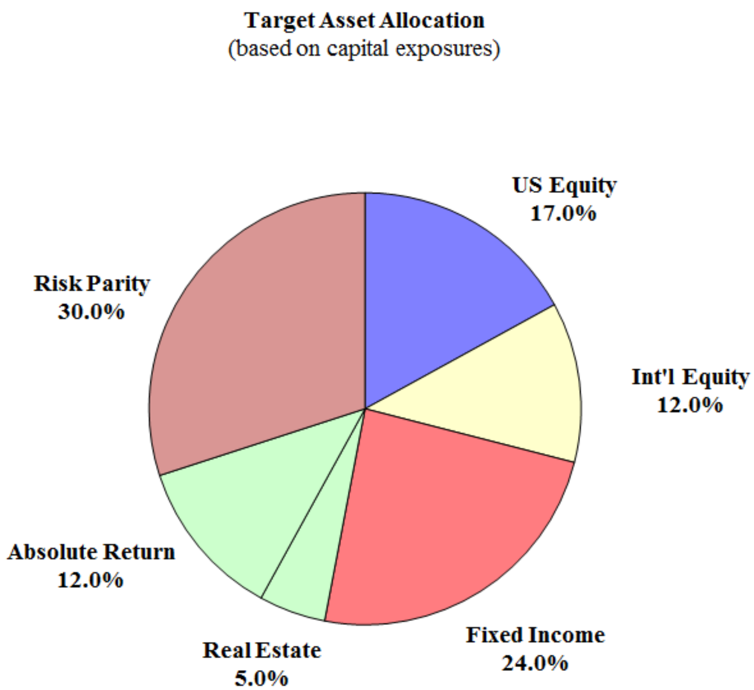
* Pooled fund

Police Officers Retirement System – Allocation of Capital Exposures

Target Asset Allocation

The asset structure shown below represents the Trustees' assessment of their optimal asset allocation as of June 30, 2012. The target asset allocation provides a reasonable expectation that the System's investment objectives can be achieved based on historical relationships of asset class performance.

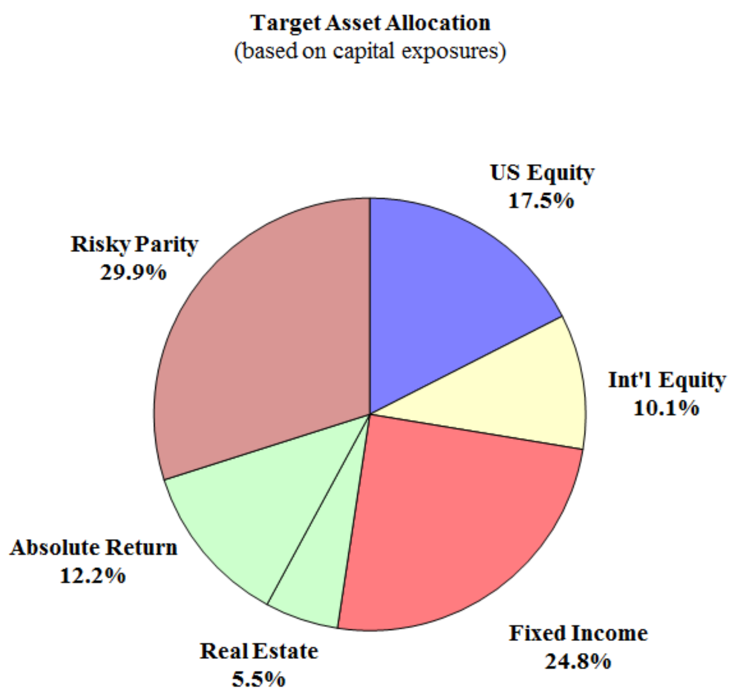
The pie chart below details the target asset mix, consistent with the achievement of the long-term objectives of the System, as of June 30, 2012.



Actual Asset Allocation as of June 30, 2012

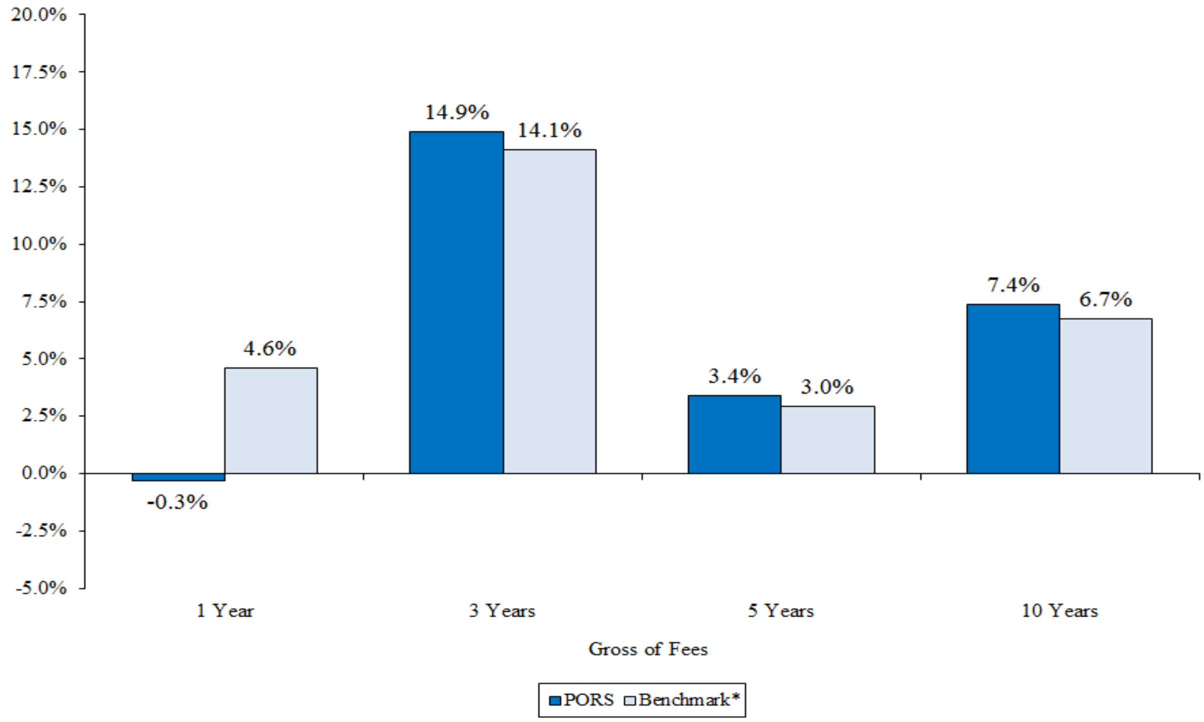
The asset structure of Police Officers Retirement System has historically reflected a proper balance of the System's needs for liquidity, growth of assets, and risk tolerance. The System's investment policy is designed to continue to meet its long-term investment objectives while, at the same time, providing sufficient flexibility to meet short-term funding requirements.

The pie chart below details the actual asset allocation as of June 30, 2012.



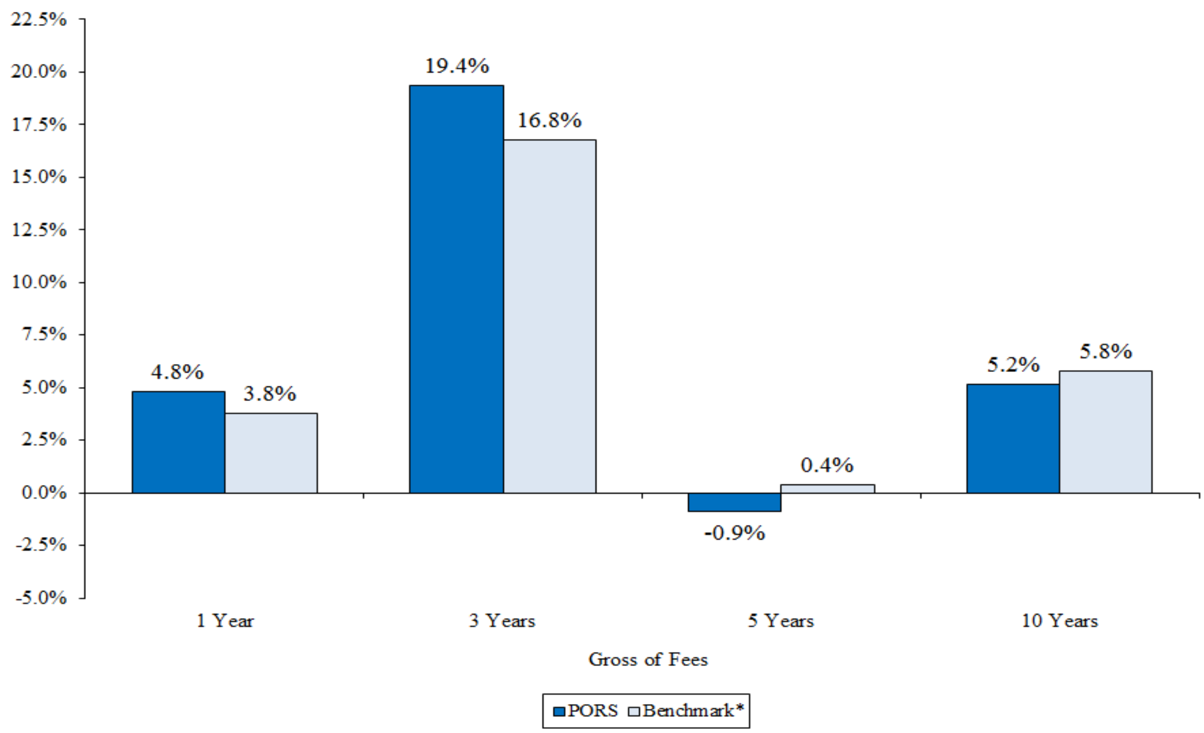
Investment Results

Total Fund:



