Comprehensive Annual Financial Report 2012

Uniformed

RETIREMENT SYSTEM

For the Fiscal Year Ended June 30, 2012

A Pension Trust Fund of Fairfax County, Virginia

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County of Fairfax, Virginia

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

October 29, 2012

Dear Members of the Board of Trustees:

I am pleased to submit to you the annual report of the Fairfax County Uniformed Retirement System (System) for the fiscal year ended June 30, 2012. This annual report is provided as an aid to understanding the structure and evaluating the status of the System. The System's management is responsible for the accuracy of financial information contained herein. The Management's Discussion and Analysis provides further detail to the financial statements.

History

The Fairfax County Uniformed Retirement System was established on July 1, 1974, as a public employee retirement system providing defined benefit pension plan coverage for uniformed or sworn employees of the Fire and Rescue Department, helicopter pilots, the Sheriff's Department, the animal control division and certain park police officers. In 2005 membership was extended to employees in non-administrative positions of the Department of Public Safety Communications, formerly included in the Fairfax County Employees' Retirement System. There were 1,870 active members, 119 in the Deferred Retirement Option Program (DROP) and 1,109 retirees participating in the System as of June 30, 2012.

Provisions

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

Capital Markets and Economic Conditions

During fiscal year 2012, the economy continued its gradual recovery from the global financial crisis of 2008 and unemployment rates remained high. As a result, for the equity markets, it proved to be an extremely difficult and volatile year, with a poor first quarter, followed by two strong quarters and then a pull back in the final quarter. Equity investments outside of the U.S. were particularly disappointing in the face of the continuing economic crisis

Retirement Administration Agency
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Phone: 703-279-8200 * 1-800-333-1633 * Fax: 703-273-3185
http://www.fairfaxcounty.gov/retirement/

in Europe. The System's total portfolio was essentially flat with a return of 0.1% gross of fees (-0.3% after fees and expenses). This return was well below the long term target of 7.5% and also below the median public fund return of 1.1% and placed in the 76th percentile of the BNY Mellon universe of public funds. Investment returns for the three-year period were 13.1% per year, and placed in the first quartile.

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

Internal and Budgetary Controls

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

Investment Policies and Strategies

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

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

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

Funded Status

An actuarial valuation of the System to determine funding requirements is performed annually. The System's funding policy provides for periodic employer contributions at actuarially determined rates which will remain relatively level over time as a percentage of payroll and will accumulate sufficient assets to meet the costs of benefit payments when due.

The valuation of the System performed as of July 1, 2011, indicated that the ratio of assets accumulated by the System to total actuarial accrued liabilities for benefits showed an increase from 76.7% to 77.7%. The actuarial section contains further information on the results of the July 1, 2011, valuation.

Based on the July 1, 2011, actuarial valuation, the employer contribution rate for 2013 following the adopted corridor-based funding policy was 34.04%, an increase of 1.05% over the 2011 rate of 32.99%. This increase in the rate is required to amortize the increase in unfunded liability from FY 2011 actuarial experience. During establishment of the FY 2013 County budget, the Board of Supervisors adopted a higher contribution rate of 35.00%.

Major Initiatives

At the request of the Board of Supervisors, a review of post-retirement benefits was conducted by an external consulting firm. The review confirmed that provision of a defined benefit retirement plan continues to be the best vehicle for attracting and retaining employees and for providing career employees with retirement benefits. The study recommended several modifications to plan provisions for new hires and the Board of Supervisors directed staff to implement those changes to be effective January 1, 2013. The Code changes adopted in September 2012 for new hires on or after January 1, 2013 included:

- Limiting 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.
- Excluding the pre-Social Security benefit from the amount credited to DROP accounts.

The one plan provision change adopted during FY 2012 was a reduction from 30% to 25% of the Social Security offset to service-connected disability benefits.

On the investment front, the System continued to focus on further diversifying risk and implementing the previously-adopted changes to long term allocation targets. During the year, allocations to equity (both U.S. and International) were reduced, with increases to both fixed income and inflation hedges. Changes to the external manager line-up included the addition of Wellington and Gresham for real asset and inflation-hedging strategies and the liquidation of the FrontPoint Partners multi-strategy fund. Also, following a search, an additional Investment Officer was added as part of succession planning for the Retirement Agency investment staff.

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 Uniformed Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2011. This was the second consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Other Information

Independent Audit and Actuarial Certifications

KPMG LLP performs a yearly audit of the financial statements of the plan to ensure compliance with government accounting, auditing and financial reporting standards. Additionally, Cheiron performs an annual actuarial valuation to assess the plan's ability to meet future obligations. The independent auditors' report and certification from the actuary are included in this report.

Acknowledgements

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

Respectfully submitted,

Robert L. Mears
Executive Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Fairfax County
Uniformed Retirement System
Virginia

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

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

President

Executive Director

Board of Trustees

Administrative Organization

Administrative Staff

Robert L. Mears
Executive Director

Laurnz A. Swartz
Chief Investment Officer

John P. Sahm
Retirement Administrator

Jeffrey A. Willison
Senior Investment Manager

Ryan J. Randall
Senior Investment Manager

Professional Services

Actuary
CHEIRON
Actuaries
McLean, VA

Auditor
KPMG LLP
Certified Public Accountants
Washington, DC

Investment Managers

Acadian Asset Management, LLC
Boston, MA

Advisory Research, Inc.
Chicago, IL

Artha Capital Management, Inc.
Stamford, CT

Artio Global Investors
New York, NY

Ashmore Investment Management Ltd.
New York, NY

BlackRock, Inc.
San Francisco, CA

BlueCrest Capital Management, LLP
New York, NY

BNY Mellon Cash Investment Strategies
Pittsburgh, PA

Brandywine Global Investment Management, LLC
Philadelphia, PA

Bridgewater Associates, LP
Westport, CT

The Clifton Group
Edina, MN

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

Dorset Energy Fund Ltd.
Hamilton, Bermuda

DoubleLine Capital, L.P.
Los Angeles, CA

Investment Managers (continued)

