2013 Comprehensive Annual Financial Report

2013

Fairfax County

Police Officers

Retirement System

A Pension Trust Fund of Fairfax County, Virginia

For the Fiscal Year Ended June 30, 2013

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November 8, 2013

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, 2013. 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 1,237 active members, 89 in the Deferred Retirement Option Program (DROP) and 907 retirees participating in the System as of June 30, 2013.

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

In fiscal year 2013, the economy continued its gradual recovery from the global financial crisis of 2008 to the point where the Federal Reserve began discussions of tapering quantitative easing programs. The equity markets responded favorably, posted strong double digit results for the year, especially domestically and in developed international markets. Equity returns in the emerging markets were positive for the year but were down significantly in the last quarter of the year. Fixed income market returns were generally negative for the year with the exception of the higher yielding markets as Treasury interest rates rose. The System's total portfolio was positive with a return of 9.7% gross of fees (9.5% after fees and expenses). This return was well above the long term target of 7.5% but below the median public fund return of 12.4% and placed in the fourth quartile of the BNY Mellon universe of public funds. Investment returns for the three-year period ending June 2013 were 11.2% per year, and placed in the 65th 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. Please see Footnote C to the Financial Section of this report for a description of this standard of care and details on the System's investment policies and strategies.

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, prepared internally by staff using data from the System and investment managers.

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 calculated as a percentage of current payroll, and are 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, 2012, indicated that the ratio of assets accumulated by the System to total actuarial accrued liabilities for benefits stayed the same at 80.5% The actuarial section contains further information on the results of the July 1, 2012, valuation.

Based on the July 1, 2012, actuarial valuation, the employer contribution rate for 2014 following the adopted corridor-based funding policy was 32.72%, an increase of 0.68% over the 2013 rate of 32.04%. This increase in the rate is required to amortize the increase in unfunded liability from the fiscal year 2012 actuarial experience. During establishment of the fiscal year 2014 County budget, the Board of Supervisors adopted a higher contribution rate of 33.87%.

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. This review also noted that the "reporting of plan operations in the Comprehensive Annual Financial Report (CAFR) is broad and thorough" and that "there is significant transparency regarding the Systems' policies and actions regarding plan investments." The study recommended several modifications to plan provisions for new hires. The Board of Supervisors approved amendments to the Code of the County of Fairfax in order to implement those changes effective January 1, 2013. The Code changes implemented for employees hired on or after January 1, 2013 limit 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.

During the fiscal year, the IRS granted approval to the agency's request for a confirmation of the status of all three Retirement Agency System's as Qualified Retirement plans conditional on several minor technical amendments to the County Code. These code changes were approved by the Board of Supervisor's following a public hearing on July 30, 2013.

Since the close of the fiscal year, we have had several senior level personnel changes. Larry Swartz, CIO for the Fairfax County Retirement Systems, retired in August 2013 after 17 years with the Systems. Following a search, Gregory Samay was hired as CIO to replace him. Greg was an internal promotion and was previously Investment Officer for the Employees' Retirement Systems. In October 2013, I retired as Executive Director after 32 years of employment with Fairfax County. After conducting a national search, Jeffrey K. Weiler has been hired to replace me as Executive Director of the Retirement Systems. Following another national search, an additional investment officer was added to increase the investment team's depth and expertise.

Periodically as a best practice, an actuarial audit is conducted of the incumbent actuary's valuation reports. Gabriel, Roeder, Smith and Company (GRS) was engaged to audit the July 1, 2012 Actuarial Valuation Report prepared by CHEIRON. Their audit report indicates no material issues with CHEIRON's Valuation Report.

On the investment front, we continue to focus on diversifying risks and maintaining a high quality group of investment managers. An investment was approved in the AQR Delta Fund Investment within the existing AQR Global Risk Premium Account. We hired two new International Developed Equity managers, First Eagle Investment Management and WCM Investment Management, to replace two existing International Developed Equity managers, GMO and McKinley. A rebalancing and reallocation of 4% of fixed income exposure to alternatives was approved as well as a commitment to fund an investment in Czech Direct Lending Fund II. Finally, we closed the Dodge & Cox Core Income Fund and replaced it with a PIMCO PARS III fund with underlying Barclays Aggregate Exposure.

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, 2012. This was the third 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.

Institutional Investor magazine recognized Larry Swartz, CIO of the Fairfax County Retirement Systems as the "2013 Small Public Plan Manager of the Year" for innovations in risk-based portfolio construction techniques. The Employees' System ranked as the top performing public pension fund for the 10 years ending June 2012. Mr. Swartz was also nominated by Asset International's Chief Investment Officer magazine for a 2012 Industry Innovation award.

Other Information

Independent Audit and Actuarial Certifications

KPMG LLP performs a yearly audit of the financial statements of the plan to obtain reasonable assurance on 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

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Government Finance Officers Association

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, 2012

Executive Director/CEO

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Board of Trustees

Administrative Organization

Administrative Staff

Robert L. Mears
Executive Director

Laurnz A. Swartz	Katherine Molnar, CFA	John P. Sahm
Chief Investment Officer	*Investment Officer*	*Retirement Administrator*

Professional Services

Actuary	**Auditor**
CHEIRON	KPMG LLP
Actuaries	Certified Public Accountants
McLean, VA	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

Bridgewater Associates, L.P.
Westport, CT

The Clifton Group
Edina, MN

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

Czech Asset Management
Old Greenwich, CT

DoubleLine Capital, L.P.
Los Angeles, CA

First Eagle Investment Management
New York, NY

FrontPoint Partners, LLC
Greenwich, CT

Gramercy Advisors, LLC
Greenwich, CT

Investment Managers
(continued)

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

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

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

PIMCO
Newport Beach, CA

Ramius Starboard Value and Opportunity, Ltd
New York, NY

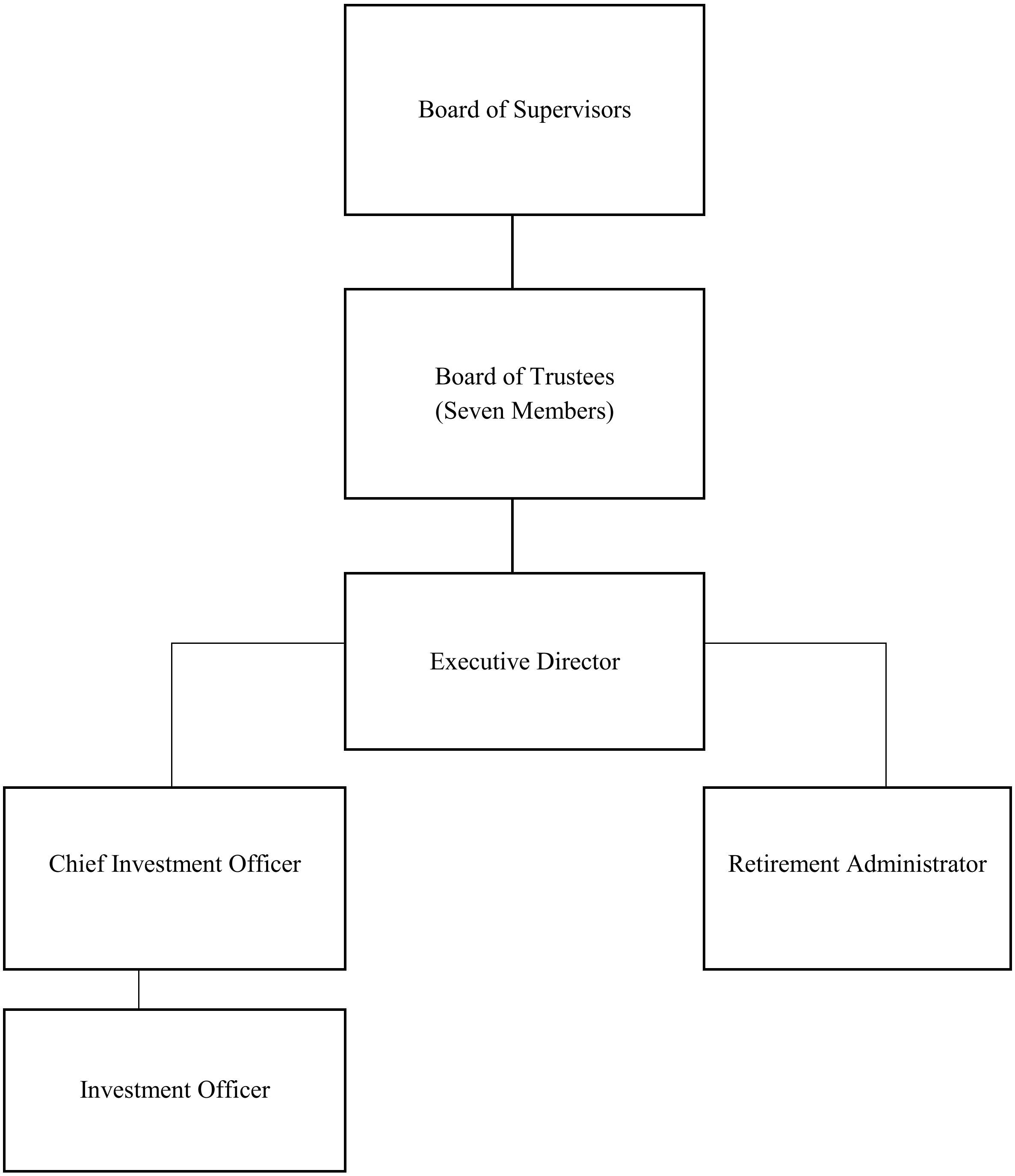
Standish Mellon Assistant Management
Pittsburgh, PA

WCM Investment Management
Laguna Beach, CA

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. Members sworn before January 1, 2013 are members of Plan A. Members sworn on or after January 1, 2013 are members of Plan B.

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 33.15% for fiscal year 2013. Police Officers do not participate in Social Security.

Benefit:
The benefit is 2.8% of average final compensation (highest consecutive three years) multiplied by creditable service including sick leave; and it is then increased by 3%. Plan B members have a cap of 2,080 hours of sick leave that will count towards retirement service credit.

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. Plan B members who enter DROP may use a maximum of 2,080 hours of sick leave towards retirement service credit.

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, reduced by any Workers' Compensation benefits. These benefits continue during the existence of the disability.

Summary of Plan Provisions
(continued)

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.

Death Benefits:
If death occurs prior to retirement: An automatic monthly benefit is payable to the member's spouse and children. This benefit equals $2,186.51 for the spouse or surviving handicapped child (if there is no spouse), plus each eligible child receives $874.60 up to a total family benefit of $4,373.01 (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%, 66⅔% 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
Suite 12000
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:

Report on the Financial Statements

We have audited the accompanying financial statements of the Fairfax County Police Officers Retirement System (the System), a pension trust fund of the County of Fairfax, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the System's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

KPMG

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial net position of Fairfax County Police Officers Retirement System as of June 30, 2013, and the changes in net position for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 9-11 and the schedule of funding progress and the schedule of employer contributions on page 23, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The introductory section on pages 1-5, the additional supplementary information on page 24, the investment section on pages 25-35, the actuarial section on pages 37-57 and the statistical section on pages 59-60 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The additional supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section, and the investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

KPMG LLP

November 8, 2013

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, 2013. 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 Position and Statement of Changes in Plan Net Position as of June 30, 2013. 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 provide information regarding the System's funding progress and employer contributions. Other Supplementary Information such as the schedule of administrative expenses and schedule of investment and consultant expenses are added. The Required Supplementary Information and Other Supplementary notes are immediately following the Notes to Financial Statements.

Financial Analysis

Plan Net Position. For fiscal year 2013 the net position of the Police Officers' Retirement System increased 8.4%, resulting in a total net position value of $1.1 billion, reflecting an increase of $85 million from fiscal year 2012. The increase in net position was due to current year contributions and investment income significantly exceeding benefit payments and expenses.