*Benchmark: 35% S&P 500, 35% Barclays Aggregate, 10% Russell 2000, 10% MSCI EAFE, 10% NAREIT

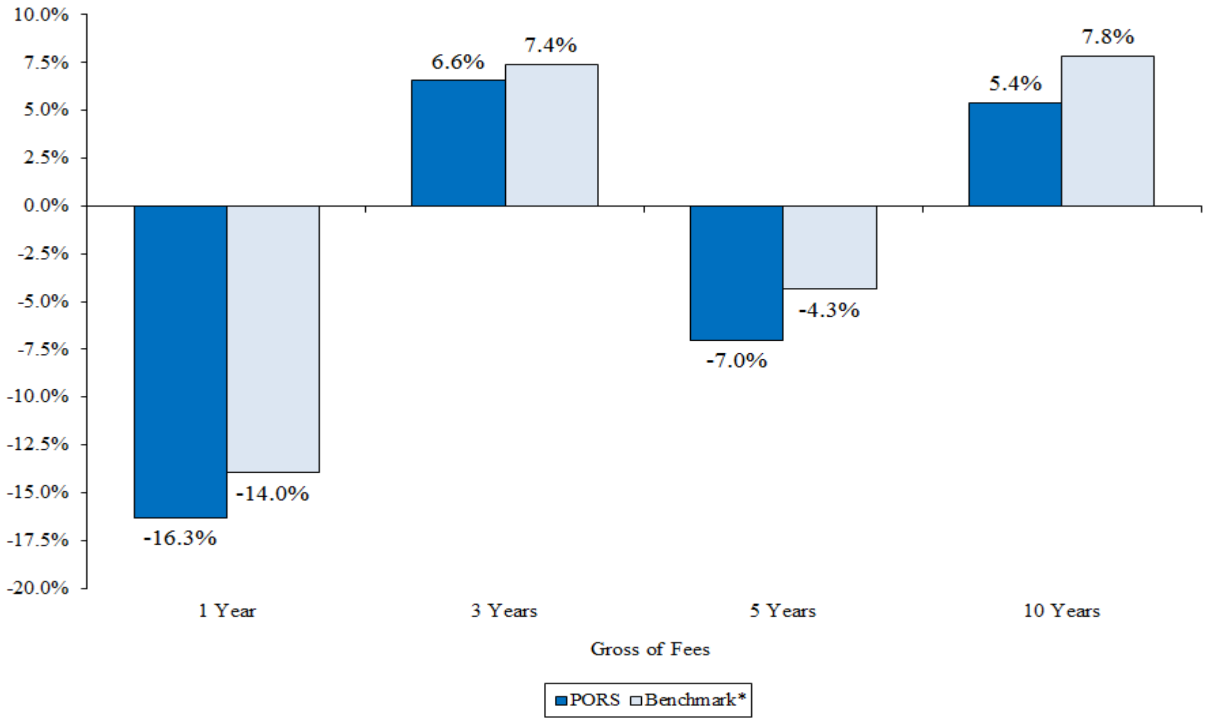
Domestic Equity:



*Benchmark: 78% S&P 500, 22% Russell 2000

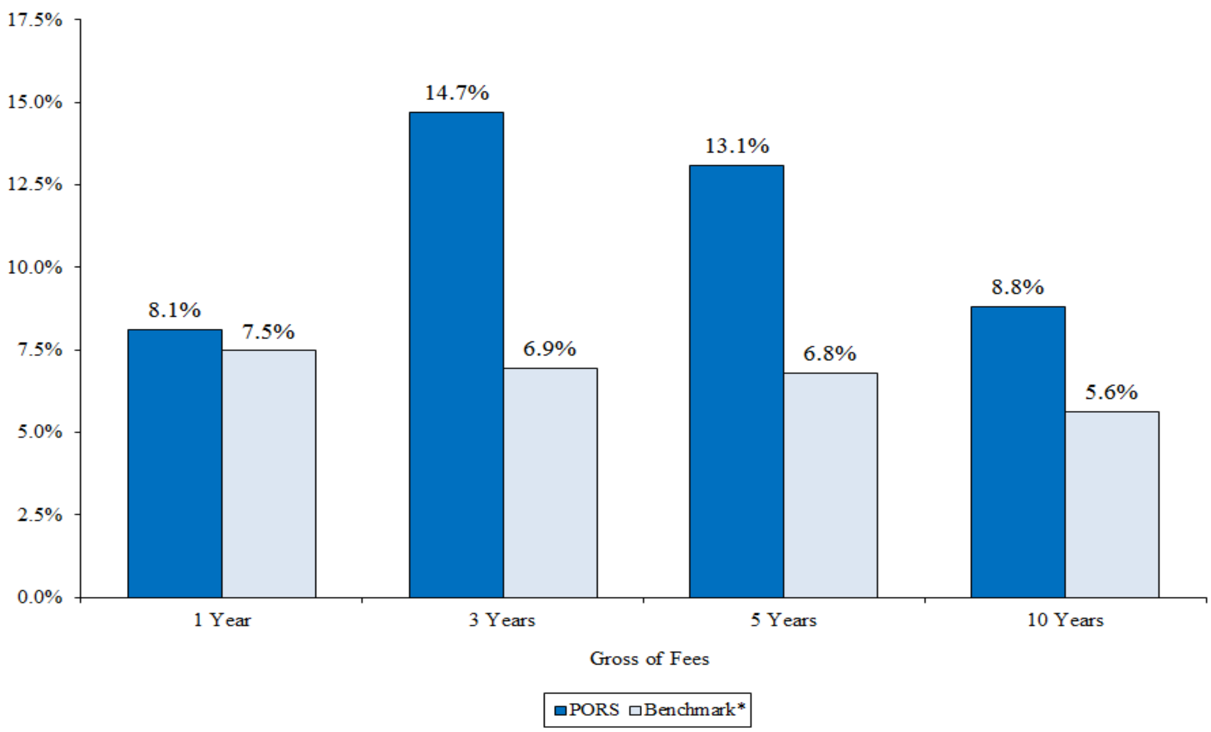
Investment Results

International Equity:



*Benchmark: 68% MSCI EAFE, 12% S&P Citigroup EMI EPAC, 20% MSCI Emerging Markets

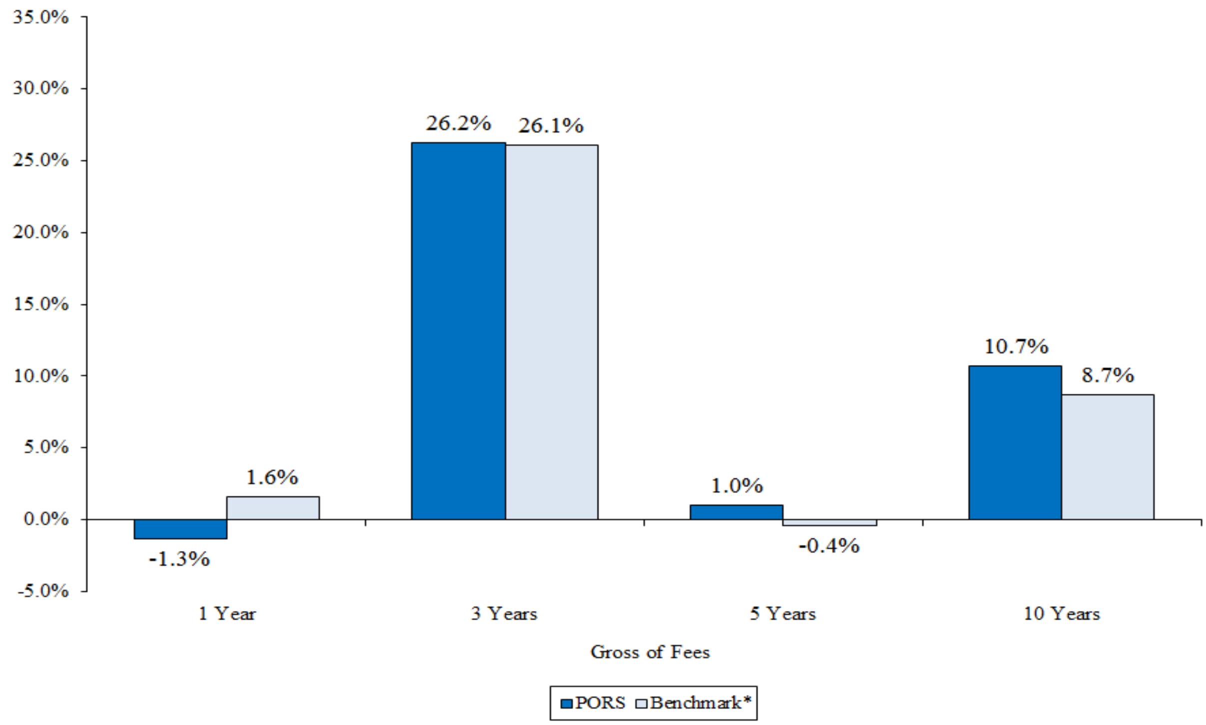
Fixed Income:



*Benchmark: Barclays Aggregate

Investment Results

Real Estate:



*Benchmark: FTSE EPRA/NAREIT Global Index

Schedule of Ten Largest Equity & Fixed Income Holdings

Ten Largest Equity Holdings

No. Shares	Description	Cost	Fair Value	% of Total Portfolio
20,820	Simon Property Group Inc	$1,572,395	$3,240,841	0.32%
137,000	Mitsubishi Estate Co Ltd	2,371,836	2,434,716	0.24%
24,834	Vornado Realty Trust	2,195,135	2,085,559	0.21%
10,286	Unibail-Rodamco Se Eur5	1,938,742	1,894,055	0.19%
154,000	Sun Hung Kai Properties	2,361,598	1,809,639	0.18%
25,410	Equity Residential	1,164,534	1,584,568	0.16%
47,668	Prologis Inc	1,506,681	1,584,008	0.16%
420,000	Hang Lung Properties Ltd	1,409,965	1,418,617	0.14%
25,421	British American Tobacco Ord	853,582	1,292,437	0.13%
73,062	Brookfield Office Properties	1,252,981	1,272,740	0.13%
	Total	**$16,627,449**	**$18,617,180**	**1.86%**

Ten Largest Fixed Income Holdings

Par Value (in local values)	Description	Cost (in U.S. Dollars)	Fair Value (in U.S. Dollars)	% of Total Portfolio
5,743,508	U.S. Treas-CPI Inflation Index, 2.500%, 01/15/2029	$ 6,378,608	$ 7,970,438	0.79%
5,241,871	U.S. Treas-CPI Inflation Index, 2.000%, 01/15/2014	5,610,093	5,442,530	0.54%
4,729,250	U.S. Treas-CPI Inflation Index, 2.000%, 01/15/2016	5,102,833	5,232,490	0.52%
3,639,474	U.S. Treas-CPI Inflation Index, 1.250%, 07/15/2020	4,084,078	4,225,757	0.42%
3,048,512	U.S.Treas-CPI Inflation Index, 2.000%, 01/15/2026	3,765,782	3,890,419	0.38%
2,855,322	U.S. Treas-CPI Inflation Index, 1.875%, 07/15/2019	3,062,929	3,415,022	0.34%
2,965,059	U.S. Treas-CPI Inflation Index, 1.625%, 01/15/2018	3,437,167	3,383,399	0.33%
1,543,395	U.S. Treas-CPI Inflation Index, 2.125%, 02/15/2040	2,088,626	2,190,663	0.22%
2,110,000	U.S. Treasury Note, 0.625%, 07/31/2012	2,118,953	2,110,823	0.21%
1,649,338	FHLMC Multi Class Mtg 3857 Tz, Var Rate, 05/15/2041	1,245,433	1,752,867	0.17%
	Total	**$ 36,894,502**	**$ 39,614,408**	**3.92%**

Schedule of Brokerage Commissions
Year Ended June 30, 2012

Broker Name	Base Volume	Total Shares	Base Commission	Commission Percentage
Credit Lyonnais Sec, Seoul	$1,971,343	18,585	$ 3,961	0.20%
Citigroup Global Markets Ltd, London	2,156,369	256,877	3,707	0.17%
Macquarie Securities Limited, Hong Kong	4,425,309	2,072,054	7,405	0.17%
Macquarie Secs, Singapore	3,240,525	1,537,200	5,262	0.16%
UBS Warburg Asia Ltd, Hong Kong	10,031,494	4,178,778	16,176	0.16%
Citigroup Gbl Mkts/Salomon, New York	9,745,357	4,528,838	14,894	0.15%
Barclays Capital, London	2,546,404	137,961	3,838	0.15%
Merrill Lynch & Co Inc Atlas Global, NY	6,482,114	775,889	9,725	0.15%
Merrill Lynch Gilts Ltd, London	3,454,893	1,304,676	5,181	0.15%
Exane, Paris	1,906,240	54,113	2,853	0.15%
Nomura Secs Intl Inc, New York	5,209,686	941,822	7,656	0.15%
Pershing Securities Ltd, London	2,066,383	880,133	3,026	0.15%
UBS Warburg Australia Equities, Sydney	5,477,944	3,237,302	7,886	0.14%
Pershing LLC, Jersey City	20,693,335	1,548,087	29,632	0.14%
Merrill Lynch Pierce Fenner, Wilmington	10,184,450	3,599,020	13,162	0.13%
JPMorgan Secs Ltd, London	5,853,237	407,944	6,834	0.12%
Macquarie Equities Ltd, Sydney	2,043,893	822,671	2,364	0.12%
Wells Fargo Securities LLC, Charlotte	2,161,468	111,050	2,472	0.11%
BNY Convergex/LJR, Houston	4,338,052	134,946	4,860	0.11%
Knight Equity Markets LP, Jersey City	2,742,129	96,742	3,070	0.11%
Morgan Stanley & Co Inc, NY	17,627,008	1,838,866	19,664	0.11%
Merrill Lynch Pierce Fenner Smith Inc, NY	25,919,641	980,230	28,800	0.11%
Daiwa Secs Ltd, Hong Kong	6,972,758	884,300	7,686	0.11%
KeyBanc Capital Markets Inc, New York	1,894,647	72,254	2,023	0.11%
Goldman Sachs & Co, NY	34,751,188	2,007,228	35,246	0.10%
ITG Hong Kong Limited, Hong Kong	4,343,382	1,125,400	4,357	0.10%
Brockhouse and Cooper, Montreal	2,946,530	814,650	2,950	0.10%
Brockhouse & Cooper Inc, Jersey City	4,405,913	117,820	4,410	0.10%
BNP Paribas Sec Svcs, London	6,458,084	316,900	6,465	0.10%
Kas Bank NV, Amsterdam	2,701,711	224,742	2,703	0.10%
Citigroup Gbl Mkts Inc, New York	7,679,047	284,191	7,671	0.10%
RBC Capital Markets LLC, New York	2,373,518	116,528	2,320	0.10%
UBS Securities LLC, Stamford	5,905,340	273,916	5,738	0.10%
Bouzet Sa Societe De Bourse, Paris	10,213,402	357,540	9,921	0.10%
Pershing Div of Donaldson, Jersey City	3,185,208	76,085	3,043	0.10%
Green Street Advisors, Jersey City	3,666,166	103,601	3,467	0.09%
Cap Instl Svcs Inc-Equities, Dallas	2,092,703	50,410	1,969	0.09%
Credit Suisse, New York	14,866,068	2,351,054	13,852	0.09%
JPMorgan Clearing Corp, New York	14,428,526	790,407	13,278	0.09%
Barclays Capital Inc/Le, New Jersey	2,401,655	62,054	2,167	0.09%
Keefe Bruyette and Woods, Jersey City	3,228,734	77,414	2,644	0.08%
Liquidnet Inc, Brooklyn	33,616,005	1,352,088	27,045	0.08%
UBS Equities, London	4,296,563	377,278	3,155	0.07%
Deutsche Bk Secs Inc, NY	53,039,289	3,123,033	37,846	0.07%
Goldman Sachs Execution & Clearing, NY	3,745,530	175,277	2,629	0.07%
Jefferies & Co Inc, New York	9,776,638	477,371	6,070	0.06%
Investment Technology Group, New York	4,954,011	293,148	2,931	0.06%
Instinet Corp, NY	11,627,958	571,602	5,716	0.05%
Barclays Capital Le, Jersey City	3,195,254	113,802	1,431	0.04%
BNY Convergex, New York	45,240,372	874,769	17,495	0.04%
Other Brokers	72,206,348	20,532,407	104,610	0.14%
Total	**$526,489,823**	**67,461,053**	**$543,268**	**0.10%**