FrontPoint Partners, LLC
Greenwich, CT

Gramercy Advisors, LLC
Greenwich, CT

Gresham Investment Management, LLC
New York, NY

Harbourvest Partners, LLC
Boston, MA

JP Morgan Investment Management, Inc.
New York, NY

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

Marathon Asset Management, LLP
London, UK

NCM Capital
Durham, NC

OrbiMed Healthcare Fund Management
New York, NY

Pantheon Ventures, Inc.
San Francisco, CA

PIMCO
Newport Beach, CA

Starboard Value, L. P.
New York, NY

UBS Realty Investors, LLC
Hartford, CT

Victory Capital Management
Cleveland, OH

Wellington Management Company, LLP
Boston, MA

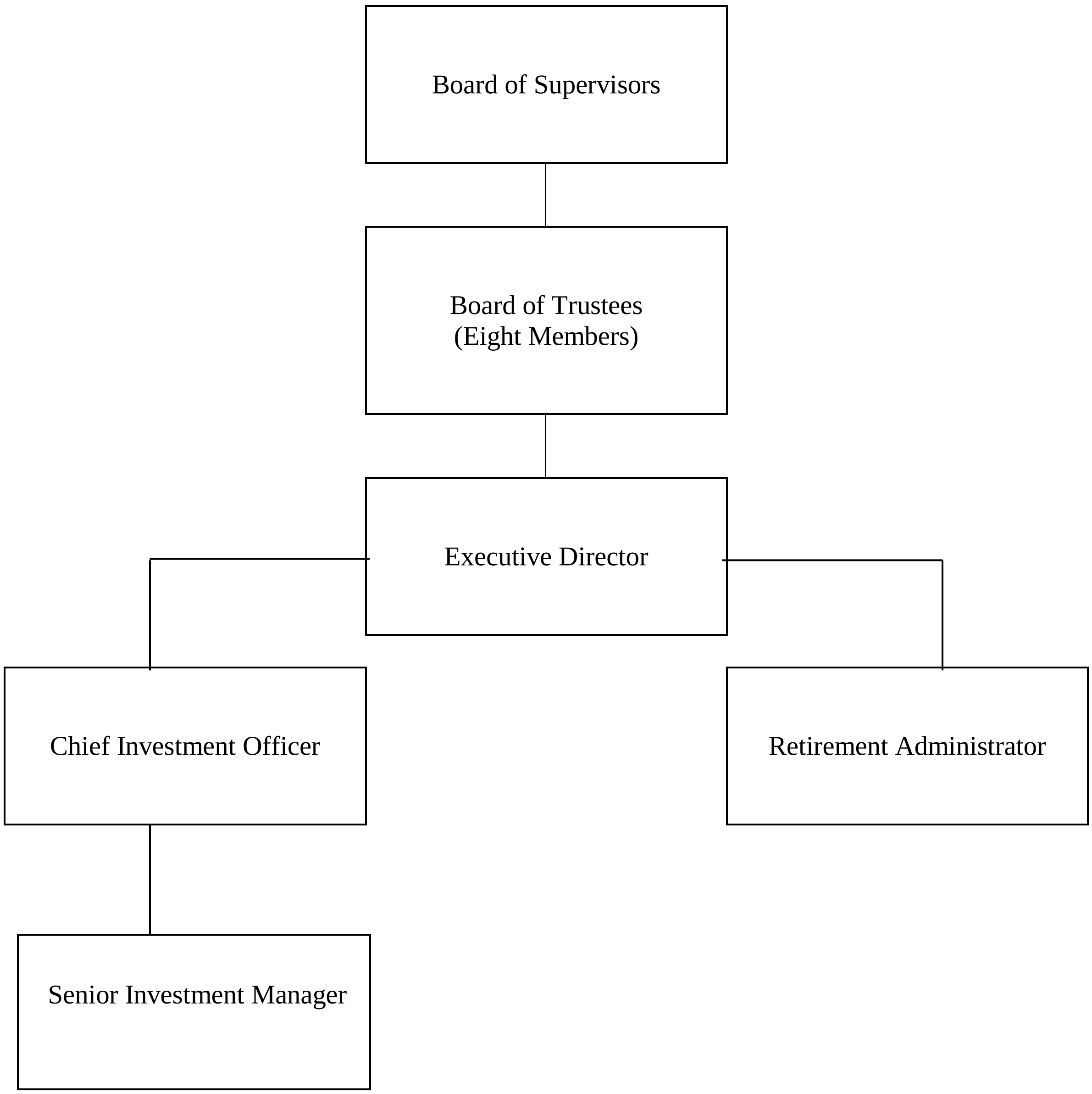
Investment Consultant

NEPC
Cambridge, MA

Custodian Bank

BNY Mellon Asset Servicing
Pittsburgh, PA

Organization Chart



Summary of Plan Provisions

Membership in the Fairfax County Uniformed Retirement System includes most uniformed or sworn employees of the Fire and Rescue Department, the Sheriff's Department, the Animal Control Division, the Department of Public Safety Communications, helicopter pilots and former park police officers who elected to remain in the System rather than transfer to the Police Officers Retirement System. The System consists of four Plans, Plan A, Plan B, Plan C and Plan D, which have different employee contribution rates and different benefits. Most members, including all those hired after April 1, 1997, are enrolled in Plan D.

The general provisions of the Uniformed Retirement System follow:

All Plans

Normal Retirement:
Normal retirement is either age 55 with at least 6 years of service or any age with 25 years of service.

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

Early Retirement:
A member is eligible for early retirement upon attaining 20 years of service. Reduction factors are applied to the basic formula.

Deferred Vested Retirement:
Deferred vested retirement is available for vested members who leave their contributions in the System when they terminate. Vesting occurs at 5 years of creditable service. At age 55, these members are entitled to their normal retirement benefit based on County service.

Service-Connected Disability Retirement:
Service-connected disability retirement is available for members, regardless of length of service, who become disabled as a result of a job-related illness or injury. The benefit is 40% of final compensation less workers' compensation and 30% of the Social Security disability benefit. The benefit for members retired on a severe service-connected disability is calculated at 90% of salary at the time of retirement less the workers' compensation benefit and 30% of any Social Security benefit.

Ordinary Disability Retirement:
Ordinary disability retirement is available for vested members who become disabled due to an injury or illness that is not job-related. Normal retirement benefits are paid.

Summary of Plan Provisions
(continued)

Death Benefits:
If death occurs prior to retirement: If the member is vested and the spouse is the listed beneficiary, the spouse may elect to receive 50% of the normal retirement benefit earned as of the date of the member's death. If the 50% of normal retirement benefit is not payable, a refund of the member's contribution plus interest will be paid to the named beneficiary or member's estate.

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

If death is service-connected: A $10,000 lump-sum payment is made to the beneficiary if the member's death is due to a job-related illness or injury.

Normal Retirement Benefit:

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

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

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

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

Summary of Plan Provisions
(continued)

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

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

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

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

Contribution Rates:

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

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

Plan C: 4% of creditable compensation.

Plan D: 7.08% of creditable compensation.

Employer: The rate for Fiscal Year 2012 was 33.81% of covered payroll for all Plans.

Note: Detailed provisions may be found in the Employee Handbook
http://www.fairfaxcounty.gov/retirement/active_uniformed/publications.htm

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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 Uniformed Retirement System

We have audited the Statement of Plan Net Assets of the Fairfax County Uniformed Retirement System (the System), a pension trust fund of the County of Fairfax, Virginia as of June 30, 2012, and the related Statement of Changes in Plan Net Assets for the year then ended. These basic financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the Plan Net Assets of the System as of June 30, 2012, and the changes in Plan Net Assets for the year then ended in conformity with U.S. generally accepted accounting principles.

Management's Discussion and Analysis on pages 11 to 13 is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information on page 23. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the System's basic financial statements. The supplementary information presented on page 24 is for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and is derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

KPMG LLP

October 25, 2012

Management's Discussion and Analysis (unaudited)

This section presents management's discussion and analysis of the Fairfax County Uniformed Retirement System's ("System" or "Plan") financial performance and provides an overview of the financial activities for the fiscal year ended June 30, 2012. The information in this section should be reviewed in conjunction with the letter of transmittal provided at the beginning of this report.

Overview of Financial Statements and Accompanying Information

Basic Financial Statements. The System presents the Statement of Plan Net Assets and Statement of Changes in Plan Net Assets as of June 30, 2012. These statements reflect the resources available for the payment of benefits as of year end and the sources and uses of these funds during the year.

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

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

Financial Analysis

Plan Net Assets. For fiscal year 2012, the assets of the Uniformed Retirement System decreased 0.9% resulting in a total net asset value of $1.21 billion, reflecting a decrease of $11.5 million from fiscal year 2011. The reduction in assets was due to benefit payments and expenses exceeding current year contributions by $7.3 million and investment losses of $4.2 million.

The actuarial value of the assets as of the last valuation on June 30, 2011, was $1.19 billion while actuarial liabilities as of the same period were $1.53 billion. This resulted in a funded ratio of 77.7%.

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

Additions and Deductions. The employer contributions for FY12 increased by 9.9% due to an increase in the employer contribution rate from 30.56% to 33.81% of salary. Investment returns were lower for FY12 reflecting lower returns in the capital markets. Benefit payments increased due to a cost-of-living increase of 3%, an increase in the number of retirees and higher benefits for new retirees. Refunds of contributions declined as a result of lower employee turnover.