The actuarial value of the assets as of the last valuation on July 1, 2012, was $1.04 billion while actuarial liabilities as of the same period were $1.29 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 fiscal year 2013 increased by 7.29% due to an increase in the employer contribution rate from 31.30% to 33.15% of salary. Investment returns were higher for fiscal year 2013 reflecting higher returns in the capital markets. Benefit payments increased due to a cost-of-living increase of 2.8%, 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 plan net position for the current and prior fiscal year:

Fiscal Year	Ending Balances (millions)	Net Change in Dollars (millions)	Net Change in Percent
2012	$1,017	($17.7)	(1.7)
2013	$1,103	85.1	8.4

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 Position

Assets	**2013**	**2012**	**Difference**
Total cash and investments	$1,109,656,679	$1,020,508,872	$ 89,147,807
Total fixed assets	1,088	1,359	(271)
Total receivables	9,502,089	8,762,430	739,659
Total assets	1,119,159,856	1,029,272,661	89,887,195
Deferred Outflows of Resources			
Accumulated decrease in fair value of hedging derivatives	---	---	---
Total of deferred outflows of resources	---	---	---
Total liabilities	16,637,773	11,821,431	4,816,342
Deferred Inflows of Resources			
Accumulated increase in fair value of hedging derivatives	---	---	---
Total of deferred inflows of resources	---	---	---
Net position held in trust	**$1,102,522,083**	**$1,017,451,230**	**$85,070,853**

Summary of Additions and Deductions

Additions	**2013**	**2012**	**Difference**
Contributions			
Employer	$34,011,347	$31,700,690	$2,310,657
Plan Members	10,258,858	10,109,068	149,790
Total investment (loss)/income	96,783,078	(6,731,294)	103,514,372
Total Additions	141,053,283	35,078,464	105,974,819
Deductions			
Benefit payments	55,266,464	52,043,157	3,223,307
Refunds	300,847	357,901	(57,054)
Administrative expense	415,119	372,137	42,982
Total deductions	55,982,430	52,773,195	3,209,235
Net increase/(decrease)	**$85,070,853**	**($17,694,731)**	**$102,765,584**

Statement of Plan Net Position

As of June 30, 2013

Assets		
Cash and short-term investments		
Equity in County's pooled cash and temporary investments	$1,676,631	
Cash collateral received for securities on loan	8,621,799	
Short-term investments	29,674,338	
Total cash and short-term investments		$39,972,768
Fixed Assets		
Equipment , net	1,088	
Total fixed assets		1,088
Receivables		
Accounts receivable	1,708,035	
Accrued interest and dividends	1,846,671	
Securities sold	5,947,383	
Total receivables		9,502,089
Investments, at fair value		
Common and preferred stock	141,210,663	
Fixed income		
Asset-backed securities	68,538,931	
Corporate and other bonds	60,081,461	
U.S. Government obligations	46,047,990	
Pooled and mutual funds	753,804,866	
Total investments		1,069,683,911
Total assets		1,119,159,856
Deferred Outflows of Resources		
Accumulated decrease in fair value of hedging derivatives	---	
Total deferred outflows of resources		---
Liabilities		
Purchase of investments	6,415,220	
Cash collateral received for securities on loan	8,621,799	
Accounts payable and accrued expenses	1,600,754	
Total liabilities		16,637,773
Deferred Inflows of Resources		
Accumulated increase in fair value of hedging derivatives	---	
Total deferred inflows of resources		---
Net position held in trust for pension benefits		**$1,102,522,083**

See accompanying notes to financial statements.

Statement of Changes in Plan Net Position

For the Year Ended June 30, 2013

Additions		
Contributions		
Employer	$34,011,347	
Plan members	10,258,858	
Total contributions		$ 44,270,205
Investment income from investment activities		
Net change in fair value of investments	78,529,347	
Interest	14,754,103	
Dividends	5,839,312	
Total investment income	99,122,762	
Investment activity expense		
Management fees	(2,120,529)	
Custodial fees	(69,244)	
Consulting fees	(1,350)	
Allocated administration expense	(187,684)	
Total investment expense	(2,378,807	
Net income from investment activities		96,743,955
Securities lending activities		
Securities lending income	57,683	
Securities lending expenses	(18,560)	
Net income from securities lending activities		39,123
Total net investment income		96,783,078
Total additions		141,053,283
Deductions		
Annuity benefits	50,784,313	
Disability benefits	1,360,565	
Survivor benefits	3,121,586	
Refunds of employee contributions	300,847	
Administrative expense	415,119	
Total deductions		55,982,430
Net increase		85,070,853
Net position held in trust for pension benefits		
Beginning of fiscal year		1,017,451,230
End of fiscal year		**$1,102,522,083**

See accompanying notes to financial statements.

Notes to the Financial Statements

As of and for the year ended June 30, 2013

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 Position. 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, 2013, 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.

Implementation of New Accounting Pronouncements. In fiscal year 2013, the System implemented GASB Statement No 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, issued in June 2011.

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

Membership. At July 1, 2012, the date of the latest actuarial valuation, membership in the System consisted of:

Retirees and beneficiaries receiving benefits	876
Terminated plan members entitled to but not yet receiving benefits	33
Deferred Retirement Option Program (DROP) participants	73
Active plan members	1,276
Total	**2,258**

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. Those sworn on or after January 1, 2013, may not use more than 2,080 hours of accrued sick leave toward service credit for retirement or Deferred Retirement Option program (DROP) entry. Members eligible for normal retirement have the option of participating in 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, 2013, was 32.04% of annual covered payroll. The decision was made to commit additional funding and a rate of 33.15% was adopted for fiscal year 2013.

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, 2012, showed the System's funded status at 80.5%, no change from the July 1, 2011, funded percentage of 80.5%. 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%
7/1/2012	$1,035,444,171	$1,286,840,665	$251,396,494	80.5%	$101,121,159	248.6%

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, 2012
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	3.0%
Cost of living adjustments	2.75%

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, 2012, in accordance with the GASB methodology resulted in a contribution rate of 42.80% for fiscal year 2014, an increase of .80 percentage points over the fiscal year 2013 rate of 42.00%. Beginning with fiscal year 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 32.72% for fiscal year 2014. The decision was made to commit additional funding for fiscal year 2014 and a rate of 33.87% was adopted, an increase of 0.72% over the fiscal year 2013 adopted rate of 33.15%.

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 position 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 custody 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 higher of the two ratings is used for the purposes of meeting minimum quality standards.

The System's investment quality ratings at June 30, 2013, were as follows:

Type of Investment	Fair Value	Ratings	Percent of Fixed
U. S. Government obligations	$46,047,990	AA	26.4%
Corporate & other bonds	3,865,609	A	2.2%
	10,772,289	BBB	6.2%
	11,075,892	BB	6.3%
	15,031,995	B	8.6%
	6,983,786	CCC	4.0%
	88,000	D	0.1%
	12,263,890	Unrated	7.0%
Asset-backed securities	1,363,635	AAA	0.8%
	26,057,213	AA	14.9%
	866,413	A	0.5%
	2,417,287	BBB	1.4%
	3,021,262	BB	1.7%
	676,250	B	0.4%
	8,874,202	CCC	5.0%
	4,492,461	CC	2.6%
	12,081,830	D	6.9%
	8,688,378	Unrated	5.0%
Total fixed income	**$174,668,382**	**BBB**	100.0%
Short-term investments	**$29,674,338**	Unrated	

As of June 30, 2013, the fixed income portfolio exhibited an overall credit quality rating of "BBB", and approximately 35.6% of the portfolio was invested in securities rated below-investment-grade and 12% was invested in unrated securities. 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, 2013, follows:

Investment Type	Fair Value	Option - Adjusted Durations (yrs)	Percentage of Fixed
U.S. Government obligations	$46,047,990	8.5	26.4%
Corporate and other bonds	60,081,461	5.8	34.4%
Asset-backed securities	68,538,931	4.2	39.2%
Total fixed income	**$174,668,382**	5.9	100.00%
Short-term investments	**$29,674,338**	0.1	

As of June 30, 2013, the System's overall fixed income portfolio option-adjusted duration was 5.9 years compared with the 5.5 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, 2013, held in currencies other than U.S. dollars were as follows:

International Securities	Short Term Investments & Other	Equity	Convertible and Fixed Income	Total
Japanese Yen	$14,335	$12,836,436	$-----------	$ 12,850,771
Euro Currency	---	8,171,067	4,179,146	12,350,213
Hong Kong Dollar	---	8,055,376	---	8,055,376
Pound Sterling	---	6,221,650	281,388	6,503,038
Australian Dollar	---	5,000,215	590,721	5,590,936
Canadian Dollar	4,910	3,143,326	154,483	3,302,719
Swiss Franc	---	2,938,659	---	2,938,659
Mexican New Peso	---	1,017,733	1,879,211	2,896,944
Danish Krone	---	2,199,075	---	2,199,075
Singapore Dollar	---	2,061,034	---	2,061,034
Brazil Real	---	---	1,383,004	1,383,004
Swedish Krona	---	1,289,034	---	1,289,034
Philippines Peso	---	130,675	1,100,149	1,230,824
S African Comm Rand	---	1,022,705	---	1,022,705
Other Currencies	---	272,871	733,643	1,006,514
Total International	**$19,245**	**$54,359,856**	**$10,301,745**	**$64,680,846**

*Derivative Financial Instruments***.** In accordance with the Board's investment policies, the System regularly invests in derivative financial instruments with off-balance-sheet risk in the normal course of its investing activities to enhance return on investment and manage exposure to certain risks within the fund. The System also enters into derivative transactions to gain exposure to currencies and markets where derivatives are the most cost-effective instrument. Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates or financial indices. During fiscal year 2013, the System invested directly in various derivatives including asset-backed securities, collateralized mortgage obligations, exchange-traded futures contracts, forward currency contracts, options, swaps, and floating rate securities. Some traditional on balance sheet securities, such as structured notes, can have derivative-like characteristics where the return may be linked to one or more indexes. Others such as asset-backed securities, like collateralized mortgage obligations (CMOs), are sensitive to changes in interest rates and pre-payments. It should also be noted that the System has exposure to derivatives indirectly through its ownership interests in certain hedge funds, mutual funds and commingled funds which may use, hold or write derivative financial instruments.

Derivative investments may involve, to varying degrees, elements of credit and market risk in excess of amounts recognized on the financial statements. Market risk results from fluctuations in interest rates, 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. Holders of futures contracts look to the exchange for performance under the contract and not to the other party holding the offsetting futures position. Accordingly, the amount at risk due to nonperformance of counterparties to futures contracts is minimal. For counterparties involving over the counter derivatives, the Board seeks to control this risk through counterparty credit evaluations, counterparty credit limits, and exposure monitoring procedures conducted by investment managers and staff. To address counterparty risk, the System instructs our investment managers who use swaps, forwards, and options to only enter into contracts with counterparties rated at investment grade of BBB or better by at least one nationally recognized rating agency.

At June 30, 2013, the System held the following two types of derivative financial instruments whose notional values are carried off-balance sheet: futures and currency forwards. Futures and currency forwards contracts provide the System with the opportunity to build passive benchmark positions, enhance returns, and gain market exposure to various indices in a more efficient way and at lower transaction costs. Credit risks depend on whether the contracts are exchange-traded or exercised over-the-counter. Market risks arise from adverse changes in market prices, interest rates and foreign exchange rates.

Investment managers are prohibited from purchasing securities on margin or using leverage unless specifically permitted within the investment manager's guidelines. Derivative instruments covered under the scope GASB 53 are reported at fair value. The change in fair value of derivative instruments that are used for investment purposes are reported within the investment revenue classification. Gains and losses on derivative securities are determined based upon fair market values as determined by our custodian and recorded in the Statement of Changes in Plan Net Position.

Futures. Futures contracts are contracts to deliver or receive securities at a specified future date and at a specified price or yield. Futures contracts are traded on organized exchanges (exchange-traded) and typically require an initial margin (collateral) in the form of cash or marketable securities. The net change in the futures contract value is settled daily, in cash, with the exchanges. The net gains or losses resulting from the daily settlements are included in the System's financial statements. Holders of futures contracts look to the exchange for performance under the contract and not to the entity holding the offsetting futures position. Accordingly, the amount at risk posed by nonperformance of counterparties to futures contracts is minimal. The notional value of the System's investment in futures contracts at June 30, 2013 is as follows.