Investment Summary
(Based on Capital Allocation)

	As of June 30, 2011		As of June 30, 2012	
	Market Value	**% Market Value**	**Market Value**	**% Market Value**
Domestic Equities	$340,235,437	32.8%	$177,695,940	17.5%
International Equities	230,188,711	22.3%	102,467,563	10.1%
Fixed Income	226,318,665	21.9%	248,610,168	24.3%
Real Estate	103,605,353	10.0%	56,282,744	5.5%
Alternative Investments	127,966,714	12.4%	123,847,966	12.2%
Risk-Balanced Portfolios	0	0.0%	303,398,216	29.9%
Short-term	5,897,782	0.6%	5,035,665	0.5%
Total	**$1,034,212,662**	**100.0%**	**$1,017,338,262**	**100.0%**

Schedule of Direct Investment Management Fees

As of June 30, 2012

Asset Class Manager	Investment Style	Total Assets	Fees
Domestic Equities			
ClariVest Asset Management*	Small Cap Growth	$ -	$181,815
Goldman Sachs Asset Management*	Large Cap Growth	-	169,822
Pzena Investment Management*	Large Cap Value	-	113,824
The Clifton Group	S&P 500 Beta Manager	10,830,761	16,395
International Equities			
McKinley Capital	Developed Markets Growth	33,085,930	379,824
Acadian Asset Management	Emerging Markets	23,795,301	234,191
Acadian Asset Management	Developed Markets Small Cap	11,279,283	155,258
Fixed Income			
DoubleLine Capital	Mortgage-Backed Securities	72,885,514	595,744
Loomis, Sayles & Company	High Yield Bonds	59,162,137	278,199
Dodge & Cox Investment Managers	Domestic Core Bonds	56,246,008	152,829
The Clifton Group	TIPS	38,777,386	58,700
Real Estate			
Cohen & Steers Capital Management	Global Read Estate Securities	56,282,744	543,914
Short-term			
BNY Mellon Cash Investment Strategies	Plan Level Cash Accounts	2,622,955	152,231
Total		**$364,968,019**	**$3,032,746**

* Terminated during FY 2012

CHEIRON Classic Values, Innovative Advice

March 9, 2012

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, 2011. 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. This 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, 2011 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, 2010. 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.

Supporting Schedules

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

1750 Tysons Boulevard, Suite 1100, McLean, VA 22102 Tel: 703.893.1456 Fax: 703.893.2006 www.cheiron.us

March 9, 2012
Fairfax County Police Officers' Retirement System
Page 2

We are responsible for the 2004 through 2011 information in the Schedule of Funding Progress, Schedule of Employer Contributions and Notes to Trend Data shown in the Financial Section. All data shown prior to 2004 was prepared by the prior actuary.

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).

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.

We certify that, to the best of our knowledge and understanding, the Fairfax County Police Officers Retirement System satisfies the requirements of the Code of Virginia §51.1-800.

Certification

We are consulting actuaries for Cheiron. We are also Members of the American Academy of Actuaries and meet their Qualification Standards to render the actuarial opinion contained herein.

We hereby certify that, to the best of our 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 Members of the American Academy of Actuaries, we meet the Qualification Standards to render the opinions contained herein.

Sincerely,
Cheiron

Fiona E. Liston, FSA
Principal Consulting Actuary

Christian E. Benjaminson, FSA
Principal Consulting Actuary

CHEIRON

Summary of Valuation Results (unaudited)

Overview

This report presents the results of the July 1, 2011 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 2013; and
- 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 the inception of the corridor funding method the normal cost rate has increased by 3.09% and the UAL rate has increased by 4.24%, the specific changes are summarized in the table on the next page:

Changes Since 2001	Impact on Normal Cost Rate	Impact on UAL Rate
2002 ad-hoc COLA	N/A	+ 0.32%
2004 ad-hoc COLA	N/A	+ 0.48%
2005 Implementation of DROP	+ 0.18%	+ 0.16%
2005 ad-hoc COLA	N/A	+ 0.46%
2005 Assumption Changes	- 0.18%	+ 0.83%
2006 ad-hoc COLA	N/A	+ 0.45%
2007 ad-hoc COLA	N/A	+ 0.45%
2007 Remove 30 year service cap on benefits	+ 0.04%	+ 0.07%
2007 Change member contribution rate to 11%	+ 0.89%	N/A
2008 Change member contribution rate to 10%	+ 0.89%	N/A
2008 ad-hoc COLA	N/A	+ 0.50%
2010 Assumption Changes	+ 1.27 %	+ 0.52%
Total Increase	**+ 3.09%**	**+ 4.24%**

The basic corridor funding contribution is currently 24.63% 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, 2011 shows that the actuarial funded ratio (including a credit for the amortization of prior benefit increases) remains outside of the corridor, so an adjustment of 7.41% of payroll is required by the funding method.

The employer contribution rate for FY 2013 will increase from 30.34% to 32.04% of payroll, on the basis of this year's valuation results.

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

Since the previous valuation, an experience study was preformed to review the actuarial assumptions. A description of the changes the Board has approved appears in the "Summary of Actuarial Assumptions and Methods" section that follows. The current results reflect these assumptions changes.

Trends

The rebound in financial markets continued during the fiscal year ending in 2011 causing an actuarial gain on the asset side of the System. The actual return on a market value basis was approximately 25.29%. On an actuarial value basis, the assets returned 10.46% compared with an assumed rate of return of 7.5%. The gain recognized for funding purposes was $26.5 million.

The measurement of liabilities produced a loss this year in the amount of $12.5 million. This loss was due to experience not meeting our assumptions about salary increases, retirement behavior, death, etc. Specific components of the loss include:

- The average salary increase was 2.6% for active participants who were in both the July 1, 2010 and July 1, 2011 valuations. This was less than the expected salary growth based on the actuarial assumption (per the most recent experience study), which worked out to average 2.7%. This resulted in a negligible gain.

- The valuation assumed a 1% cost-of-living adjustment in 2011 for benefits in pay status (per the most recent experience study). The actual CPI-based COLA was 3.0% last year, creating a liability loss of $13.7 million.

- The 2011 valuation is the first to incorporate actual sick leave hours into both eligibility and projected benefits for active participants. The accrual of sick leave from 2010 to 2011 produced a loss of $3.5 million as we do not currently include an assumption regarding sick leave accrual.

- An annual component of liability loss is the delayed recognition of new hires throughout the year. This does not contribute to an increase in the System's unfunded liability because both the member and the employer make contributions from the date of hire. However, when we look only at the liability side they are a component of the annual liability loss and this year they contributed $0.8 million to that number.

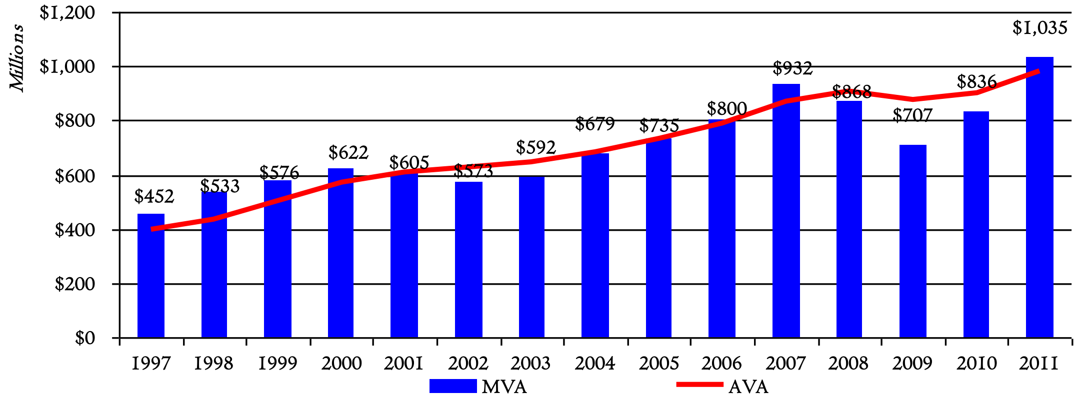
- There was a $5.5 million liability gain component that is made up of various other causes such as members terminating, dying or becoming disabled in a way contrary to the assumption and also data changes from previous years.

In addition to the liability loss, the System's liabilities also increased by $5.8 million due to changes in the actuarial assumptions used, as recommended by an experience study performed in 2011.