The following table details the Uniformed System's fund balances for the current and prior fiscal years:

Fiscal Year	Ending Balances (millions)	Net Change in Dollars (millions)	Net Change in Percent
2011	$1,220.4	$229.3	23.1
2012	$1,208.9	($11.5)	(0.9)

Contacting the System's Financial Management

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

Summary Statement of Plan Net Assets

Assets	**2012**	**2011**	**Difference**
Total cash and investments	$1,235,587,385	$1,288,842,711	($53,255,326)
Total fixed assets	1,359	---	1,359
Total receivables	50,590,980	70,331,508	(19,740,528)
Total assets	1,286,179,724	1,359,174,219	(72,994,495)
Total liabilities	77,315,121	138,762,246	(61,447,125)
Net assets held in trust	**$1,208,864,603**	**$1,220,411,973**	**($11,547,370)**

Summary of Additions and Deductions

Additions	**2012**	**2011**	**Difference**
Contributions			
Employer	$50,351,335	$45,817,015	$4,534,320
Plan Members	10,603,097	10,521,525	81,572
Total investment income	(4,168,239)	238,039,247	(242,207,486)
Total Additions	56,786,193	294,377,787	(237,591,594)
Deductions			
Benefit payments	67,361,605	63,822,794	3,538,811
Refunds	599,188	853,906	(254,718)
Administrative expense	372,770	361,654	11,116
Total deductions	68,333,563	65,038,354	3,295,209
Net increase/(decrease)	**($11,547,370)**	**$229,339,433**	**($240,886,803)**

Statement of Plan Net Assets

As of June 30, 2012

Assets		
Cash and short-term investments		
Equity in County's pooled cash and temporary investments	$2,726,271	
Cash collateral received for securities on loan	8,885,660	
Short-term investments	79,158,611	
Total cash and short-term investments		$90,770,542
Fixed Assets		
Equipment	1,359	
Total fixed assets		1,359
Receivables		
Accounts receivable	2,442,071	
Accrued interest and dividends	2,479,579	
Securities sold	45,669,330	
Total receivables		50,590,980
Investments, at fair value		
Common and preferred stock	275,092,786	
Fixed income		
Asset-backed securities	107,881,704	
Corporate and other bonds	101,287,810	
U.S. Government obligations	12,633,376	
Pooled and mutual funds	647,921,167	
Total investments		1,144,816,843
Total assets		1,286,179,724
Liabilities		
Purchase of investments	65,895,822	
Cash collateral received for securities on loan	8,885,660	
Accounts payable and accrued expenses	2,533,639	
Total liabilities		77,315,121
Net assets held in trust for pension benefits		**$1,208,864,603**

See accompanying notes to financial statements.

Statement of Changes in Plan Net Assets
For the Year Ended June 30, 2012

Additions		
Contributions		
Employer	$50,351,335	
Plan members	10,603,097	
Total contributions		$60,954,432
Investment income from investment activities		
Net depreciation in fair value of investments	(28,855,428)	
Interest	16,378,740	
Dividends	13,420,088	
Total investment income	943,400	
Investment activity expense		
Management fees	(4,837,505)	
Custodial fees	(104,000)	
Consulting fees	(181,642)	
Allocated administration expense	(171,393)	
Total investment expense	(5,294,540)	
Net loss from investment activities		(4,351,140)
From securities lending activities		
Securities lending income	260,540	
Securities lending expenses	(77,639)	
Net income from securities lending activities		182,901
Total net investment loss		(4,168,239)
Total additions		56,786,193
Deductions		
Annuity benefits	58,531,116	
Disability benefits	8,090,143	
Survivor benefits	740,346	
Refunds of employee contributions	599,188	
Administrative expense	372,770	
Total deductions		68,333,563
Net decrease		(11,547,370)
Net assets held in trust for pension benefits		
Beginning of fiscal year		1,220,411,973
End of fiscal year		**$1,208,864,603**

See accompanying notes to financial statements.

Notes to the Financial Statements

As of and For the year ended June 30, 2012

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

A. Summary of Significant Accounting Policies

Basis of Accounting. The System's 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 Statements of Plan Net Assets. Cash received as collateral on securities lending transactions and investments made with such cash are reported as assets along with a related liability for collateral received. The market values of private investments and direct real estate are lagged by one quarter due to the timing of receipt of private market valuations and information.

Equity in County's pooled cash and temporary investments. The System maintains cash with the County, which invests cash and allocates interest earned, net of a management fee, on a daily basis to the System based on the System's average daily balance of equity in pooled cash. As of June 30, 2012, the bank balance of the County's public deposits was either insured by the Federal Deposit Insurance Corporation or through the State Treasury Board pursuant to the provisions of the Security for Public Deposit Act.

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

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

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

Retirees and beneficiaries receiving benefits	1,075
Terminated plan members entitled to but not yet receiving benefits	43
Deferred Retirement Option Program (DROP) participants	106
Active plan members	1,865
Total	**3,089**

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

Annual cost-of-living adjustments are provided to retirees and beneficiaries equal to the lesser of 4.0% 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. Plan A members were given the opportunity to join Plan B as of July 1, 1981, and to enroll in Plan C as of April 1, 1997. From July 1, 1981, until March 31, 1997, all new hires were enrolled in plan B. Plan B members were given the opportunity to enroll in Plan D as of April 1, 1997. From April 1, 1997, forward, all new hires are enrolled in Plan D. Plan A requires member contributions of 4.0 percent up to the Social Security wage base and 5.75 percent of compensation in excess of the wage base. Plan B requires member contributions of 7.08 percent of compensation up to the Social Security wage base and 8.83 percent of compensation in excess of the wage base. Plan C requires member contributions of 4.0 percent of compensation. Plan D requires contributions of 7.08 percent of compensation. The County is required to contribute at an actuarially determined rate; the rate for the year ended June 30, 2012, was determined actuarially to be 32.99% of annual covered payroll. The decision was made to commit additional funding and a rate of 33.81% was adopted for fiscal year 2012.

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

Plan's Funded Status Information. The actuarial valuation performed as of July 1, 2011, showed the System's funded status at 77.7%, an increase of 1.0% from the July 1, 2010, funded percentage of 76.7%. 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	$1,185,593,678	$1,526,218,244	$340,624,566	77.7%	$147,326,067	231.2%

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

Actuarial Methods and Assumptions Information.

Valuation date	July 1, 2011
Actuarial cost method	Entry age
Amortization method	Level percent open
Remaining amortization period	15 years
Asset valuation method	3-year smoothed market
Actuarial assumptions:	
Investment rate of return *	7.5%
Projected salary increases *	4.8-11.0%
* Includes inflation at	1% in 2012, 3.0% thereafter
Cost of living adjustments	1% in 2012, 2.75% thereafter

The actuarial assumptions used have been recommended by the actuary and adopted by the System's Board of Trustees based on the most recent review of the System's experience completed in 2011.

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

The actuarial valuation performed as of July 1, 2011, in accordance with the GASB methodology resulted in a contribution rate of 40.55% for fiscal 2013, which is an increase of 1.83% over the fiscal 2012 rate of 38.72%. Beginning with fiscal 2003, the funding policy was revised to further stabilize the contribution rate. The methodology now in place sets the employer contribution rate equal to the normal cost and allowance for administrative expense. Amortization of the unfunded liability is included in the contribution rate only for any benefit and actuarial assumption changes or if the actuarial funding ratio falls outside a corridor of 90% and 120%. Use of the corridor method, with adjustments for plan changes effective after the valuation date, resulted in a rate of 34.04% for fiscal year 2013. The decision was made to commit additional funding for fiscal year 2013 and a rate of 35.00% was adopted, an increase of 1.19% over the fiscal year 2012 adopted rate of 33.81%.