Equity Futures:	
Long	$76,686,435
Total Futures:	**$76,686,435**

Currency Forwards. Currency forwards represent foreign exchange contracts and are used to effect settlements and to protect the base currency value of portfolio assets denominated in foreign currencies against fluctuations in the exchange rates of those currencies or to gain exposure to the change in market value of a specific currency. A forward foreign currency exchange contract is a commitment to purchase or sell a foreign currency at a future date and at a negotiated price. The credit risk of currency contracts that are exchange-traded lies with the clearinghouse of the exchange where the contracts are traded. The credit risk of currency contracts traded over-the counter lies with the counterparty, and exposure usually is equal to the unrealized profit on in-the money contracts. All counterparties are rated A or better. The market risk in foreign currency contracts is related to adverse movements in currency exchange rates. The following is summary information on the System's currency forwards contracts at June 30, 2013.

Foreign Currency Contracts Purchased	**Notional (Local Currency)**	**Unrealized Gain/(Loss) ($US)**
Euro Currency Unit	(3,615,000)	$1,540
Hong Kong Dollar	(183,414)	(7)
Philippines Peso	(2,679,999)	(109)
Singapore Dollar	(193,565)	(275)
		$1,149

Foreign Currency Contracts Sold	**Notional (Local Currency)**	**Unrealized Gain/(Loss) ($US)**
Australian Dollar	19,068	($257)
Euro Currency Unit	330,000	(11,550)
		($11,807)
Net Unrealized Gain (Loss) on Foreign Currency Spot and Forward Contracts		**($10,658)**

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. All securities loans can be terminated on demand by either the System or the borrower. Securities received as collateral are not reported as assets and liabilities on balance sheets since the Retirement Administration Agency does not have the ability to pledge or sell the collateral securities absent borrower default.

The following represents the balances relating to the securities lending transactions at June 30, 2013.

Securities Lent	**Underlying Securities**	**Cash Collateral Investment Value**	**Securities Collateral Investment Value**
Lent for cash collateral			
Common and preferred stock	$8,351,438	$8,621,799	---
Lent for securities collateral			
US Government securities	5,966,491	---	$6,630,751
Corporate and other bonds	3,887,792	---	3,967,711
Total	**$18,205,721**	**$8,621,799**	**$10,598,462**

The System did not impose any restrictions during fiscal year 2013 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. Cash collateral is invested in the lending agent's collective investment pool which at June 30, 2013 had a weighted-average maturity of one day. The maturities of the resulting investments generally match the maturities of the securities lending arrangements. While the System bears no credit risk from the failure of a borrower to return a borrowed security, it does bear risk from investing the collateral. As noted above, cash collateral is invested in the lending agent's collective investment pool. Should the collective investment pool experience a period of poor investment returns due to market turbulence or other reasons, the System can record unrealized losses on a mark-to-market basis or realized losses from the default of securities in the investment pool.

D. Income Taxes

The Internal Revenue Service issued the System a determination letter 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)
7/1/2003	$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%
7/1/2012	1,035,444	1,286,841	251,396	80.5%	101,121	248.6%

Analysis of the dollar amounts of plan net position, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing plan net position 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 is, the stronger the System.

Schedule of Employer Contributions

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
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%
2013	43,091,299	81%

Additional Supplementary Information

Schedule of Investment & Consultant Expenses

For the Year Ended June 30, 2013

Activity	
Investment expenses	
Investment manager Fees	$2,120,529
Custodial Fees	69,244
Other consultant expenses	
Trustee education	1,350
Total Investment and Consulting Fees	$2,191,123

Schedule of Administrative Expenses

For the Year ended June 30, 2013

Personnel services		
Salaries and wages	$212,272	
Fringe benefits	84,172	
Total personnel services		$296,444
Professional services		
Actuarial	20,828	
Audit	5,814	
Total professional services		26,642
Communications		
Phone charges	2,724	
Printing, binding and copying	3,205	
Postage	6,920	
Total communications		12,849
Supplies		
Office supplies	4,708	
Total supplies		4,708
Other services and charges		
Board and staff travel and development	7,585	
Professional memberships	298	
Insurance	6,050	
Building rent	17,279	
Depreciation Expense	181	
Computer systems	39,842	
Other operating	3,241	
Total other services and charges		74,476
Total Administrative Expenses		**$415,119**

Capital Markets and Economic Conditions (unaudited)

Fiscal Year 2013 Economic Environment

The 2013 fiscal year posted strong returns for higher risk asset classes even amidst a myriad of macroeconomic concerns. The year ending June 30, 2013 was largely dominated by headlines related to the European debt crisis, the fiscal cliff, reports of slowing economic growth in China and emerging markets, and the timing of the wind down of the Fed's quantitative easing program.

In the first half of 2013 fiscal year, domestic equities benefited from improved fundamentals including a more robust housing market, which resulted in gains even amidst the uncertainties surrounding the presidential election and the fiscal cliff. International equity markets outperformed domestic equities due to positive news flow within the Euro zone and stronger economic data from China. In the third quarter of 2013 fiscal year, the Federal Reserve continued to support equity markets with stimulative policy as market volatility was suppressed and markets shrugged off worries of fiscal spending cuts. Developed equities rose, with domestic equities posting the strongest quarter for equity returns over the fiscal year. The final quarter of the fiscal year proved to be a challenging environment. Treasury yields spiked on expectations that the Federal Reserve would wind down quantitative easing. As a result of the sharp rise in interest rates, investors saw long duration fixed income assets struggle.

Domestic Equity Markets

U.S. equity markets surged for the 2013 fiscal year, producing positive returns across the board. Large cap stocks underperformed small cap stocks by +3.6% as the S&P 500 returned +20.6% and the Russell 2000 returned +24.2%. Large cap value outperformed large cap growth with the Russell 1000 Value up +25.3% compared to +17.1% for the Russell 1000 Growth. The same trend held true in smaller cap names as the Russell 2000 Value returned +24.8% as compared with the Russell 2000 Growth Index return of +23.7%.

International Markets

International equity markets rebounded from a negative fiscal year 2012 and posted strong returns. International developed market equities as measured by the MSCI EAFE Index returned +18.6% for the year as concerns out of Europe were offset by the market stabilizing actions of the European Central Bank. Emerging market investments struggled in comparison to developed based on reports of slowed growth and political turmoil. Emerging markets equities, as measured by the MSCI EME Index, returned just +2.9%, while the JPM GBI-EM Global Diversified, a key barometer for emerging market debt, returned +1.3% for the year.

Fixed Income Markets

For the fiscal year, U.S. Fixed Income returns were mixed. Fed policy was a key driver of investor sentiment. Early in the year, depressed treasury and mortgage yields pushed some investors out on the credit curve towards long duration credit assets. That trade reversed in the final quarter of fiscal year 2013 following the Fed's 'tapering' announcement. In the fourth quarter of fiscal year 2013, the Barclays Aggregate Bond Index posted a -2.32% return as concerns rose over the timing of future Fed policy actions. For the fiscal year, the Barclays Aggregate Bond Index returned -0.7% while high yield bonds posted strong gains returning +9.5% for the one-year period ended June 30, 2013. The 10-Year U.S. Treasury bond finished the fiscal year yielding 2.5%, up from 1.7% at the beginning of the fiscal year.

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 2013, investments provided a return of 9.7%, gross of fees (9.5%, net of fees). The System's annualized rates of return, gross of fees, were 11.2% (10.9%, net of fees) over the last three years and 6.6%, (6.3%, net of fees), over the last five years. These System returns ranked in the 81st percentile of The Bank of New York Mellon universe of public plans in 2013, in the 65th percentile for the latest 3-year period, and in the 8th percentile of public plans for the last 5 years.

During the past twelve months, we continue to focus on diversifying risks and maintaining a high quality group of investment managers. An investment was approved in the AQR Delta Fund Investment within the existing AQR Global Risk Premium Account. We hired two new International Developed Equity managers, First Eagle Investment Management and WCM Investment Management, to replace two existing International Developed Equity managers, GMO and McKinley. A rebalancing and reallocation of 4% of fixed income exposure to alternatives was approved as well as a commitment to fund an investment in Czech Direct Lending Fund II. Finally, we closed the Dodge & Cox Core Income Fund and replaced it with a PIMCO PARS III fund with underlying Barclays Aggregate Exposure.

Investments by Category and Investment Manager **

June 30, 2013

Asset Class Manager	Investment Style	Total Fair Market Value	% of Total Portfolio
Domestic Equities			
King Street Capital*	Enhanced S&P 500 Index	$40,983,498	3.7%
PIMCO StocksPlus PARS*	Enhanced S&P 500 Index	54,371,887	4.9%
Starboard Value and Opportunity*	Small Cap Value Activist	30,218,597	2.8%
BlueCrest Capital Management*	Enhanced S&P 500 Index	34,623,358	3.1%
AQR Capital Management*	Small Cap Core	30,812,914	2.8%
The Clifton Group	S&P 500 Beta Manager	11,468,023	1.1%
FrontPoint Partners*	Enhanced S&P 500 Index	531,391	0.0%
International Equities			
First Eagle*	Developed Markets Value	39,376,819	3.6%
WCM Investment Management	Developed Markets Growth	38,420,898	3.5%
McKinley Capital	Developed Markets Growth	45,718	0.0%
Acadian Asset Management*	Emerging Markets	25,194,625	2.3%
Acadian Asset Management*	Developed Markets Small Cap	13,856,979	1.3%
Fixed Income			
DoubleLine Capital	Mortgage-Backed Securities	81,733,513	7.4%
Loomis, Sayles & Company	High Yield Bonds	66,443,138	6.0%
Dodge & Cox Investment Managers	Domestic Core Bonds	18,438	0.0%
Pacific Investment Management Co. (PIMCO)*	Enhanced Barclays Aggregate Index	45,243,562	4.1%
The Clifton Group	TIPS	46,047,990	4.2%
Oaktree Capital Management*	Convertible Bonds	25,466,524	2.3%
Real Estate			
Cohen & Steers Capital Management	Global Real Estate Securities	63,987,531	5.8%
Alternative Investments			
Bridgewater Pure Alpha*	Global Macro Absolute Return Fund	44,023,080	4.0%
BlueCrest Capital Management*	Global Macro Absolute Return Fund	25,247,143	2.3%
Gramercy*	Emerging Markets Multi-Strategy	26,717,516	2.4%
Pacific Investment Management Co. (PIMCO)*	Distressed Senior Credit	31,322,129	2.8%
SJC Direct Lending Fund*	Direct Lending	5,765,313	0.5%
Balanced Portfolios			
Bridgewater All Weather*	Risk Parity	105,878,694	9.6%
AQR Global Risk Premium*	Risk Parity	108,510,151	9.8%
Blackrock Market Advantage*	Risk Parity	98,779,095	9.0%
Short-term			
Cash Held at County Treasurer	Operating Cash Account	1,681,379	0.2%
BNY Mellon Cash Investment Strategies	Plan Level Cash Accounts	5,643,811	0.5%
Total Investments		**$1,102,413,714**	**100.0%**

* Pooled fund

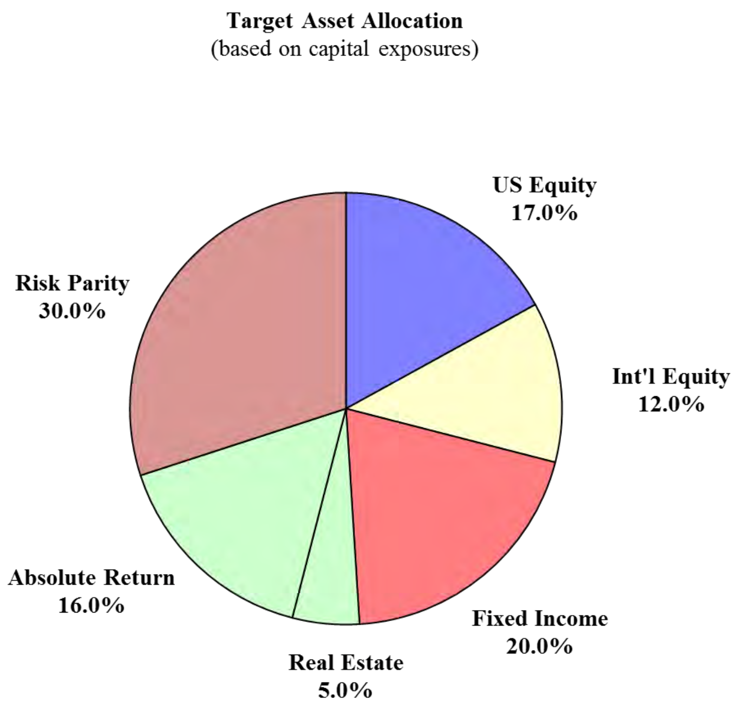
** Refer to pages 2-3 for complete listing of investment professionals.