The combination of assumption changes and liability and investment experience over the last year led to the System's funding ratio (actuarial value of assets over actuarial accrued liability) increasing from 79.3% at July 1, 2010 to 80.5% at July 1, 2011. 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 increased from 82.1% at July 1, 2010 to 83.3% at July 1, 2011.

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 15 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.

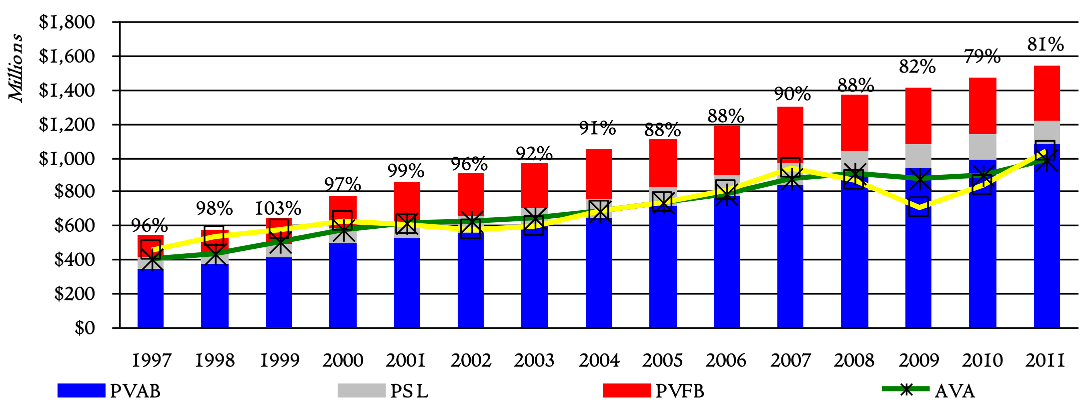
Growth in Assets



There was a substantial increase in the market value of assets (MVA) over last year due to a return of 25.29%. The actuarial value of assets (AVA) increased as well but not as significantly because a portion of this year's investment gain is being held for future recognition. Due to the significant market increases this year and last, the System has $53 million in unrecognized gains that will be phased in over the next few years.

Over the period of July 1, 1997 to June 30, 2011 the System's assets returned approximately 7.18% per year measured at actuarial value, compared to a valuation assumption of 7.5% per year.

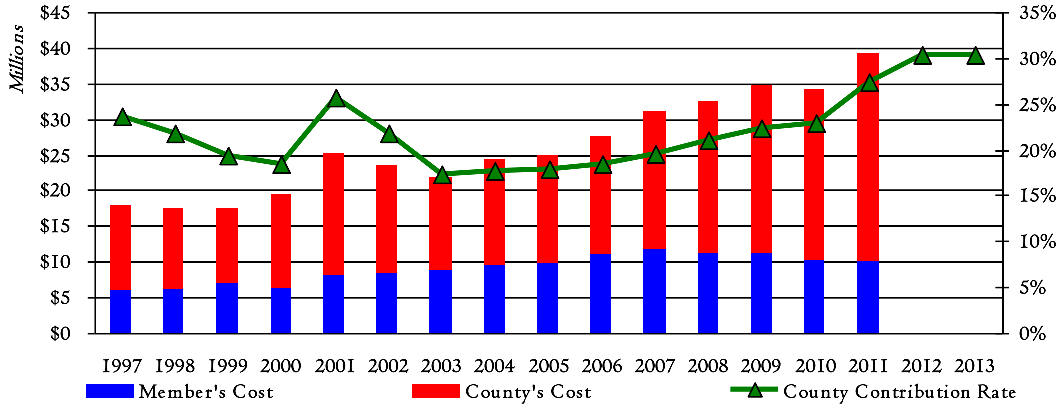
Assets and Liabilities



The three colored bars represent the three different measures of liability mentioned in this report. The amount represented by the top of the 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. 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.

Since 2007, the System's funded status has declined from 90% to 81% as a result of investment gains and losses, liability gains and losses, and the underfunding inherent in the corridor method once it falls below 90%.

Contribution Rates

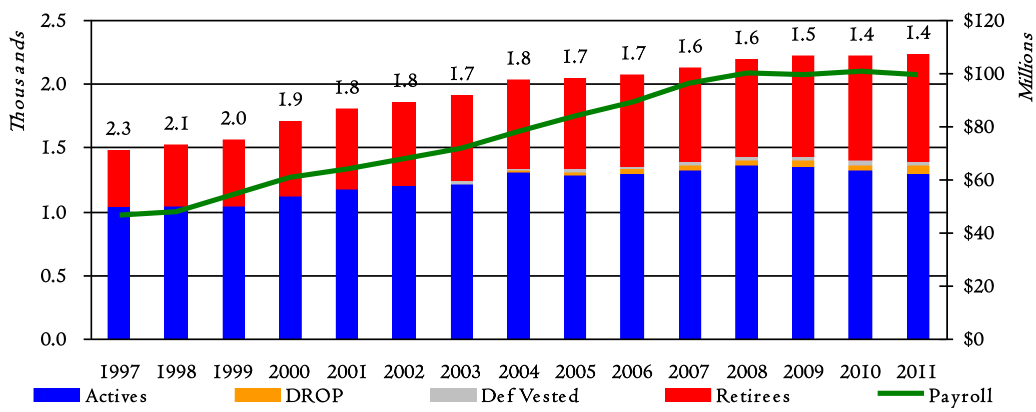


The stacked bars in this graph show the contributions made by both the County and the members (left hand scale). The green line shows the County contribution rate as a percent of payroll (right hand scale).

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 2011 value is the rate prepared by the 2009 valuation and implemented for the period July 1, 2010 to June 30, 2011.

County contribution rates have risen since FY 2003, primarily due to investment returns not meeting the actuarial assumption of 7 ½% per year.

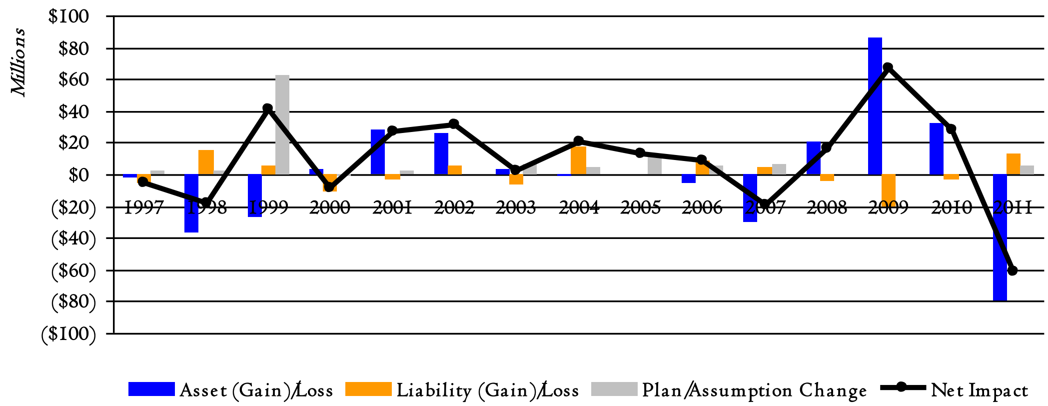
Participant Trends



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 2.3 actives to each inactive in 1997 to 1.4 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.

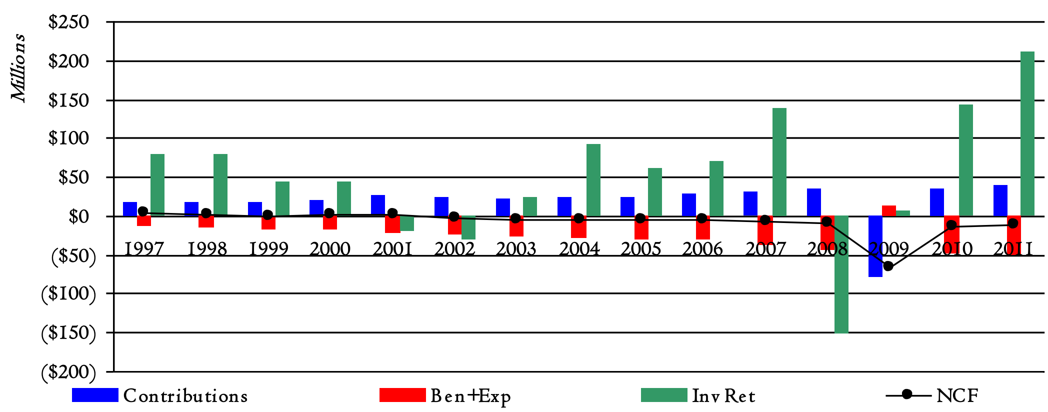
Starting in 2004, the chart also shows the number of DROP participants. Neither County nor member contributions are made on their behalf, which leads to a slightly lower covered payroll for pension plan purposes than would be reflective of the actual active population.