C. Investments

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

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

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

The System's investment quality ratings at June 30, 2012, were as follows:

Type of Investment	Fair Value	Ratings	Percent of Fixed
U. S. Government obligations	$12,633,376	AA	5.7%
Corporate & other bonds	8,519,329	AAA	3.9%
	13,279,959	AA	6.0%
	35,501,246	A	16.0%
	13,347,872	BBB	6.0%
	4,298,925	BB	1.9%
	3,137,501	B	1.4%
	327,620	CC	0.1%
	22,875,358	Unrated	10.3%
Asset-backed securities	4,498,640	AAA	2.0%
	64,315,838	AA	29.1%
	1,882,048	A	0.8%
	497,081	BBB	0.2%
	612,670	BB	0.3%
	1,515,871	B	0.7%
	8,141,939	CCC	3.7%
	3,624,870	CC	1.6%
	7,057,811	D	3.2%
	15,734,936	Unrated	7.1%
Total fixed income	**$221,802,890**	**A**	100.0%
Short-term investments	$4,904,825	AA	
	74,253,786	Unrated	
	$79,158,611		

As of June 30, 2012, the fixed income portfolio exhibited an overall credit quality rating of "A", and 12.9% of the portfolio was invested in below-investment-grade securities. This overall rating reflects the change in credit quality 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 portfolio performance and volatility. The System's fixed income managers have discretion, within circumscribed limits, to extend the duration of their portfolios beyond that of the BCAG if they forecast falling interest rates (and thus higher bond prices). Conversely, if managers anticipate that the general level of interest rates will rise, they have the ability to shorten the duration of their portfolio and thus reduce the portfolio's sensitivity to rising rates.

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

Investment Type	Fair Value	Option - Adjusted Durations (yrs)	Percentage of Fixed
U.S. Government obligations	$12,633,376	11.3	5.7%
Corporate and other bonds	101,287,810	5.3	45.7%
Asset-backed securities	107,881,704	3.1	48.6%
Total fixed income	**$221,802,890**	4.6	100.0%
Short-term investments	**$79,158,611**	0.1	

As of June 30, 2012, the System's overall fixed income portfolio duration was 4.6 years compared with 5.1 years duration of the BCAG.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the investment. The System's investments at June 30, 2012, held in currencies other than U.S. dollars were as follows:

International Securities	Short Term Investments & Other	Equity	Convertible and Fixed Income	Total
Japanese Yen	$232,029	$42,374,144	---	$42,606,173
British Pound Sterling	72,803	35,331,875	$5,603,237	41,007,915
Euro Currency Unit	173,055	35,187,931	729,387	36,090,373
Australian Dollar	12,772	8,292,337	9,866,163	18,171,272
Mexican New Peso	6,963	---	7,378,422	7,385,385
Hong Kong Dollar	7,012	6,066,819	---	6,073,831
Swiss Franc	---	6,071,760	---	6,071,760
Swedish Krona	---	5,636,575	---	5,636,575
South Korean Won	---	1,214,272	3,226,504	4,440,776
Polish Zloty	---	---	4,259,136	4,259,136
Danish Krone	---	4,050,251	---	4,050,251
Malaysian Ringgit	---	722,533	3,135,354	3,857,887
Singapore Dollar	---	3,240,094	---	3,240,094
Brazil Real	591	109,195	3,039,238	3,149,024
Hungarian Forint	---	---	2,911,737	2,911,737
Norwegian Krone	---	2,834,944	---	2,834,944
S. African Comm Rand	---	---	2,805,927	2,805,927
New Zealand Dollar	3,075	229,667	2,411,002	2,643,744
Philipines Peso	662	1,420,756	---	1,421,418
Canadian Dollar	8,017	597,921	502,675	1,108,613
Other Cuirrencies	---	1,124,484	---	1,124,484
Total International	**$516,979**	**$154,505,558**	**$45,868,782**	**$200,891,319**

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

As permitted by the Board's policies, the System holds off-financial statement derivatives. As of June 30, 2012, the System held S&P 500 futures with net exposure of $104.8 million. Gains and losses on derivative securities are determined based upon fair values and recorded in the Statement of Changes in Plan Net Assets.

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

The following represents the balances relating to the securities lending transactions at June 30, 2012.

Securities Lent	Underlying Securities	Cash Collateral Investment Value	Securities Collateral Investment Value
Lent for cash collateral:			
Corporate and other bonds	$68,796	$70,700	---
Common and preferred stock	8,377,146	8,814,960	---
Lent for securities collateral:			
US Government securities	19,322,683	---	$19,723,377
Common and preferred stock	45,302,156	---	50,043,519
Total	**$73,070,781**	**$8,885,660**	**$69,766,896**

The System did not impose any restrictions during fiscal 2012 on the amounts of loans the lending agent made on its behalf. At year end, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts the borrowers owed the System. The custodian provides full indemnification to the System for any losses that might occur in the program due to the failure of a broker/dealer to return a borrowed security or failure to pay the System income earned on the securities while on loan. All securities loans can be terminated on demand by either the System or borrower. Cash collateral is invested in the lending agent's collective collateral investment pool which at June 30, 2012, had a weighted-average maturity of 4 days.

D. Income Taxes

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

Required Supplementary Information (unaudited)

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

Schedule of Funding Progress (in thousands)

Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded % of Covered Payroll ((b-a)/c)
7/1/2002	687,093	720,996	33,903	95.3%	99,200	34.2%
7/1/2003	715,797	795,342	79,545	90.0%	100,749	78.9%
7/1/2004	767,657	881,015	113,358	87.1%	102,960	110.1%
7/1/2005	830,702	974,106	143,404	85.3%	109,067	131.5%
7/1/2006	921,414	1,102,669	181,255	83.6%	127,467	142.2%
7/1/2007	1,028,385	1,206,624	178,239	85.2%	136,487	130.6%
7/1/2008	1,097,994	1,285,694	187,700	85.4%	142,724	131.5%
7/1/2009	1,074,230	1,351,204	276,974	79.5%	147,083	188.3%
7/1/2010	1,095,080	1,427,617	332,537	76.7%	146,777	226.6%
7/1/2011	1,185,594	1,526,218	340,625	77.7%	147,326	231.2%

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

Schedule of Employer Contributions

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2003	21,548,814	107%
2004	25,186,003	99%
2005	32,320,929	84%
2006	38,629,304	83%
2007	43,009,853	85%
2008	46,849,354	83%
2009	47,247,396	86%
2010	47,289,026	86%
2011	53,208,307	87%
2012	57,663,522	88%

Additional Supplementary Information

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

Personnel services		
Salaries and wages	$199,405	
Fringe benefits	72,637	
Total personnel services		$272,042
Professional services		
Actuarial	16,255	
Audit	5,600	
Total professional services		21,855
Communications		
Phone charges	2,534	
Printing, binding and copying	2,717	
Postage	6,346	
Total communications		11,597
Supplies		
Office supplies	2,917	
Total supplies		2,917
Other services and charges		
Board and staff travel and development	6,617	
Professional memberships	223	
Insurance	6,023	
Building rent	17,109	
Computer systems	32,636	
Other operating	1,751	
Total other services and charges		64,359
Total administrative expenses		**$372,770**

Capital Markets and Economic Conditions (unaudited)

Fiscal Year 2012 Economic Environment

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

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

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

Domestic Equity Markets

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

International Markets

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

Fixed Income Markets

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

Uniformed System

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

For fiscal 2012, investments provided a return of 0.1%, gross of fees (-0.3%, net of fees). The System's annualized rates of return, gross of fees, were 13.1% (12.7%, net of fees) over the last three years and 2.6%, (2.2%, net of fees), over the last five years. These System returns ranked in the 76th percentile of The Bank of New York Mellon universe of public plans in 2012, in the 13th percentile for the latest 3-year period, and in the 31st percentile of public plans for the last 5 years.

During the past twelve months there were a few changes made to the manager lineup of the System. The System added The Clifton Group, Wellington Diversified Inflation Hedges Fund, and Gresham Inflation Hedges Fund to expanded diversification to the investment program.