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, 2013. 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.

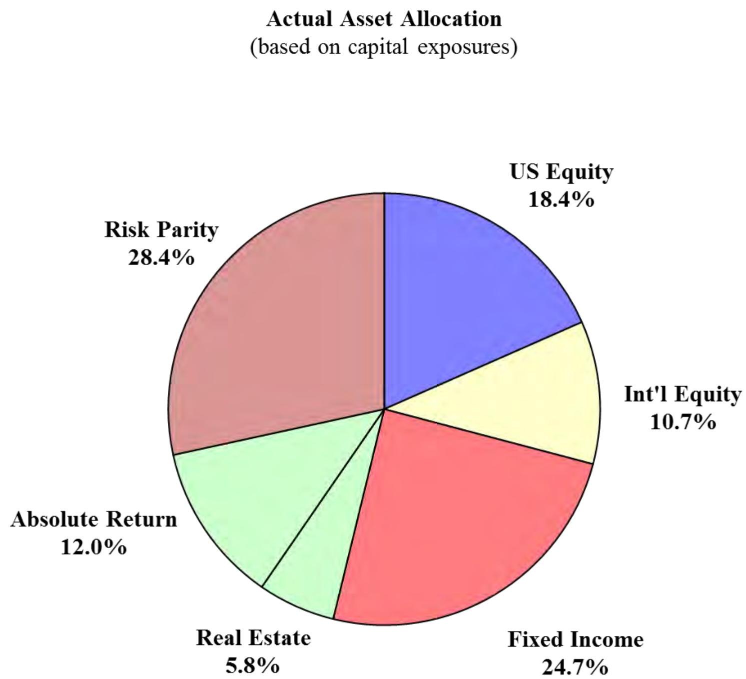
The pie chart below details the target asset mix, consistent with the achievement of the long-term objectives of the System, as of June 30, 2013.



Actual Asset Allocation as of June 30, 2013

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.

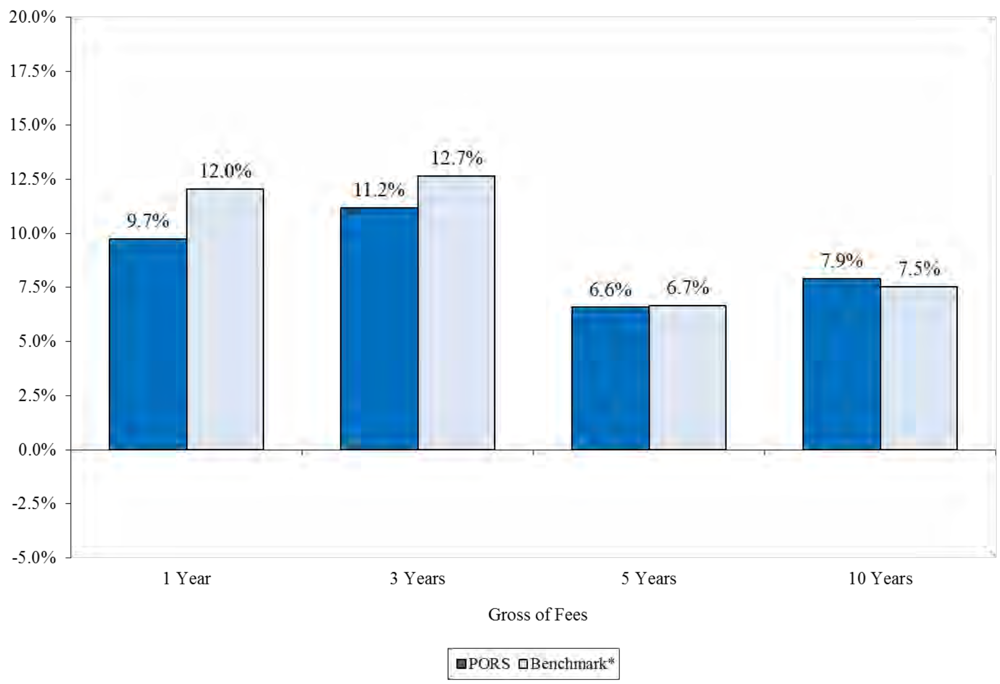
The pie chart below details the actual asset allocation as of June 30, 2013.



Investment Results

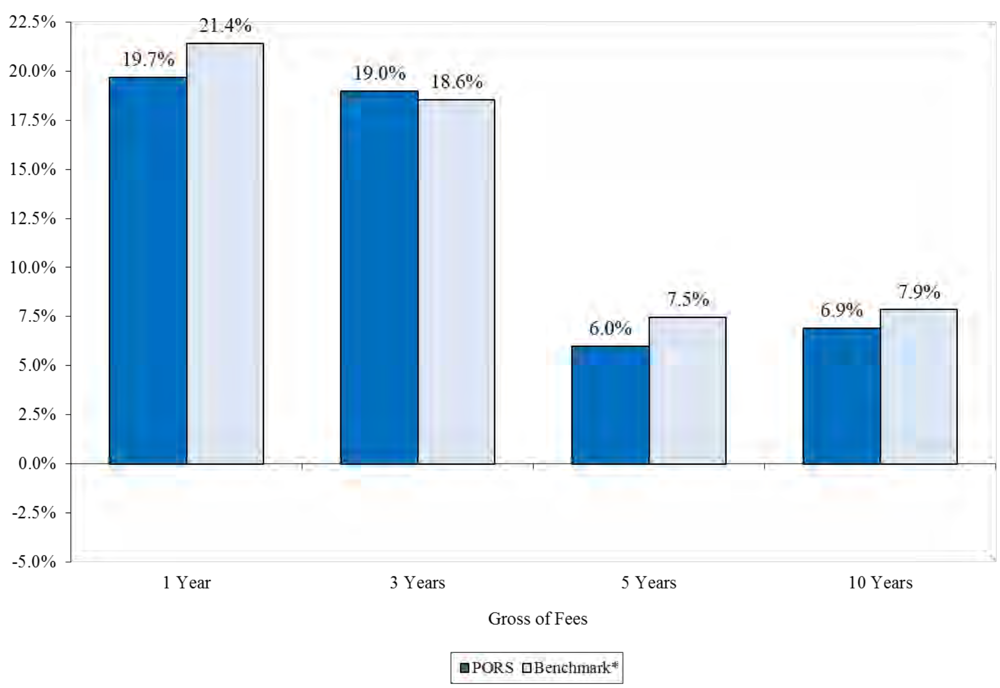
(Time weighted return, gross of fees)

Total Fund:



*Blended Benchmark. Current Benchmark: 12% S&P 500, 5% Russell 2000, 8% MSCI EAFE, 1.5% S&P/Citi EPAC Extended Market, 2.5% MSCI Emerging Markets, 15% Barclays Aggregate, 5% Merrill Lynch High Yield Master, 5% FTSE EPRA NAREIT, 16% LIBOR +3%, 30% 60% MSCI ACWI/40% Barclays Global Aggregate

Domestic Equity:

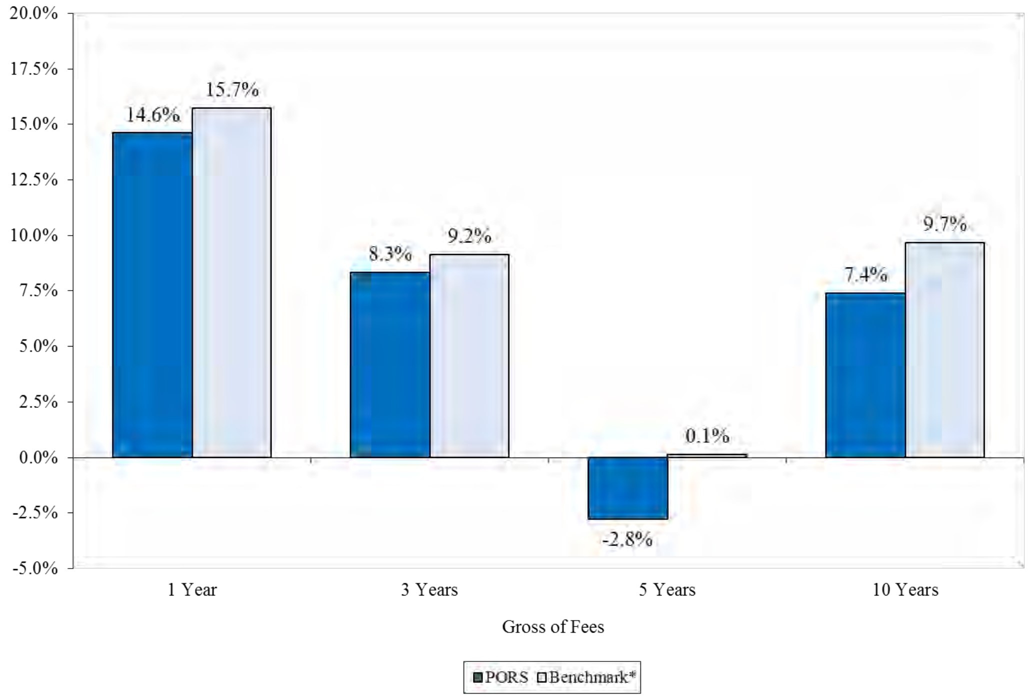


*Benchmark: 78% S&P 500, 22% Russell 2000

Investment Results

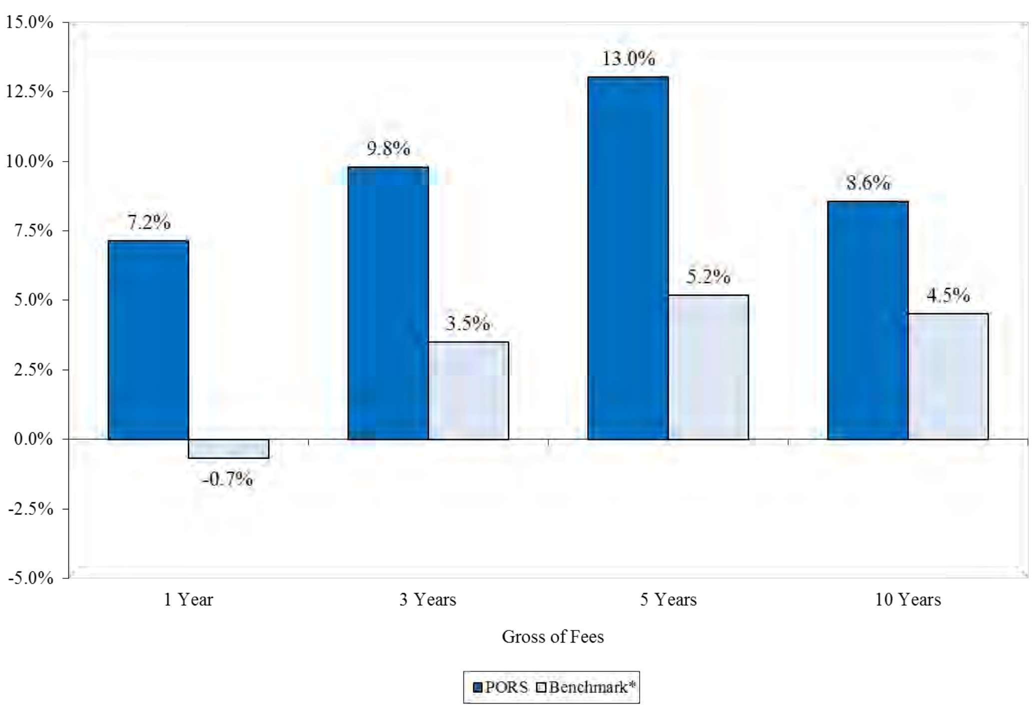
(Time weighted return, gross of fees)

International Equity:



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

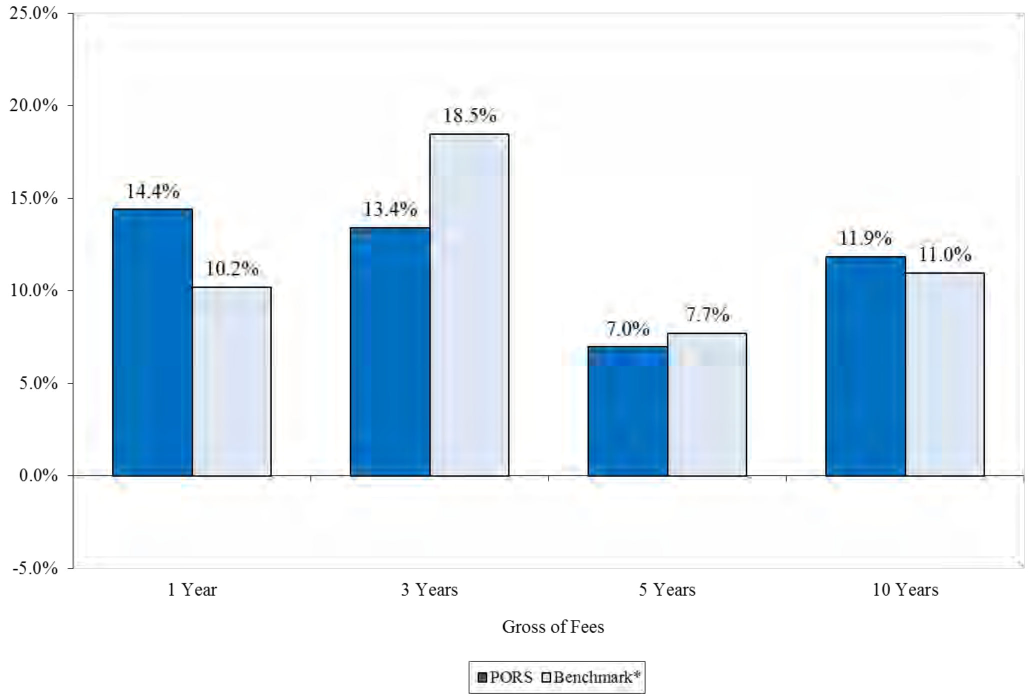
Fixed Income:



*Benchmark: Barclays Aggregate

Investment Results
(Time weighted return, gross of fees)

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
25,088	Simon Property Group Inc	$2,372,185	$3,961,897	0.36%
101,821	Mitsubishi Estate Co Ltd	2,147,947	2,707,095	0.25%
114,520	Taiwan Semiconductor Mfg Co Ltd	1,887,192	2,098,006	0.19%
28,671	Ventas Inc	1,647,581	1,991,488	0.18%
50,000	Sumitomo Realty & Dev Co Npv	1,885,653	1,990,738	0.18%
139,000	Sun Hung Kai Properties	2,059,265	1,793,872	0.16%
18,100	Ace Limited Shs	1,422,122	1,619,588	0.15%
42,123	Prologis Inc	1,499,470	1,588,880	0.14%
19,375	ASML Holding Nv Eur 0.09	1,256,481	1,526,690	0.14%
15,700	Canadian National Railway Co	1,365,788	1,523,940	0.14%
	Total	**$17,543,684**	**$20,802,194**	**1.89%**

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
11,957,983	U.S. Treas-CPI Inflation Index, 0.625%, 07/15/2021	$12,989,343	$12,340,997	1.12%
7,232,836	U.S. Treas-CPI Inflation Index, 1.875%, 07/15/2015	7,823,237	7,688,866	0.70%
7,238,337	U.S. Treas-CPI Inflation Index, 0.125%, 04/15/2017	7,697,272	7,426,678	0.67%
6,350,126	U.S. Treas-CPI Inflation Index, 2.000%, 01/15/2026	8,229,442	7,332,935	0.67%
3,456,387	U.S.Treas-CPI Inflation Index, 2.125%, 02/15/2041	5,065,605	4,208,428	0.38%
3,267,240	U.S. Treas-CPI Inflation Index, 1.875%, 07/15/2019	3,976,033	3,683,552	0.33%
2,729,387	U.S. Treas-CPI Inflation Index, 2.500%, 01/15/2029	3,576,252	3,366,535	0.31%
3,349,864	Morgan Stanley Re-R R3 3C 144A, Var Rt, 06/26/2036	937,962	1,975,610	0.18%
2,500,000	GNMA Gtd Remic P/T 13-88 Lz, 2.500%, 06/16/2043	1,932,813	1,932,813	0.18%
3,335,230	BCAP Llc 2011-RR1 R11 2A4 144A, 5.500%, 12/26/2035	1,234,035	1,918,334	0.17%
	Total	**$ 53,461,994**	**$ 51,874,748**	**4.71%**

Schedule of Brokerage Commissions

Year Ended June 30, 2013

Broker Name	Base Volume	Total Shares	Base Commission	Commission Percentage
Credit Lyonnais Sec (Asia), Hong Kong	$1,228,315	876,542	$ 2,581	0.21%
Cap Instl Svcs Inc-Equities, Dallas	1,218,681	68,590	2,561	0.21%
Merrill Lynch Far-East Ltd, Hong Kong	1,281,825	595,400	2,563	0.20%
Barclays Capital Inc, New York	824,077	182,539	1,643	0.20%
JPMorgan Securities Inc, New York	1,139,156	195,178	2,133	0.19%
JPMorgan Secs, Singapore	871,908	413,278	1,624	0.19%
Citigroup Gbl Mkts/Salomon, New York	3,743,627	1,253,610	6,471	0.17%
Deutsche Bk Secs Inc, NY	4,879,438	3,500,134	8,022	0.16%
Nomura Secs Intl Inc, New York	1,811,883	154,947	2,922	0.16%
Macquarie Bank Ltd, Hong Kong	1,969,720	663,580	3,146	0.16%
Barclays Capital, London	4,366,290	205,399	6,890	0.16%
Macquarie Securities Limited, Hong Kong	931,144	345,010	1,467	0.16%
JPMorgan Secs Asia Pacific, Hong Kong	1,179,969	1,450,494	1,853	0.16%
Merrill Lynch & Co Inc Atlas Global, NY	1,125,110	10,840	1,690	0.15%
D Carnegie Ab, Stockholm	851,422	57,099	1,277	0.15%
Pershing Securities Ltd, London	1,203,254	99,089	1,804	0.15%
SMBC Securities, Inc New York	1,425,050	54,108	2,136	0.15%
Mizuho Securities USA Inc, New York	1,010,570	30,358	1,514	0.15%
Merrill Lynch Gilts Ltd, London	2,467,204	397,547	3,689	0.15%
Credit Lyonnais Secs, Singapore	2,543,864	2,081,528	3,519	0.14%
Pershing Llc, Jersey City	9,632,758	1,015,641	12,902	0.13%
UBS Warburg Australia Equities, Sydney	1,087,110	601,181	1,441	0.13%
Merrill Lynch Intl London Equities	5,573,464	1,693,362	6,596	0.12%
KeyBanc Capital Markets Inc, New York	2,263,916	78,944	2,626	0.12%
JPMorgan Secs Ltd, London	4,405,582	242,068	5,070	0.12%
RBC Capital Markets Llc, New York	2,268,461	95,732	2,604	0.11%
UBS Warburg Asia Ltd, Hong Kong	5,789,253	2,027,592	6,375	0.11%
Stifel Nicolaus	1,248,654	42,682	1,323	0.11%
Daiwa Secs Amer Inc, New York	2,876,941	443,253	3,018	0.10%
Merrill Lynch Pierce Fenner, Wilmington	3,851,288	1,221,424	4,037	0.10%
Macquarie Equities Ltd, Sydney	1,445,460	437,440	1,466	0.10%
Kas Bank Nv, Amsterdam	1,658,506	73,978	1,659	0.10%
RBC Dominion Secs Inc, Toronto	1,499,489	53,512	1,444	0.10%
Credit Suisse, New York	8,849,263	2,043,765	8,230	0.09%
Wells Fargo Securities Llc, Charlotte	1,810,075	65,559	1,682	0.09%
G-Trade Services Ltd, Hamilton	53,290,356	5,548,024	49,160	0.09%
Macquarie Securities (USA) Inc, Jersey City	850,275	21,231	734	0.09%
Morgan Stanley & Co Inc, NY	12,605,658	1,141,643	10,578	0.08%
Green Street Advisors, Jersey City	2,773,921	64,402	2,322	0.08%
Goldman Sachs & Co, NY	30,543,603	1,017,337	25,222	0.08%
Barclays Capital Le, Jersey City	1,763,103	44,233	1,445	0.08%
BNY Convergex Group, New York	6,807,806	595,544	5,478	0.08%
Merrill Lynch Pierce Fenner Smith Inc NY	8,614,890	292,500	6,863	0.08%
Raymond James & Assoc Inc, St Petersburg	1,112,629	24,918	882	0.08%
Citigroup Gbl Mkts Inc, New York	7,073,388	221,002	5,357	0.08%
JPMorgan Clearing Corp, New York	11,295,158	383,473	7,643	0.07%
UBS Securities Llc, Stamford	4,794,161	123,166	3,164	0.07%
BNY Convergex, New York	10,126,219	363,700	5,456	0.05%
Jefferies & Co Inc, New York	2,436,199	59,780	1,047	0.04%
BNY Convergex/LJR, Houston	4,332,535	80,270	1,204	0.03%
Other Brokers	24,897,523	4,852,674	35,611	0.14%
Total	**$273,650,151**	**37,605,300**	**$282,144**	**0.10%**

Investment Summary
(Based on Capital Allocation)

	As of June 30, 2012		As of June 30, 2013	
	Market Value	**% Market Value**	**Market Value**	**% Market Value**
Domestic Equities	$177,695,940	17.5%	$203,009,668	18.4%
International Equities	102,467,563	10.1%	116,895,039	10.7%
Fixed Income	248,610,168	24.3%	264,953,165	24.0%
Real Estate	56,282,744	5.5%	63,987,531	5.8%
Alternative Investments	123,847,966	12.2%	133,075,181	12.0%
Risk-Balanced Portfolios	303,398,216	29.9%	313,167,940	28.4%
Short-term	5,035,665	0.5%	7,325,190	0.7%
Total	**$1,017,338,262**	**100.0%**	**$1,102,413,714**	**100.0%**

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CHEIRON Classic Values, Innovative Advice

February 14, 2013

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, 2012. 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, 2012 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 the underlying assumptions, the results would vary accordingly.

The assumptions and methods used in determining the assets, liabilities, and the annual required contributions of the employer as defined by the Government Accounting Standards Board (GASB) meet the parameters set by 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 on information (some oral and some written) supplied by the Retirement System. This information includes, but is not limited to, plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standards of Practice No. 23.

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

February 14, 2013
Fairfax County Police Officers' Retirement System
Page 2

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

We are responsible for the 2004 through 2012 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 and its contents, have 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. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinions contained herein.
Sincerely,

Cheiron

Fiona E. Liston, FSA
Principal Consulting Actuary

Christian E. Benjaminson, FSA
Principal Consulting Actuary

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

Summary of Valuation Results

Overview

This report presents the results of the July 1, 2012 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 2014; 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, 2012 shows that the actuarial funded ratio (including a credit for the amortization of prior benefit increases and assumption changes) remains outside of the corridor.

The employer contribution rate for FY 2014 will increase from 32.04% to 32.72% of payroll, on the basis of this year's valuation results.

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

Trends

The European financial crisis during the fiscal year ending in 2012 caused a significant decline in the non-U.S. markets, offsetting the gains achieved in the U.S. In total, this resulted in an actuarial loss on the asset side of the System. The actual return on a market value basis was approximately -0.65%. On an actuarial value basis, the assets returned 6.58% compared with an assumed rate of return of 7.5%. The loss recognized for funding purposes was $9.0 million.

The measurement of liabilities produced a gain this year in the amount of $1.9 million. This gain was due to experience not meeting our assumptions about salary increases, retirement behavior, death, etc. Specific components of the gain include:

- The average salary increase was 3.0% for active participants who were in both the July 1, 2011 and July 1, 2012 valuations. This was greater than the expected salary growth based on the actuarial assumption (per the most recent experience study), which worked out to average 2.5%. This resulted in a loss of $2.7 million. The annual payroll was provided as of December 31, 2011 and adjusted to July 1, 2012, which included annualizing the 2.00% increase from September 2011 and applying the 2.18% increase effective July 1, 2012.

- The valuation assumed a 1% cost-of-living adjustment in 2012 for benefits in pay status (per the most recent experience study). The actual CPI-based COLA was 2.8% last year, creating a liability loss of $13.0 million.