Gains and Losses



This graph shows the annual gains and losses experienced by the System, along with the Unfunded Actuarial Liability (UAL) due to plan amendments and assumption changes. The black line shows the net impact of all such changes in a given year. Positive numbers represent increases in the UAL while negative numbers show reductions.

Cash Flow



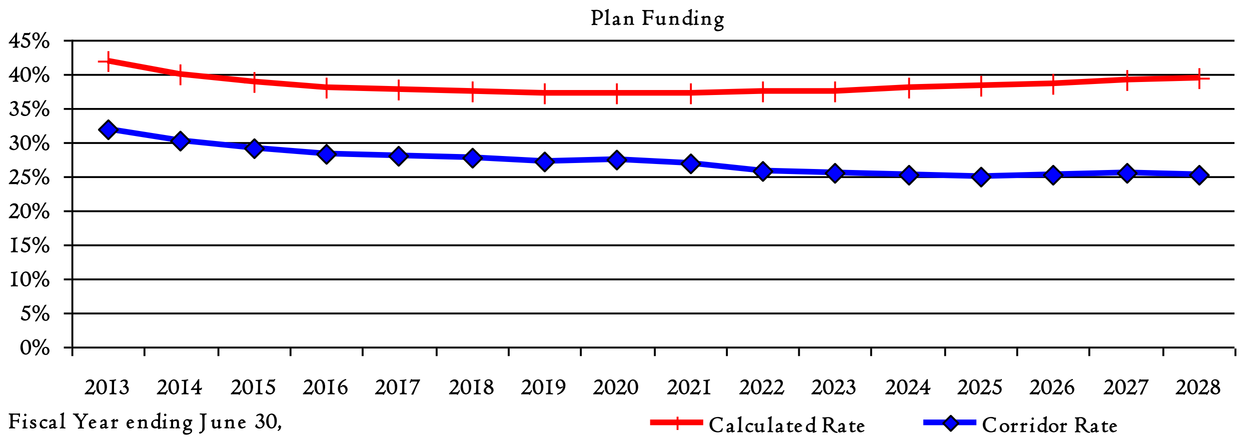
The graph shows the annual cash flows into and out of the System. The graph shows the magnitude the investment returns on the market value (green bars) compared to the contributions (blue bars). The net cash flow (line) is comparing the contributions to benefits and expenses (red bar). Negative cash flow is expected for a mature plan such as this one. The implications of a plan with negative cash flow are that the impact of market fluctuations can be more severe. This is because as assets are being depleted to pay benefits in down markets, there is less principal that is available to be reinvested during favorable return periods.

Future Outlook

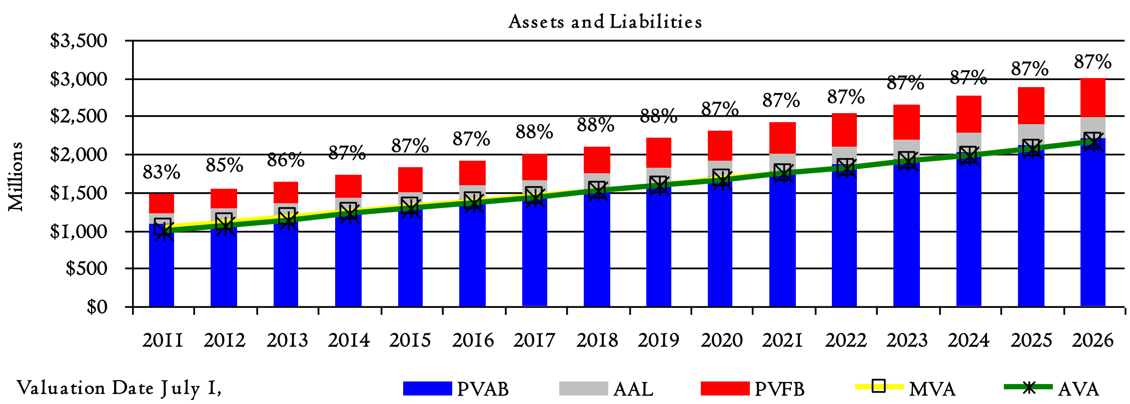
Base-line Projections

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 graph 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 decrease in corridor contributions towards the end of the period show plan change bases becoming fully amortized and dropping out. The red line shows the actuarially calculated rate if the corridor were not in place. Under this scenario the corridor rate begins at a high point around 32% of payroll and continuously decreases.



The "Assets and Liabilities" graph shows the projected funding status over the next decade. Note that the 2011 funded level differs from that shown in the historical graphs because the ratio used here reflects the corridor method. The System's funded status is projected to increase from the current level of 83% to 87% by 2014. After that, the corridor method basically marks time and keeps the System around 87% funded.



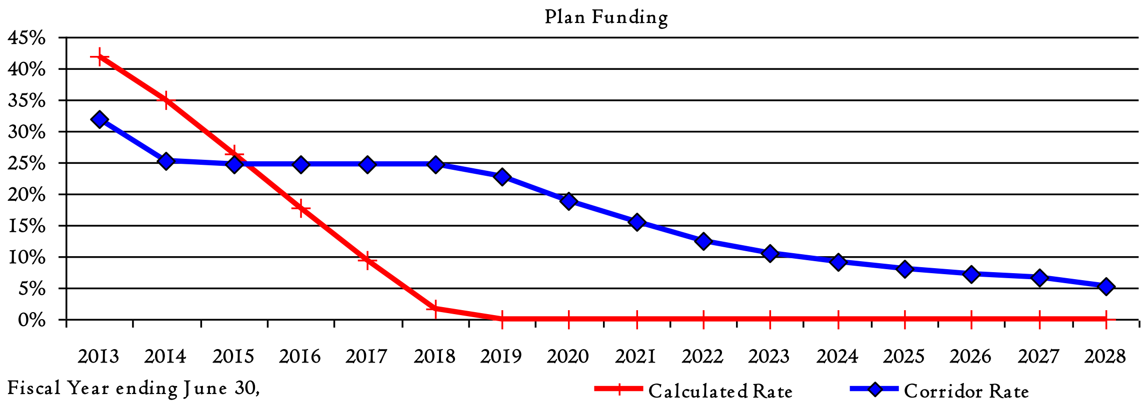
The future funding status of this System will be influenced by the investment earnings. The prior projection assumed the System would earn 7.5% each and every year, which is extremely unlikely.

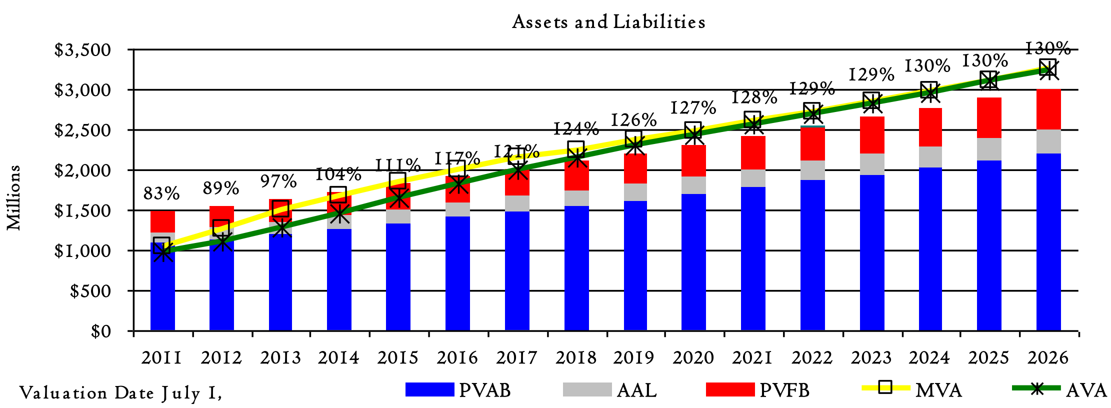
In the projections that follow we show the risk to the System under volatile markets. Since 1980 the System has averaged 10.32% return per year, therefore, for this analysis we have created the following three scenarios that produce a similar average return.