Investments by Category and Investment Manager

June 30, 2012

Asset Class **Manager**	**Investment Style**	**Total Assets**	**% of Total Net Assets**
Domestic Equities			
BGI S&P 500 Fund *	S&P 500 Index	$88,714,813	7.3%
Bridgewater Associates*	Enhanced S&P 500 Index	42,329,266	3.5%
FrontPoint Partners*	Enhanced S&P 500 Index	741,626	0.1%
NCM Capital	Mid Cap Growth	47,743,312	3.9%
Advisory Research	Small/Mid Cap Value	58,720,027	4.9%
The Clifton Group	S&P 500 Overlay	30,873,156	2.6%
International Equities			
Marathon Asset Management - London	Developed Markets	111,074,781	9.2%
Artio Global Investors*	Developed Markets	37,354,877	3.1%
Victory Capital	Developed Markets Small Cap	33,887,674	2.8%
Acadian Asset Management*	Emerging Markets	57,902,324	4.8%
Fixed Income			
Pacific Investment Management Co. (PIMCO)	Total Return Core Bonds	93,131,850	7.7%
Pacific Investment Management Co. (PIMCO)*	Distressed Senior Credit	23,538,243	1.9%
Brandywine Asset Management	Global Bonds	71,684,659	5.9%
DoubleLine Capital	Mortgage-Backed Securities	76,893,979	6.4%
Ashmore Investment Management	Emerging Markets Debt	39,023,086	3.2%
King Street Capital*	High Yield Bonds	66,756,162	5.5%
Real Estate			
UBS Realty*	Direct Real Estate	47,764,522	4.0%
Cohen & Steers Capital Management	Global Real Estate Securities	35,012,605	2.9%
Alternative Investments			
Dorset Asset Management*	Long/Short Absolute Return Fund	23,854,145	2.0%
Orbimed Advisors*	Long/Short Absolute Return Fund	32,495,174	2.7%
BlueCrest Capital Management*	Global Macro Absolute Return Fund	31,059,144	2.6%
Artha Capital Management*	Emerging Markets Fund	18,796,936	1.6%
Gramercy*	Emerging Markets Multi-Strategy	22,228,359	1.8%
Ramius Value and Opportunity*	Small Cap Value Activist	29,935,530	2.5%
Pantheon Private Equity*	Private Equity	9,745,110	0.8%
J.P. Morgan Private Equity*	Private Equity	11,078,938	0.9%
HarbourVest Private Equity*	Private Equity	13,908,291	1.2%
Inflation Hedges			
Wellington Diversified Inflation Hedges*	Commodities	33,745,097	2.8%
Gresham Inflation Hedges*	Commodities	13,911,210	1.2%
Short-term			
BNY Mellon Cash Investment Strategies	Plan Level Cash Accounts	2,317,919	0.2%
Cash Held at County Treasurer	Operating Cash Account	2,726,270	0.2%
Net Assets		**$1,208,949,085**	**100.0%**

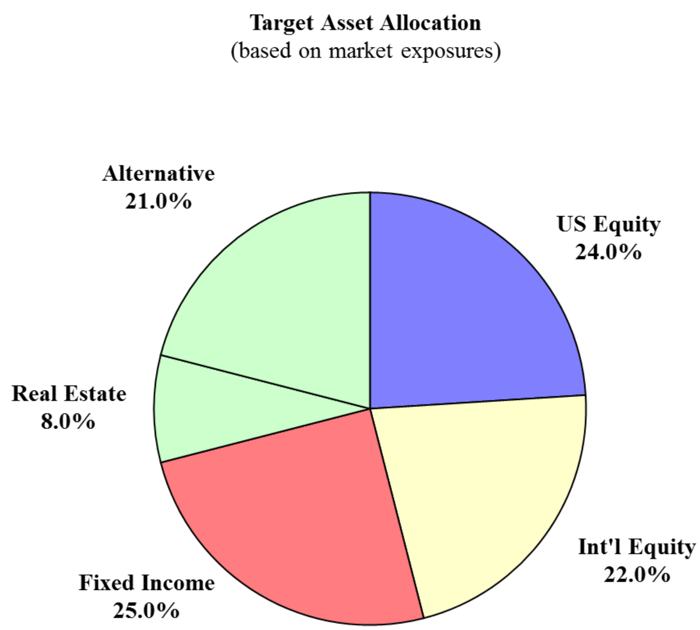
* Pooled fund

Uniformed Retirement System – Allocation of Market Exposures

Target Asset Allocation

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

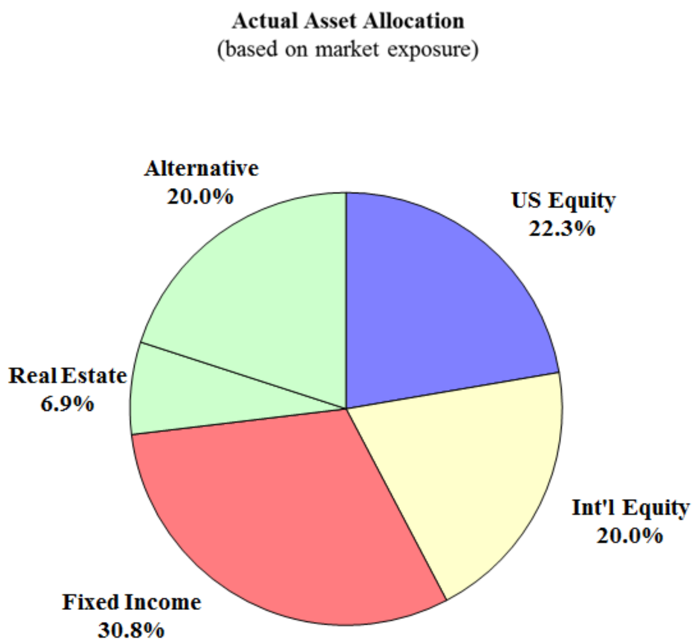
The pie chart below details the target asset mix, consistent with the achievement of the long-term objectives of the System, as of June 30, 2012.



Actual Asset Allocation as of June 30, 2012

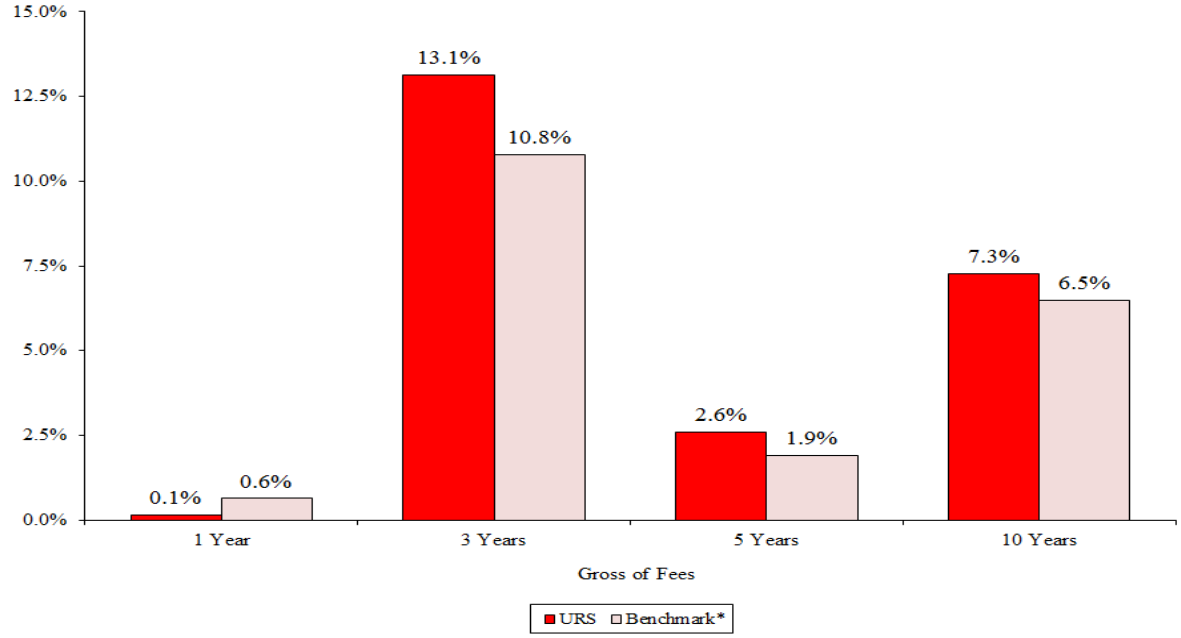
The asset structure of URS has historically reflected a proper balance of the System's needs for liquidity, growth of assets, and risk tolerance. The System's investment policy is designed to continue to meet its long-term investment objectives while, at the same time, providing sufficient flexibility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