- The 2012 valuation incorporates actual sick leave hours into both eligibility and projected benefits for active participants. The accrual of additional sick leave from 2011 to 2012 produced a loss of $0.7 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 $0.4 million to that number.

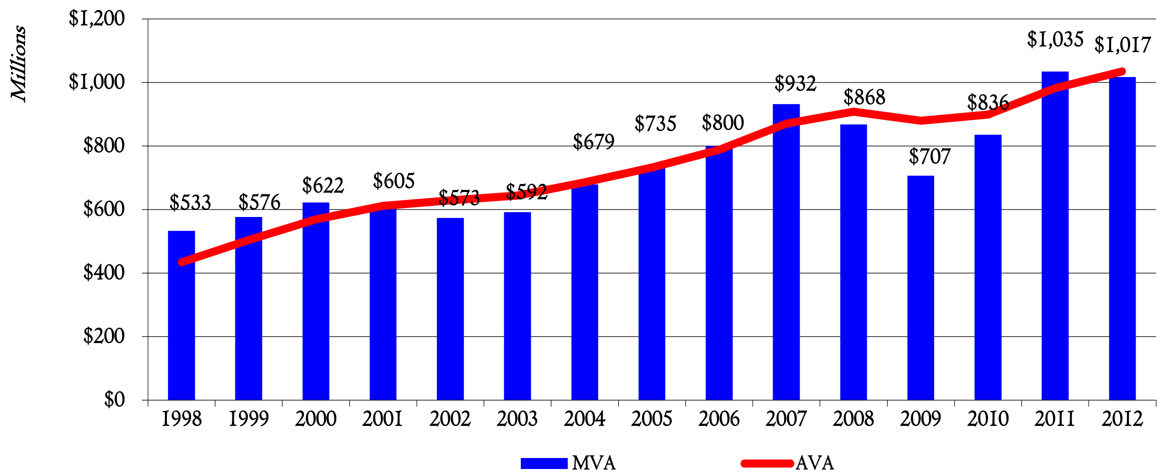
- There was a $2.7 million liability loss component that is made up of various other causes such as members terminating, dying or becoming disabled in a way contrary to the assumption and also data changes from previous years.

- Finally, there was a change in the data processing this year which treated the unused sick leave balances in a fashion better suited to approximate actual benefit calculations. The impact of this alteration contributed to a $21.4 million gain for the year.

The combination of liability and investment experience over the last year led to the System's funding ratio (actuarial value of assets over actuarial accrued liability) remaining constant at 80.5% at both July 1, 2011 and July 1, 2012. For purposes of measuring whether the System remains within the funding corridor, an adjusted funding ratio is used. In this ratio, there is an additional asset recognized in the amount of the unfunded actuarial liability (UAL) payments being made by the County to pay for benefit increases and assumption changes. On this basis, the System's actuarial funded ratio decreased from 83.3% at July 1, 2011 to 82.9% at July 1, 2012.

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 three 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.

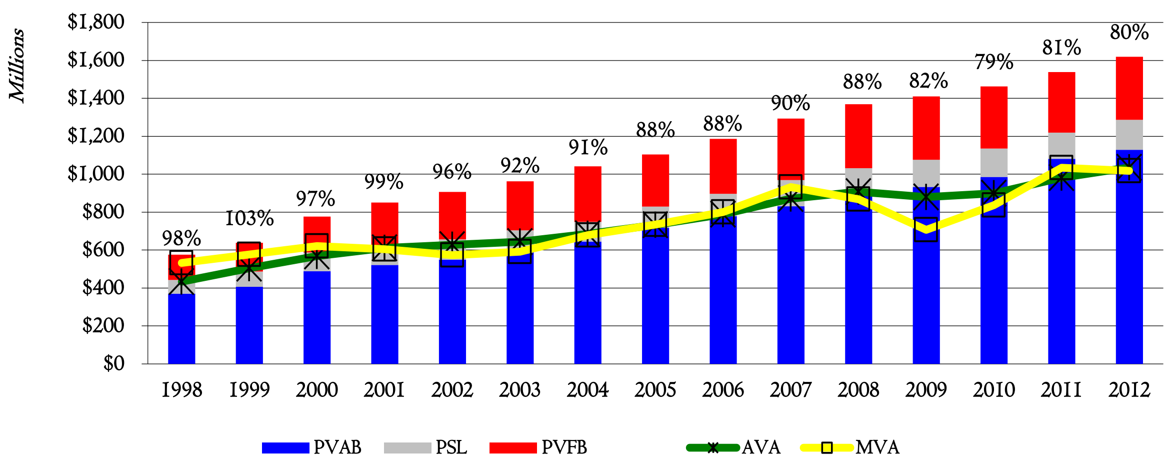
Growth in Assets



There was a decrease in the market value of assets (MVA) over last year due to a return of -0.65%. The actuarial value of assets (AVA) increased as prior gains are phased-in. Due to the market decrease this year, the System has $18 million in unrecognized losses that will be phased in over the next few years.

Over the period of July 1, 1998 to June 30, 2012 the System's assets returned approximately 7.07% per year measured at actuarial value, compared to a valuation assumption of 7.5% per year.

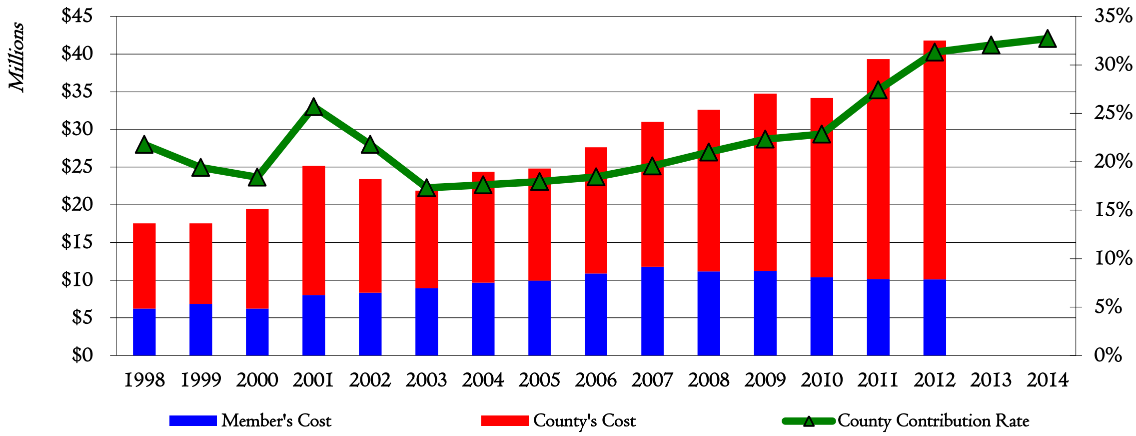
Assets and Liabilities



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 80% 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

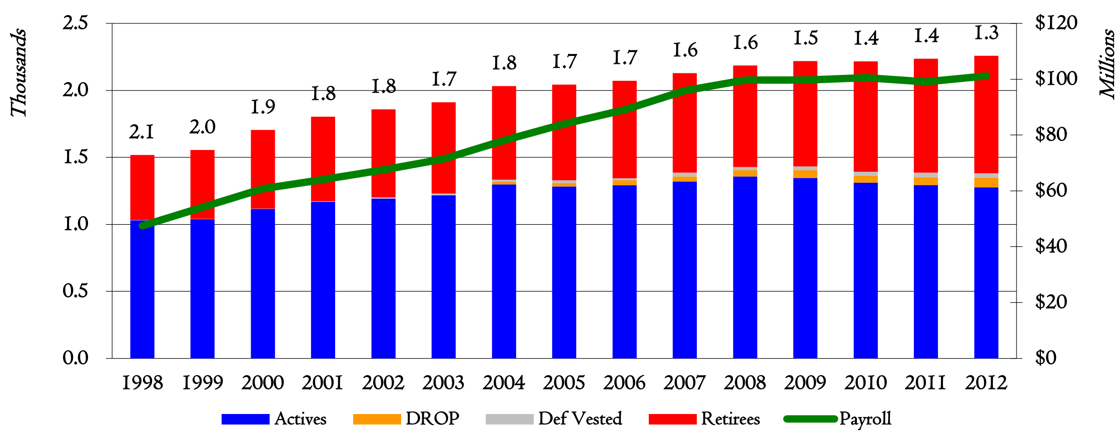


The stacked bars in this graph show the contributions made by both the County and the members (left hand scale). The green line shows the County contribution rate as a percent of payroll (right hand scale).

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 2012 value is the rate prepared by the 2010 valuation and implemented for the period July 1, 2011 to June 30, 2012.

County contribution rates have risen since FY 2003, primarily due to investment returns not meeting the actuarial assumption of 7.5% per year.

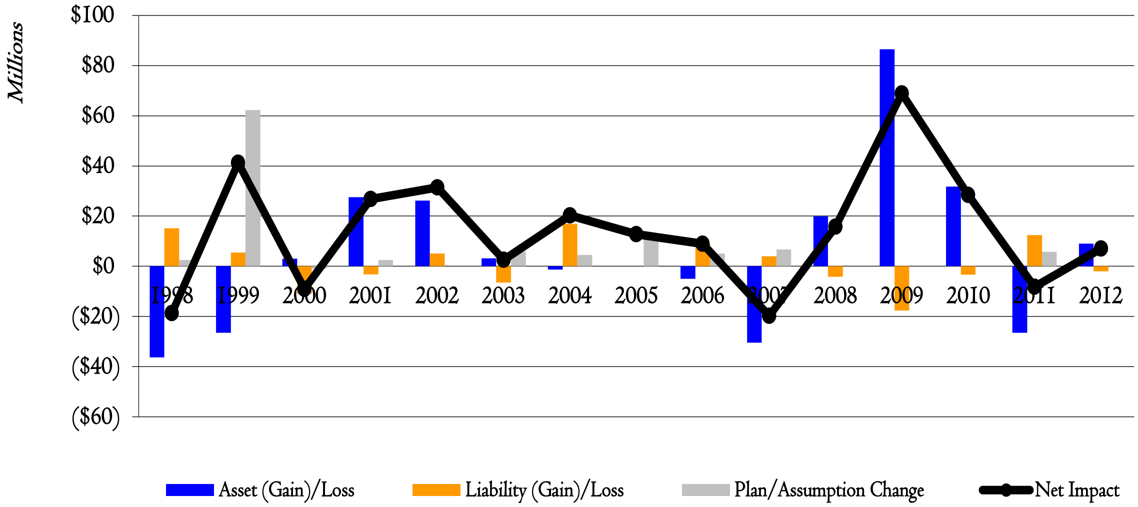
Participant Trends



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 2.1 actives to each inactive in 1998 to 1.3 actives for each inactive today. While this would be an alarming trend in a pay-as-you-go system, the pool of invested assets has been established in anticipation of this development.

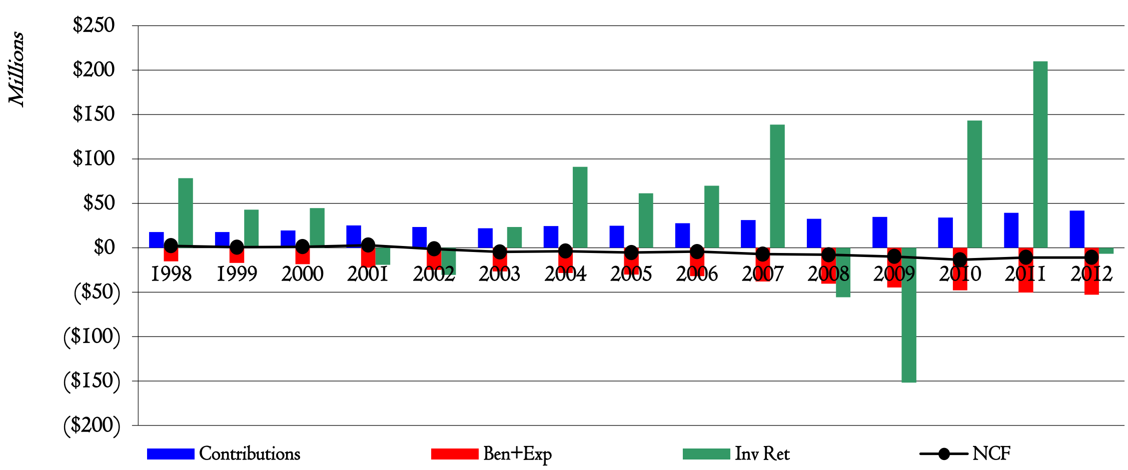
Starting in 2004, the chart also shows the number of DROP participants. Neither County nor member contributions are made on their behalf, which leads to a slightly lower growth in effective covered payroll for this System.