Fiscal Year Ending June 30,	**Favorable Returns Early**	**Poor Returns Early**	**Random Returns**
2012	24.30%	6.80%	24.50%
2013	19.80%	8.80%	4.78%
2014	13.80%	10.80%	2.73%
2015	11.80%	11.80%	12.48%
2016	10.80%	13.80%	4.88%
2017	8.80%	19.80%	11.37%
2018	6.80%	24.30%	16.82%
2019	7.50%	7.50%	22.60%
2020	7.50%	7.50%	6.17%
2021	7.50%	7.50%	7.13%
2022	7.50%	7.50%	6.15%
2023	7.50%	7.50%	16.88%
2024	7.50%	7.50%	7.42%
2025	7.50%	7.50%	-4.24%
2026	7.50%	7.50%	19.14%
Average	**10.30%**	**10.30%**	**10.32%**

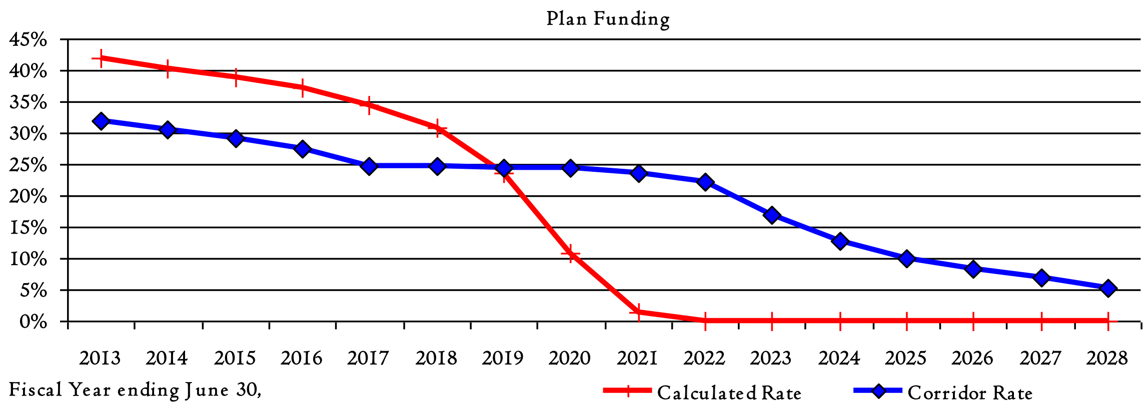
Alternative Projection -- with favorable returns early in the projection:

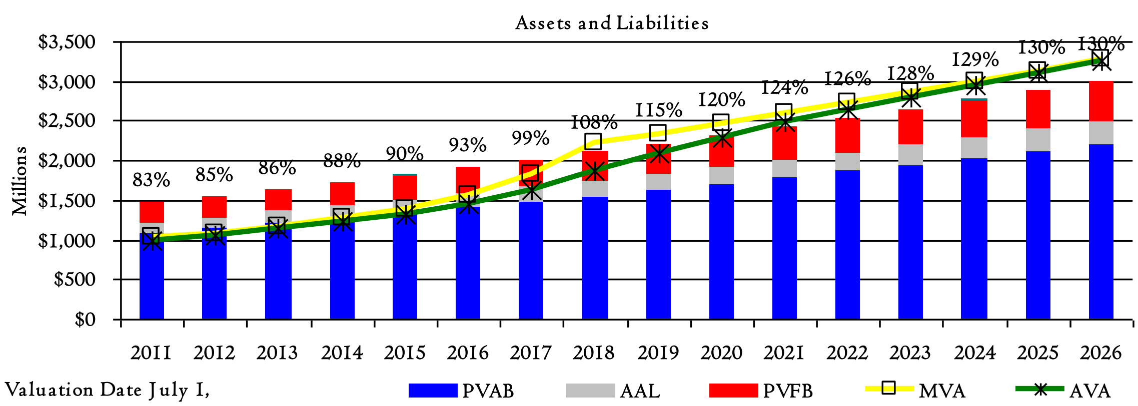
Under this scenario, the corridor contribution rate would decrease each year as the System experiences investment gains in the first five years. The System reaches 97% funded by 2013 (and re-enters the corridor) and is fully funded by 2014.



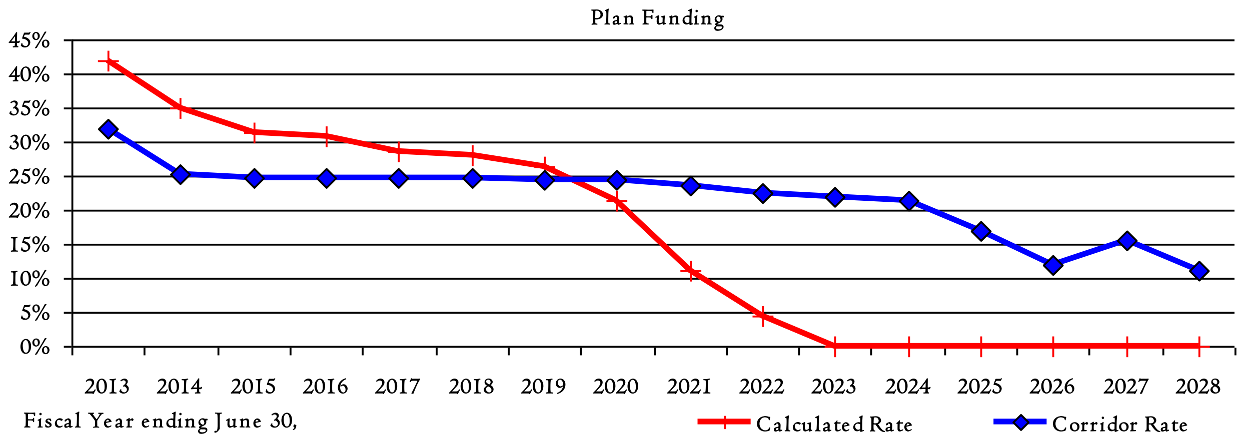


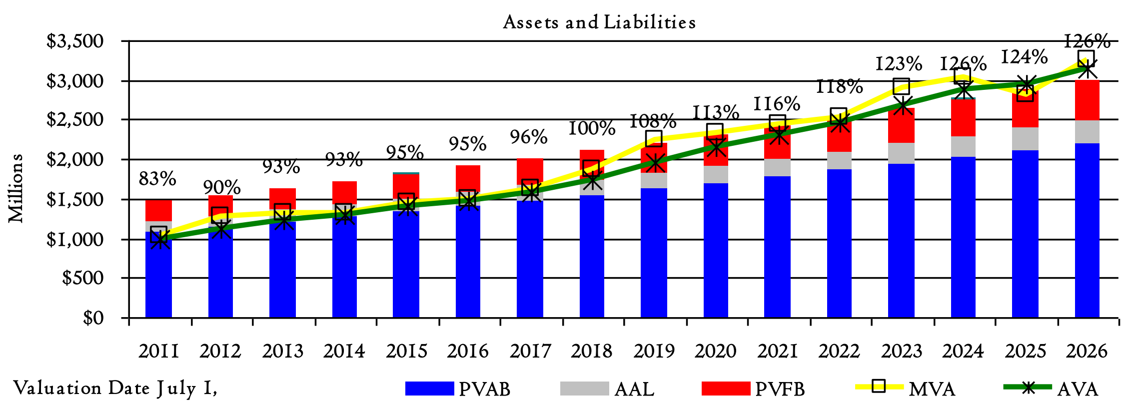
<u>Alternative Projection -- with poor returns early in the projection:</u>
Under this scenario, the corridor contribution rate still declines given the current amount of stored gains. The County would re-enter the corridor in 2015 and reach full funding in 2018.





<u>Alternative Projection -- with random returns:</u>
Under this scenario, the System re-enters the corridor in 2014 and reaches 100% funded by 2018.





Summary of Principal Plan Results Valuation as of:	7/1/2010	7/1/2011	% Chg
Participant Counts			
Actives (excluding DROP)	1,312	1,293	-1.4%
DROPs	51	59	15.7%
Terminated Vesteds	30	34	13.3%
In Pay Status	824	850	3.2%
Total	2,217	2,236	0.9%
Annual Salaries of Active Members	$ 100,500,094	$ 99,070,327	-1.4%
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 45,078,724	$ 48,395,771	7.4%
Assets and Liabilities			
Actuarial Accrued Liability	$ 1,135,015,298	$ 1,219,609,107	7.5%
Assets for Valuation Purposes	899,543,387	982,153,681	9.2%
Unfunded Actuarial Liability	$ 235,471,911	$ 237,455,426	0.8%
Funding Ratio	79.3%	80.5%	
Present Value of Accrued Benefits	$ 985,053,690	$ 1,080,667,773	9.7%
Market Value of Assets	836,033,056	1,035,145,961	23.8%
Unfunded Accrued Liability (not less than $0)	$ 149,020,634	$ 45,521,812	-69.5%
Accrued Benefit Funding Ratio	84.9%	95.8%	
Contributions as a Percentage of Payroll	**Fiscal Year 2012**	**Fiscal Year 2013**	
GASB Method:			
Normal Cost Contribution	18.82%	20.09%	
Unfunded Actuarial Liability Contribution	19.79%	21.61%	
Administrative Expense	0.30%	0.30%	
Total Contribution	38.91%	42.00%	
Corridor Method:			
Normal Cost Contribution	18.82%	20.09%	
Increase Due to Amortized Changes	3.72%	4.24%	
Amortization of Amount Outside Corridor	7.50%	7.41%	
Administrative Expense	0.30%	0.30%	
Corridor Method	30.34%*	32.04%	

* The actual contribution rate being paid by the County in FY 2012 is 31.30%.