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



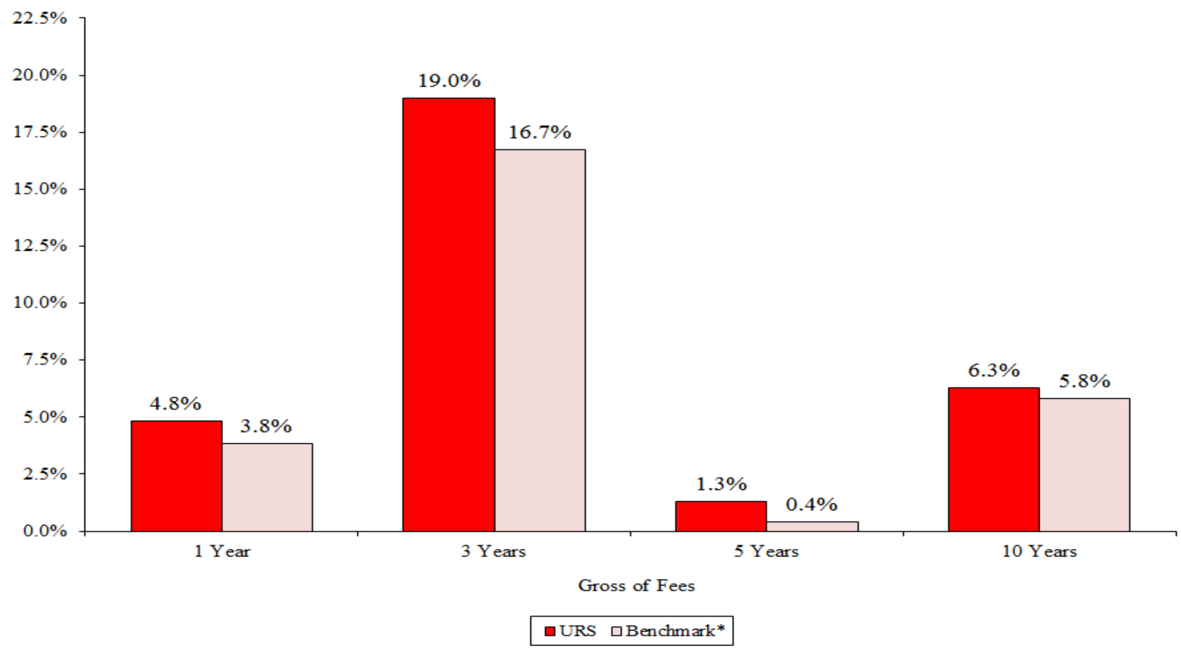
Investment Results

Total Fund:



*Benchmark: 23% S&P 500, 9% Russell 2000, 15% MSCI EAFE, 5% MSCI EAFE Small Cap, 5% MSCI Emerging Markets, 9% Barclays Aggregate, 5% Barclays High Yield, 6% Citigroup WGBI, 10% NCREIF Property, 10% 90 Day T-Bill + 300 bps, 3% JPM EMBI Global Diversified

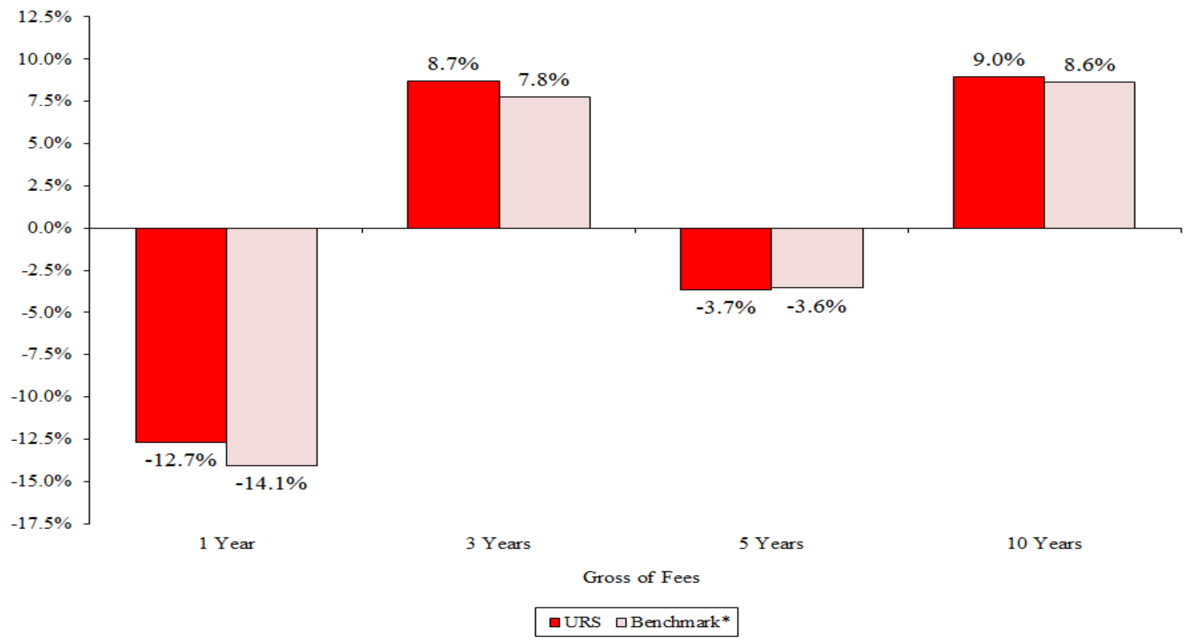
Domestic Equity:



*Benchmark: Russell 3000

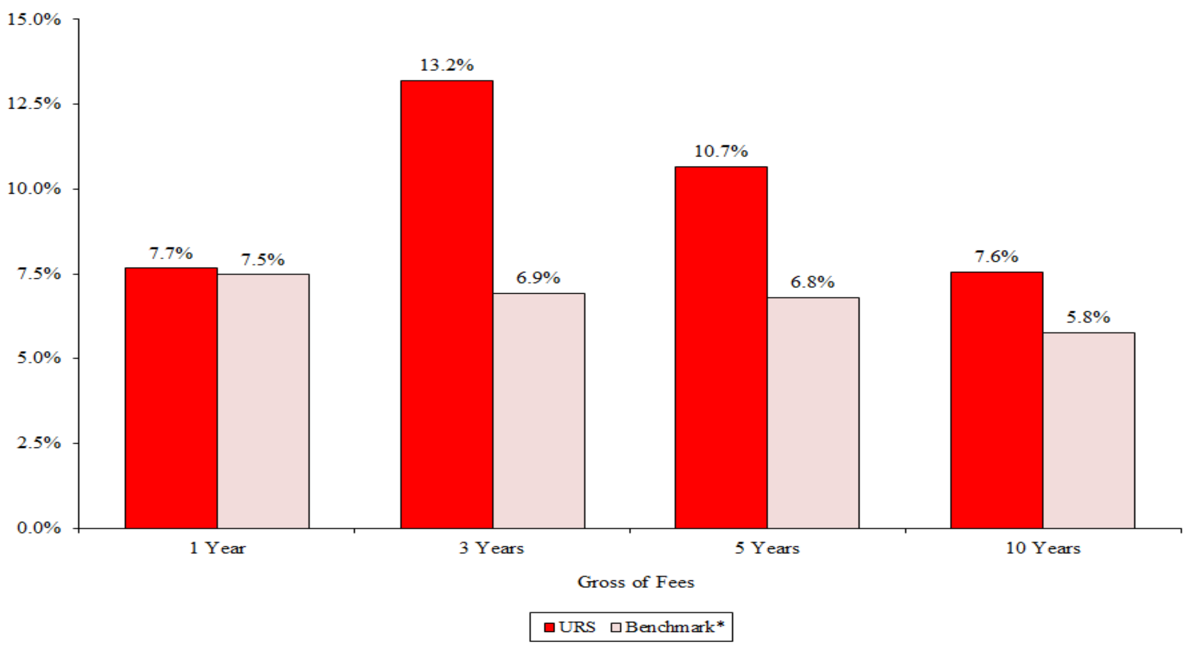
Investment Results

International Equity:



*Benchmark: 66.7% MSCI EAFE, 33.3% MSCI Emerging Markets Free Gross

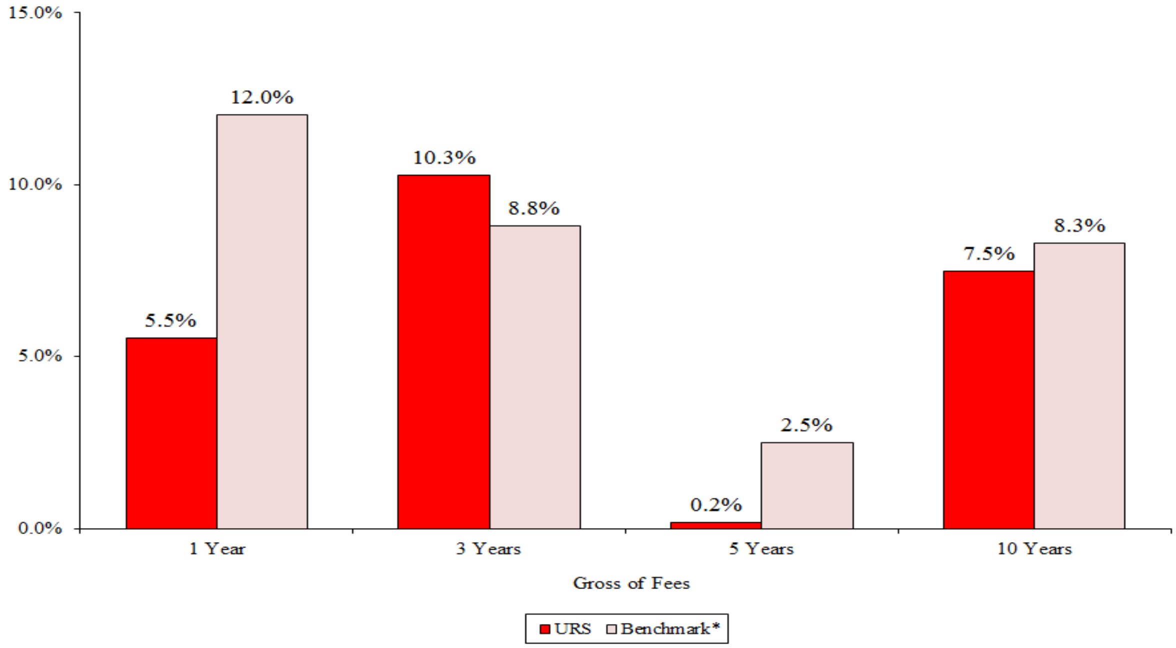
Fixed Income:



*Benchmark: Barclays Aggregate

Investment Results

Real Estate:



*Benchmark: NCREIF Property Index

Schedule of Ten Largest Equity & Fixed Income Holdings

Ten Largest Equity Holdings

No. Shares	Description	Cost	Fair Value	% of Total Portfolio
4,476	White Mountains Ins Grp Inc	$1,938,360	$2,335,353	0.19%
27,404	SL Green Realty Corp	1,764,775	2,198,897	0.18%
42,100	Vail Resorts Inc	2,121,358	2,108,368	0.17%
88,320	Spirit Aerosystems Holdings Inc	1,697,643	2,104,666	0.17%
52,390	Plum Creek Timber Co Inc	2,252,941	2,079,883	0.17%
12,952	Simon Property Group Inc	1,109,037	2,016,108	0.17%
35,410	Kaiser Aluminum Corp	1,275,387	1,835,654	0.15%
43,244	Intertek Group Plc Ord Gbp0.01	537,822	1,812,312	0.15%
48,267	Hyatt Hotels Corp	1,933,756	1,793,602	0.15%
56,900	Comerica Inc	1,670,398	1,747,399	0.14%
	Total	**$16,301,477**	**$20,032,242**	**1.64%**

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
72,000,000	Mex Bonos Desarr, 8.500%, 05/31/2029	$6,500,826	$6,547,126	0.54%
6,140,316	FNMA Pool, 4.000%, 02/01/2041	6,015,591	6,545,516	0.54%
3,365,000	United Kingdom Gilt, 4.500%, 03/07/2013	5,706,874	5,428,305	0.45%
4,609,365	FNMA Pool, 3.500%, 12/01/2040	4,700,112	4,849,790	0.40%
3,975,000	New S Wales Treas, 6.000%, 04/01/2016	3,952,705	4,447,234	0.36%
4,000,000	FNMA SF MTG, 4.000%, 08/01/2042	4,244,688	4,249,360	0.35%
3,200,000	U.S. Treasury Bond, 4.250%, 11/15/2040	3,173,872	4,186,016	0.34%
3,700,000	FNMA SF MTG, 5.500%, 07/01/2042	4,037,047	4,035,886	0.33%
3,600,000	U.S. Treasury Note, 2.000%, 11/15/2021	3,616,570	3,732,480	0.31%
3,200,000	U.S. Treasury Note, 1.375%, 02/28/2019	3,266,898	3,267,488	0.27%
	Total	**$45,215,183**	**$47,289,201**	**3.89%**