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



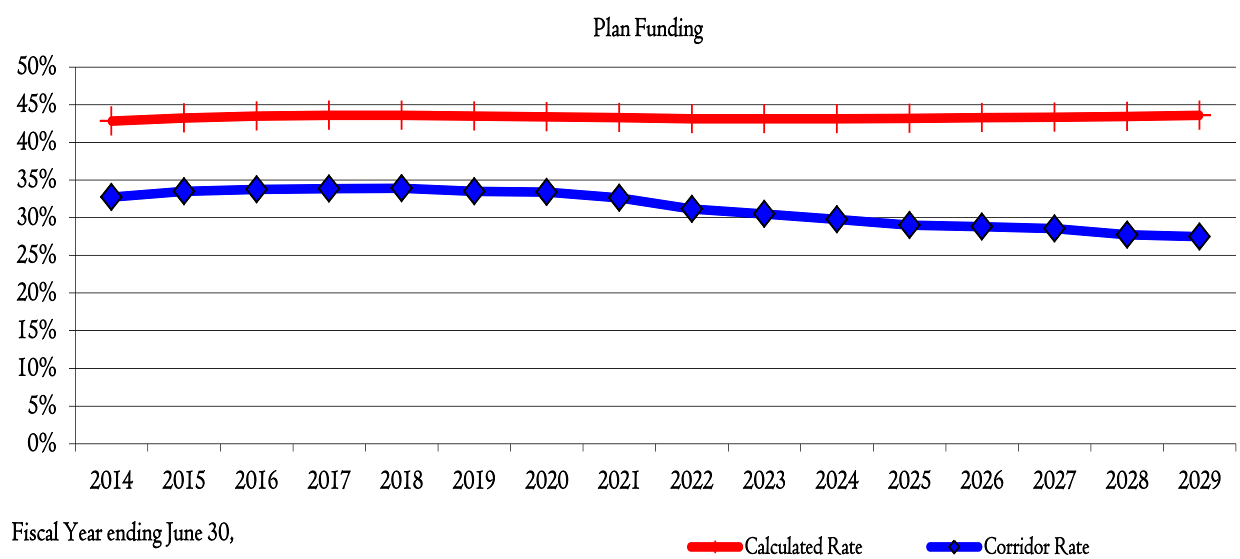
The graph shows the annual cash flows into and out of the System. The graph shows the magnitude of the investment returns on the market value (green bars) compared to the contributions (blue bars). The net cash flow (line) is comparing the contributions to benefits and expenses (red bar). Negative cash 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 periods of favorable returns.

Future Outlook

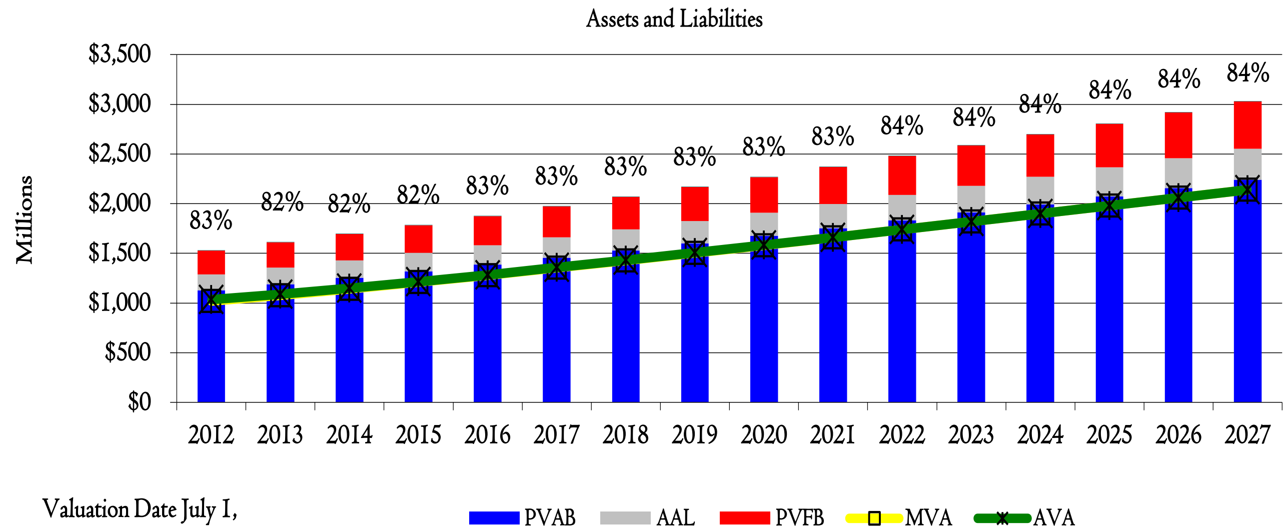
Base-line Projections

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 around 33% of payroll, increases over the first four years to 34% and then gradually decreases to around 27.5%.



The "Assets and Liabilities" graph shows the projected funding status over the next decade. Note that the 2012 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 84% by 2022. After that, the corridor method basically marks time and keeps the System around 84% funded.



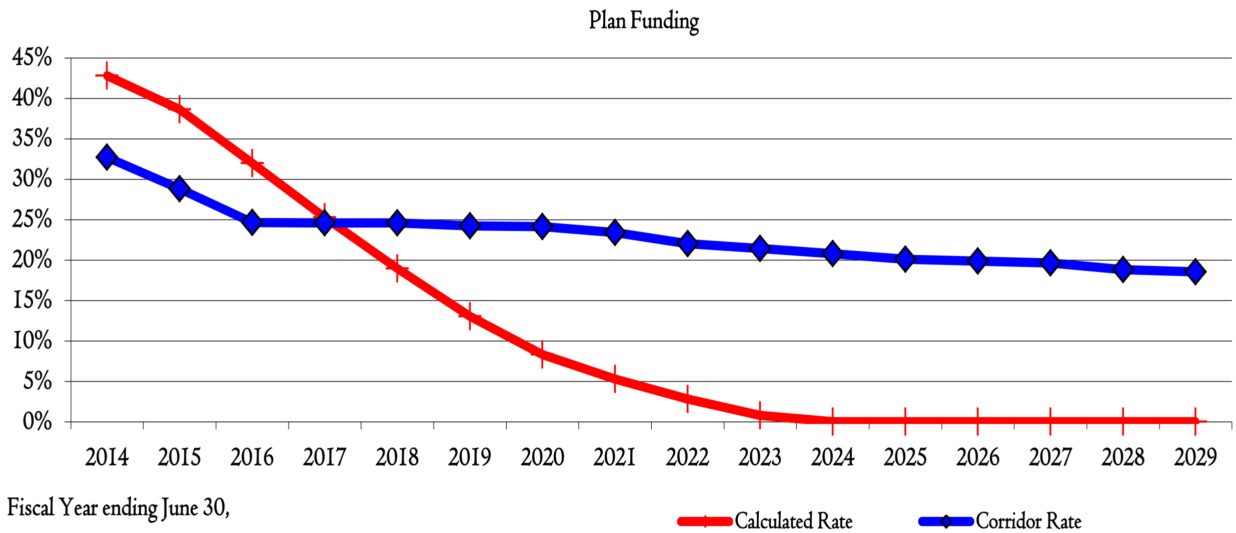
The future funding status of this System will be influenced by the investment earnings. The prior projection assumed the System would earn 7.5% each and every year, which is extremely unlikely.

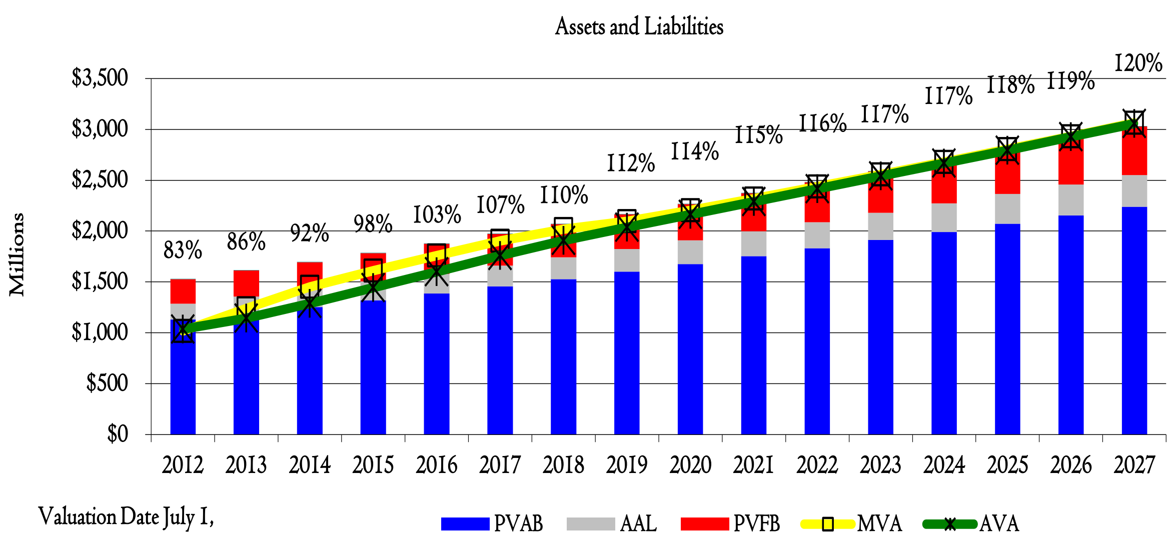
In the projections that follow we show the risk to the System under volatile markets. Since 1980 the System has averaged 9.96% return per year; therefore, for this analysis we have created the following three scenarios that produce a similar average return.

Fiscal Year Ending June 30,	Favorable Returns Early	Poor Returns Early	Random Returns
2013	23.55%	6.05%	24.12%
2014	19.05%	8.05%	4.40%
2015	13.05%	10.05%	2.35%
2016	11.05%	11.05%	12.10%
2017	10.05%	13.05%	4.50%
2018	8.05%	19.05%	10.99%
2019	6.05%	23.55%	16.44%
2020	7.50%	7.50%	22.22%
2021	7.50%	7.50%	5.79%
2022	7.50%	7.50%	6.75%
2023	7.50%	7.50%	5.77%
2024	7.50%	7.50%	16.50%
2025	7.50%	7.50%	7.04%
2026	7.50%	7.50%	-4.62%
2027	7.50%	7.50%	18.76%
Average	**9.96%**	**9.96%**	**9.94%**

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

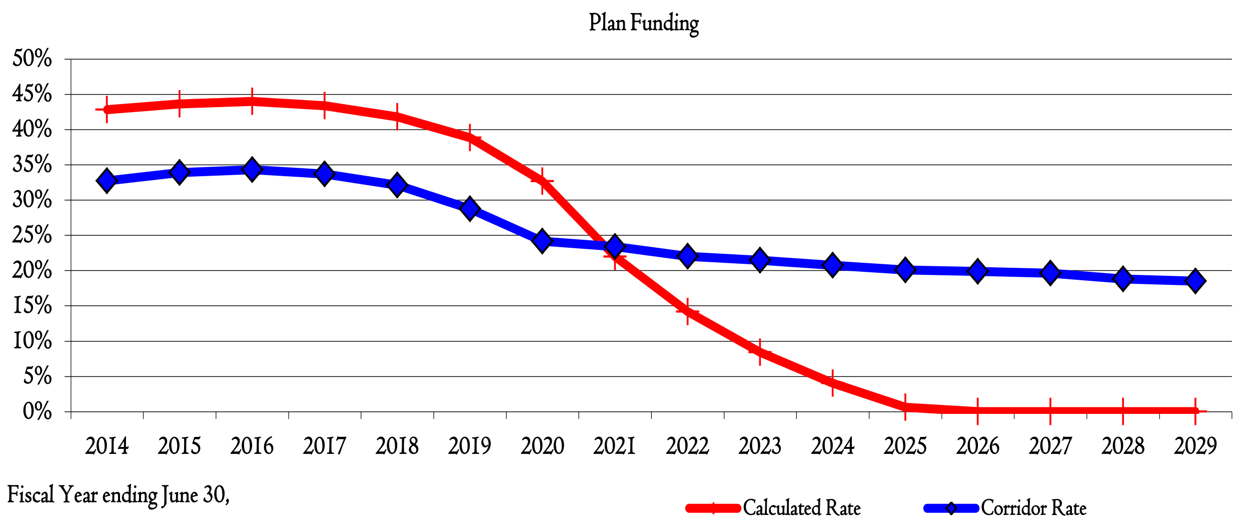
Under this scenario, the corridor contribution rate would decrease each year as the System experiences investment gains in the first five years. The System reaches 92% funded by 2014 (and re-enters the corridor) and is fully funded by 2016.