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

Annual Deaths Per 10,000 Members
RP-2000 Mortality Projected to 2015*

Age	Male	Female
20	3	2
25	3	2
30	4	2
35	7	4
40	10	6
45	12	9
50	16	13
55	27	24
60	53	47
65	103	90
70	177	155
75	306	249
80	554	413
85	997	708
90	1,727	1,259
95	2,596	1,888
100	3,394	2,339
105	3,979	2,931

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

Annual Deaths Per 10,000 Disabled Members
RP-2000 Mortality Project to 2015
with ages set forward 5 years

Age	Male	Female
40	12	9
45	16	13
50	27	24
55	53	47
60	103	90
65	177	155
70	306	249
75	554	413
80	997	708

Termination of Employment: (Prior to Normal Retirement Eligibility)

Annual Terminations Per 1,000 Members	
Years of Service	**Terminations**
0	70
1	40
2	45
3	50
4	40
5	30
6	20
7	15
8	14
9	13
10	12
11	11
12	10
13	10
14	10
15	8
16	6
17	4
18	2
19	2
20 or more	2

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

Years of Service	Probability of Retirement* Hired Pre - 7/1/81	Hired Post - 7/1/81
20	40%	N/A
21	40	N/A
22	40	N/A
23	40	N/A
24	40	N/A
25	40	40%
26	40	40
27	40	40
28	40	40
29	40	40
30	40	40

* 50% are assumed to DROP.

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

Years of Service	Merit/Seniority Increase*
0	8.0%
5	4.3
10	1.0
15	3.0
20	1.8
25	1.8
30	1.8

* 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 five 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

Unused sick leave balances as reported for each active member will be used as the unused sick leave balance throughout the remaining active period.

Economic Assumptions

Investment Return:	7.50% compounded per annum.
Rate of General Wage Increase:	3.00% compounded per annum.*
Rate of Increase in Cost-of-Living:	3.00% compounded per annum.**
Total Payroll Increase (For amortization):	3.00% compounded per annum.
Administrative Expenses:	0.30% of payroll.

* Due to the recent history of County pay freezes, we use a 0% rate of general wage increase for fiscal years ending 2011 and 2012.

** Benefit increases are limited to 4% per year. We will use an assumption that post-retirement cost-of-living increases will be 1% for July 1, 2011 and July 1, 2012, and 2.75% thereafter.

Changes Since Last Valuation

All of the assumptions were reviewed as of the experience study performed in early 2011. The assumptions that were changed since the last valuation include healthy and disabled mortality rates, termination and retirement rates, salary increases and cost-of-living adjustments. Actual sick leave balances are also now used instead of an assumption.

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	2006	2007	2008	2009	2010	2011
Investment Income	$5,829,376	$30,476,299	$(19,958,077)	$ (86,460,572)	$ (31,755,165)	$26,496,140
Combined Liability Experience	(9,007,438)	(9,438,877)	4,139,287	17,649,316	3,313,576	(12,495,024)
Gain (or Loss) During Year from Financial Experience	**$(3,178,062)**	**$21,037,422**	**$(15,818,790)**	**$ (68,811,256)**	**$ (28,441,589)**	**$14,001,116**
Non-Recurring Items	(4,472,878)	(5,904,299)	(5,902,768)	0	0	(5,795,987)
Composite Gain (or Loss) During Year	**$(7,650,940)**	**$15,133,123**	**$(21,721,558)**	**$ (68,811,256)**	**$ (28,441,589)**	**$ 8,205,129**

Schedule of Retirees and Beneficiaries
Added To and Removed From Rolls

Year Ended June 30,	Added to Rolls No.	Added to Rolls Annual Allowance	Removed From Rolls No.	Removed From Rolls Annual Allowance	On Rolls @ Yr. End No.	On Rolls @ Yr. End Annual Allowance	% Increase Allowance	Average Allowance
2006	19	$ 2,180,765	7	$ 222,265	727	$ 32,711,241	6.37%	$ 44,995
2007	60	5,223,988	44	1,034,662	743	36,900,567	12.81%	49,664
2008	33	3,504,943	19	611,148	757	39,794,362	7.84%	52,569
2009	36	2,347,460	5	214,258	788	41,927,564	5.36%	53,208
2010	48	3,725,159	12	574,000	824	45,078,724	7.52%	54,707
2011	34	3,623,899	8	306,852	850	48,395,771	7.36%	56,936

Solvency Tests
Aggregate Accrued Liabilities For

Valuation Date July 1,	(1) Active Member Contributions	(2) Retirees, Vested Terms, Beneficiaries & DROP	(3) Active Members (Employer Financed Portion)	Reported Assets *	Portion of Accrued Liabilities by Reported Assets (1)	(2)	(3)
2006	$ 81,953,700	$ 514,169,426	$ 301,355,058	$ 788,765,775	100%	100%	64%
2007	87,002,993	573,084,866	308,647,510	870,974,612	100%	100%	68%
2008	92,223,155	623,812,098	315,297,859	908,077,197	100%	100%	61%
2009	96,351,833	658,492,487	321,194,627	879,543,429	100%	100%	39%
2010	100,709,756	695,041,990	339,263,552	899,543,387	100%	100%	31%
2011	104,188,027	732,172,476	383,248,604	982,153,681	100%	100%	38%

** Based on the Actuarial Value of Assets*

Statistical Section (unaudited)

The Statistical Section presents historical information regarding the retirement plan. This information includes a ten-year analysis of the sources of change in plan net assets, benefit payments, the number of retired members and average monthly benefits. Sources of additions include employer and plan member contributions and net investment income; deductions include benefit payments to retirees and beneficiaries, refunds of employee contributions and administrative expenses. The amounts of benefits paid, the count of benefit recipients and the average benefit payments are provided by type of benefit, including service retirement annuities, service-connected and ordinary disability benefits and survivor benefits.

Schedule of Additions by Source

Fiscal Year	Plan Member Contributions	Employer Contributions	Employer Contributions % of Covered Payroll	Net Investment Income (loss)	Total Additions
2003	8,941,529	12,923,806	17.30%	23,248,712	45,114,047
2004	9,689,253	14,682,201	17.96%	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
2008	11,175,450	21,447,907	21.00%	(55,802,375)	(23,179,018)
2009	11,246,986	23,508,402	22.34%	(151,727,685)	(116,972,297)
2010	10,389,241	23,766,626	22.84%	143,107,767	177,263,634
2011	10,142,459	29,174,611	28.31%	210,054,206	249,371,276
2012	10,109,068	31,700,690	31.30%	(6,731,294)	35,078,464

Schedule of Deductions by Type

Fiscal Year	Benefit Payments	Refunds of Contributions	Administrative Expenses	Total Deductions
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
2008	39,533,485	607,913	445,751	40,587,149
2009	43,467,322	761,803	337,334	44,566,459
2010	47,096,822	406,863	349,179	47,852,864
2011	49,429,119	466,363	362,889	50,258,371
2012	52,043,157	357,901	372,137	52,773,195

Schedule of Benefit Payments by Type

Fiscal Year	Service Annuity	Service-Connected Disability	Ordinary Disability	Survivor Benefit	Total
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
2008	36,099,484	1,228,039	94,230	2,111,932	39,533,685
2009	39,708,613	1,241,328	90,442	2,426,939	43,467,322
2010	43,069,896	1,218,305	90,804	2,717,817	47,096,822
2011	45,302,801	1,173,023	109,018	2,844,277	49,429,119
2012	47,757,201	1,180,749	149,163	2,956,044	52,043,157

Schedule of Retired Members by Benefit Type

Fiscal Year	Service Annuity	Service-Connected Disability	Ordinary Disability	Survivor Benefit	Total
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	86	743
2008	634	30	6	87	757
2009	660	30	6	92	788
2010	691	30	6	98	825
2011	716	30	7	97	850
2012	735	30	7	104	876

Schedule of Average Monthly Benefit Amounts

Fiscal Year	Service Annuity	Service-Connected Disability	Ordinary Disability	Survivor Benefit	Average
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	2,013	4,139
2008	4,752	3,453	1,256	2,208	4,381
2009	4,805	3,439	1,261	2,031	4,434
2010	4,956	3,360	1,290	2,290	4,554
2011	5,154	3,284	1,776	2,392	4,745
2012	5,330	3,377	1,829	2,390	4,886

Fairfax County Police Officers Retirement System

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Comprehensive Annual Financial Report

For the Fiscal Year ended June 30, 2012