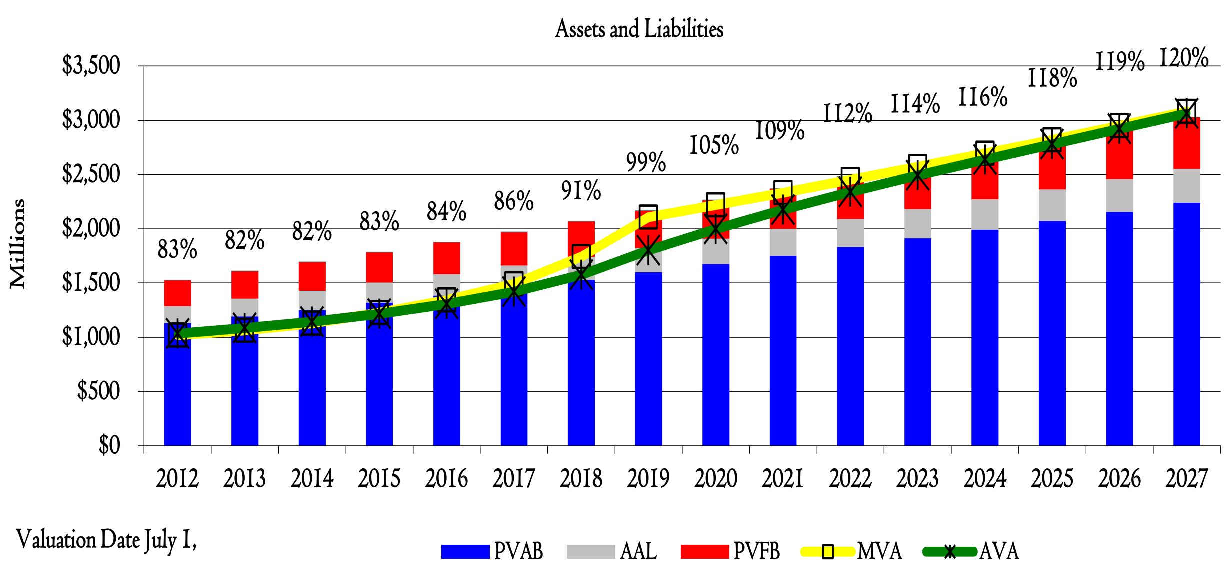




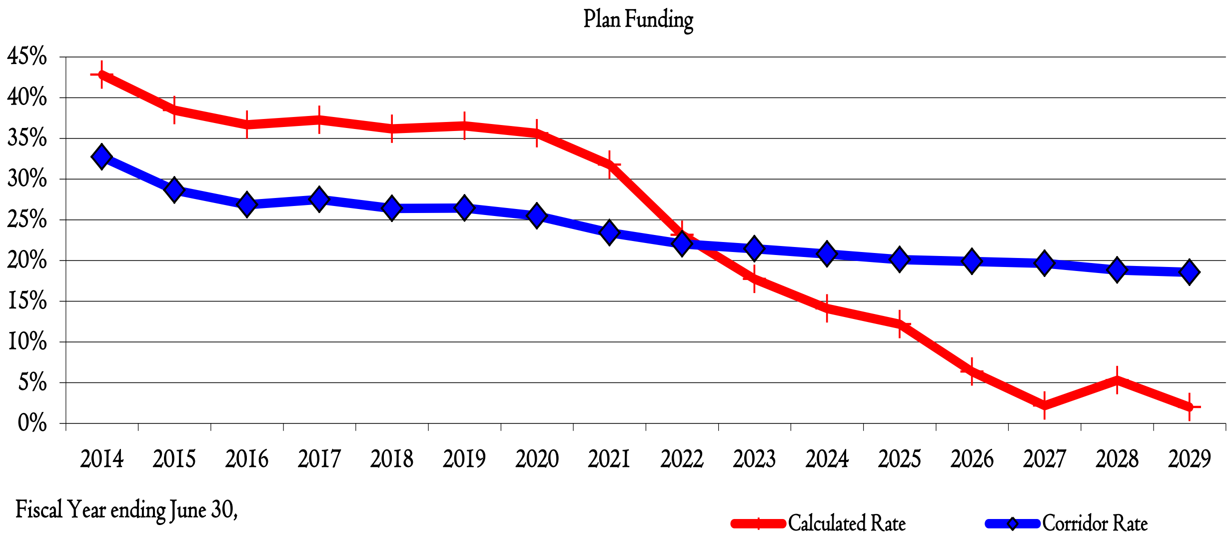
Alternative Projection -- with poor returns early in the projection:

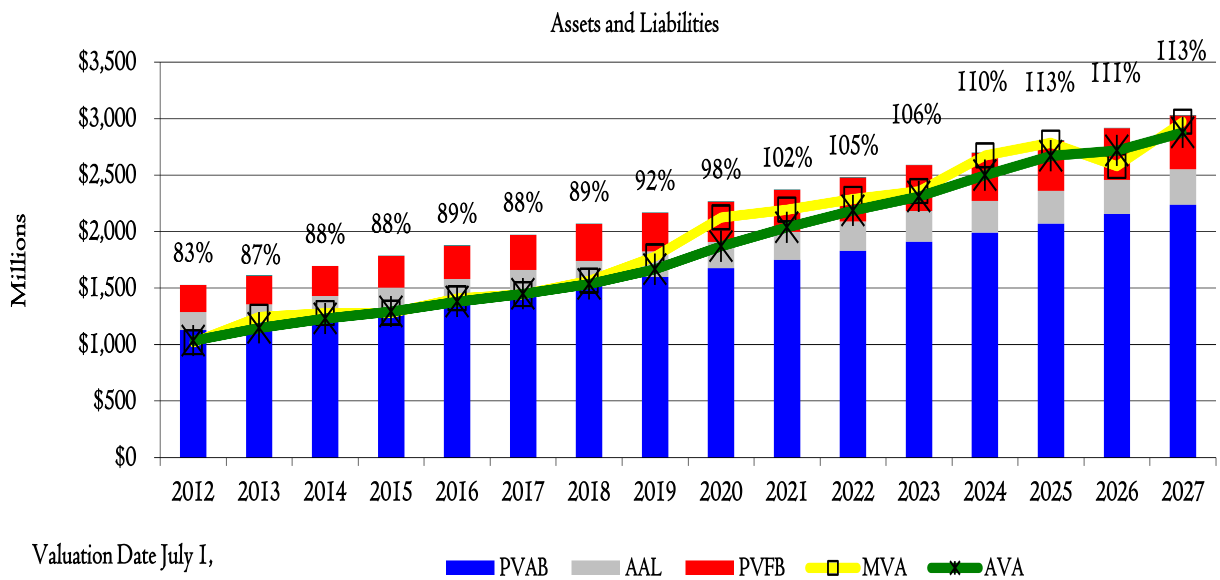
Under this scenario, the corridor contribution rate increases slightly in the first couple of years then quickly declines with the improved investment returns. The County would re-enter the corridor in 2018 and reach full funding in 2020.





Alternative Projection -- with random returns:
Under this scenario, the System re-enters the corridor in 2019 and reaches 102% funded in 2021.





Valuation as of:	Summary of Principal Plan Results 7/1/2011	7/1/2012	% Chg
Participant Counts			
Actives (excluding DROP)	1,293	1,276	-1.3%
DROPs	59	73	23.7%
Terminated Vesteds	34	33	-2.9%
In Pay Status	850	876	3.1%
Total	2,236	2,258	1.0%
Annual Salaries of Active Members	$ 99,070,327	$ 101,121,159	2.1%
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 48,395,771	$ 51,266,257	5.9%
Assets and Liabilities			
Actuarial Accrued Liability	$ 1,219,609,107	$ 1,286,840,665	5.5%
Assets for Valuation Purposes	982,153,681	1,035,444,171	5.4%
Unfunded Actuarial Liability	$ 237,455,426	$ 251,396,494	5.9%
Funding Ratio	80.5%	80.5%	
Present Value of Accrued Benefits	$ 1,080,667,773	$ 1,128,574,246	4.4%
Market Value of Assets	1,035,145,961	1,017,451,230	-1.7%
Unfunded Accrued Liability (not less than $0)	$ 45,521,812	$ 111,123,016	144.1%
Accrued Benefit Funding Ratio	95.8%	90.2%	
Contributions as a Percentage of Payroll	**Fiscal Year 2013**	**Fiscal Year 2014**	
GASB Method:			
Normal Cost Contribution	20.09%	20.09%	
Unfunded Actuarial Liability Contribution	21.61%	22.41%	
Administrative Expense	0.30%	0.30%	
Total Contribution	42.00%	42.80%	
Corridor Method:			
Normal Cost Contribution	20.09%	20.09%	
Increase Due to Amortized Changes	4.24%	4.24%	
Amortization of Amount Outside Corridor	7.41%	8.09%	
Administrative Expense	0.30%	0.30%	
Corridor Method	32.04%*	32.72%	

* The actual contribution rate being paid by the County in FY 2013 is 33.15%.

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
31+	100	100

* 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

* There is a spike of 3.5% 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:	2.75% compounded per annum.*
Total Payroll Increase (For amortization):	3.00% compounded per annum.
Administrative Expenses:	0.30% of payroll.

* Benefit increases are limited to 4% per year.

Changes Since Last Valuation

There have been no changes since the last valuation to the Actuarial Assumptions.

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	2007	2008	2009	2010	2011	2012
Investment Income	$ 30,476,299	$ (19,958,077)	$ (86,460,572)	$ (31,755,165)	$26,496,140	$ (8,996,470)
Combined Liability Experience	(9,438,877`	4,139,287	17,649,316	3,313,576	(12,495,024)	1,919,058
Gain (or Loss) During Year from Financial Experience	$ 21,037,422	$ (15,818,790)	$ (68,811,256)	$ (28,441,589)	$ 14,001,116	$ (7,077,412)
Non-Recurring Items	(5,904,299`	(5,902,768)	0	0	(5,795,987)	0
Composite Gain (or Loss) During Year	$ 15,133,123	$ (21,721,558)	$ (68,811,256)	$ (28,441,589)	$ 8,205,129	$ (7,077,412)

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
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
2012	37	3,304,118	11	433,632	876	51,266,257	5.93%	58,523

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)
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%
2012	107,411,328	798,639,061	380,790,276	1,035,444,171	100%	100%	34%

* *Based on the Actuarial Value of Assets*

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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
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
2013	10,258,858	34,011,347	33.15%	96,783,078	141,053,283

Schedule of Deductions by Type

Fiscal Year	Benefit Payments	Refunds of Contributions	Administrative Expenses	Total Deductions
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
2013	55,266,464	300,847	415,119	55,982,430

Schedule of Benefit Payments by Type

Fiscal Year	Service Annuity	Service-Connected Disability	Ordinary Disability	Survivor Benefit	Total
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
2013	50,784,313	1,212,826	147,739	3,121,586	55,266,464

Schedule of Retired Members by Benefit Type

Fiscal Year	Service Annuity	Service-Connected Disability	Ordinary Disability	Survivor Benefit	Total
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	97	824
2011	716	30	7	97	850
2012	735	30	7	104	876
2013	764	30	6	107	907

Schedule of Average Monthly Benefit Amounts

Fiscal Year	Service Annuity	Service-Connected Disability	Ordinary Disability	Survivor Benefit	Average
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	2,305	4,559
2011	5,154	3,284	1,776	2,392	4,745
2012	5,320	3,370	1,825	2,385	4,877
2013	5,427	3,334	1,844	2,418	4,979

A Fairfax County, Va., publication