Schedule of Brokerage Commissions

As of June 30, 2012

Broker Name	Base Volume	Total Shares	Base Commission	Commission Percentage
Daewoo Securities Co Ltd, Seoul	$1,884,900	53,093	$3,774	0.20%
Woori Investment & Securities, Seoul	1,620,273	69,722	3,243	0.20%
Credit Agricole Cheuvreux, Courbevoie	1,653,320	93,795	3,285	0.20%
Macquarie Securities Limited, Hong Kong	3,048,157	2,166,007	5,286	0.17%
Credit Lyonnais Secs, Singapore	2,479,625	3,330,531	4,076	0.16%
Cap Instl Svcs Inc-Equities, Dallas	35,521,541	2,620,389	58,172	0.16%
Nomura Secs Intl Inc, New York	2,426,275	481,150	3,897	0.16%
ISI Group Inc, NY	4,459,171	178,400	7,136	0.16%
Cabrera Capital Markets, Chicago	22,363,636	877,566	35,103	0.16%
Mitsubishi Ufj Sec (USA), New York	1,570,156	67,194	2,357	0.15%
Svenska Handelsbanken, New York	1,993,774	218,328	2,992	0.15%
Mizuho Securities USA Inc, New York	1,654,642	242,221	2,482	0.15%
Investec Securities, London	1,879,538	440,532	2,811	0.15%
Numis Securities Inc, New York	1,790,559	170,831	2,674	0.15%
Daiwa Secs Amer Inc, New York	3,128,745	277,094	4,670	0.15%
Citigroup Gbl Mkts/Salomon, New York	5,573,138	1,847,454	8,312	0.15%
JPMorgan Sec, Sydney	2,590,494	662,879	3,801	0.15%
Skandinaviska Enskilda Banken, London	2,143,617	161,456	3,119	0.15%
UBS Warburg Asia Ltd, Hong Kong	2,628,077	1,285,608	3,808	0.14%
Deutsche Bk Secs Inc, NY	3,862,781	599,628	5,497	0.14%
Macquarie Equities Ltd, Sydney	2,507,496	630,495	3,561	0.14%
JPMorgan Secs Ltd, London	3,347,700	309,930	4,511	0.13%
Sg Sec (London) Ltd, London	1,683,428	84,287	2,250	0.13%
Kas Bank Nv, Amsterdam	2,163,831	125,108	2,800	0.13%
Strategas Securities LLC, New York	2,365,247	76,300	3,052	0.13%
Credit Suisse (Europe), London	2,299,917	528,238	2,918	0.13%
Merrill Lynch Pierce Fenner, Wilmington	4,836,170	1,817,787	6,001	0.12%
Citation Group/Bcc Clrg, New York	3,246,190	126,959	3,809	0.12%
Credit Suisse, New York	3,903,332	603,049	4,390	0.11%
Goldman Sachs & Co, NY	23,934,775	553,157	26,360	0.11%
Deutsche Bk Intl Eq, London	2,245,277	354,408	2,463	0.11%
National Finl Svcs Corp, New York	1,799,518	51,038	1,950	0.11%
Merrill Lynch Pierce Fenner Smith Inc, NY	5,101,233	191,590	5,367	0.11%
UBS Securities LLC, Stamford	3,866,919	57,383	4,007	0.10%
JPMorgan Clearing Corp, New York	8,111,680	2,388,390	8,316	0.10%
Green Street Advisors, Jersey City	1,549,738	47,382	1,575	0.10%
BNY Convergex/LJR, Houston	8,717,536	258,353	8,624	0.10%
RBC Capital Markets LLC, New York	2,423,517	78,408	2,307	0.10%
UBS Equities, London	2,762,715	477,292	2,613	0.09%
Stifel Nicolaus	1,713,427	52,792	1,620	0.09%
Nomura Secs Intl, London	1,862,822	186,560	1,753	0.09%
Frank Russell Sec Inc, New York	9,107,565	267,661	8,030	0.09%
Barclays Capital Le, Jersey City	7,560,150	168,304	5,622	0.07%
Goldman Sachs Execution & Clearing, NY	1,508,753	71,785	1,077	0.07%
First Clearing LLC, Richmond	2,325,252	46,281	1,388	0.06%
Morgan Stanley & Co Inc, NY	10,097,929	818,289	5,951	0.06%
Investment Technology Group, New York	13,491,173	519,197	7,838	0.06%
Jefferies & Co Inc, New York	3,011,932	72,080	1,644	0.05%
Citigroup Gbl Mkts Inc, New York	16,065,472	270,633	5,986	0.04%
Knight Direct LLC, Jersey City	2,494,327	46,106	725	0.03%
Other Brokers	58,446,563	13,496,095	82,636	0.14%
Total	**$318,824,004**	**40,619,215**	**$387,636**	**0.12%**

Investment Summary
(Based on Capital Allocation)

	As of June 30, 2011		As of June 30, 2012	
	Market Value	**% Market Value**	**Market Value**	**% Market Value**
Domestic Equities	$304,160,767	25.0%	$269,122,200	22.3%
International Equities	276,861,411	22.7%	240,219,656	20.0%
Fixed Income	352,542,694	28.9%	371,027,979	30.4%
Real Estate	79,140,588	6.5%	82,777,127	6.9%
Alternatives	200,160,142	16.4%	240,757,934	20.0%
Short-term	5,723,720	0.5%	5,044,189	0.4%
Total	**$1,218,589,322**	**100.0%**	**$1,208,949,085**	**100.0%**

Schedule of Direct Investment Management Fees

As of June 30, 2012

Asset Class Manager	Investment Style	Total Assets	Fees
Domestic Equities			
BGI S&P 500 Fund	S&P 500 Index	$88,714,813	$164,407
NCM Capital	Mid Cap Growth	47,743,312	389,180
Advisory Research	Small/Mid Cap Value	58,720,027	483,040
International Equities			
Marathon Asset Management - London	Developed Markets	111,074,781	610,736
Artio Global Investors	Developed Markets	37,354,877	231,207
Victory Capital	Developed Markets Small Cap	33,887,674	267,601
Acadian Asset Management	Emerging Markets	57,902,324	461,270
Fixed Income			
Pacific Investment Management Co. (PIMCO)	Total Return Core Bonds	93,131,850	315,121
Brandywine Asset Management	Global Bonds	71,684,659	275,644
DoubleLine Capital	Mortgage-Backed Securities	76,893,979	625,333
Real Estate			
UBS Realty	Direct Real Estate	47,764,522	480,615
Cohen & Steers Capital Management	Global Real Estate Securities	35,012,605	207,770
Alternative Investments			
J.P. Morgan Private Equity	Private Equity	11,078,938	112,278
Inflation Hedges			
Wellington Diversified Inflation Hedges	Commodities	33,745,097	79,797
Short-term			
BNY Mellon Cash Investment Strategies	Plan Level Cash Accounts	2,317,919	51,166
The Clifton Group		30,873,156	39,033
Total		**$ 837,900,533**	**$4,794,198**

CHEIRON Classic Values, Innovative Advice

March 9, 2012

Fairfax County Uniformed
Retirement System
10680 Main Street, Suite 280
Fairfax, Virginia 22030-3812

Dear Members of the Board:

At your request, we have conducted our annual actuarial valuation of the Fairfax County Uniformed Retirement System as of July 1, 2011. The results of the valuation are contained in this report.

Funding Objective

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

Assumptions

The actuarial assumptions used in performing the July 1, 2011 valuation were recommended by the actuary and adopted by the Board of Trustees based on our most recent review of the System's experience for the five year period ending June 30, 2010. The assumptions reflect our understanding of the likely future experience of the System and the assumptions as a whole represent our best estimate for the future experience of the System. The results of this report are dependent upon future experience conforming to these assumptions. To the extent that future experience deviates from these assumptions, the true cost of the System could vary from our results.

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

Reliance on Others

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

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

March 9, 2012
Fairfax County Uniformed Retirement System
Page 2

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

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

Compliance with Code of Virginia §51.1-800
Code of Virginia §51.1-800 requires that the benefits provided to a retiree at age 65 from a local retirement system equal or exceed two-thirds of the allowance to which the employee would be entitled under the provisions of the Virginia Retirement System (VRS).

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

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

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

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

Sincerely,
Cheiron

Fiona E. Liston

Fiona E. Liston, FSA
Principal Consulting Actuary

Christian Benjaminson

Christian E. Benjaminson, FSA
Principal Consulting Actuary

CHEIRON

Summary of Valuation Results (unaudited)

Overview

This report presents the results of the July 1, 2011 actuarial valuation of the Fairfax County Uniformed Retirement System. The primary purposes of performing the annual actuarial valuation are to:

- Measure and disclose, as of the valuation date, the financial condition of the Plan;
- Indicate trends in the financial progress of the Plan;
- Determine the contribution rate to be paid by the County for Fiscal Year 2013; and
- Provide specific information and documentation required by the Governmental Accounting Standards Board (GASB).

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

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

General Comments

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

The County's contribution rate will change when benefits are increased or modified or assumptions are changed. The new rate will reflect the change in normal cost rate and the change in actuarial liability amortized over 15 years. Since the inception of the corridor funding method, the normal cost rate has increased by 1.91% and the UAL rate has increased by 7.05%, the specific changes are summarized in the next table:

Changes Since 2001	Impact on Normal Cost Rate	Impact on UAL Rate
2002 Pre-Social Security Supplement	+ 1.40%	+ 2.45%
2002 ad-hoc COLA	N/A	+ 0.25%
2004 Retiree Increase	N/A	+ 1.70%
2004 DROP	+ 0.17%	+ 0.53%
2005 Assumption Changes	+ 0.18%	+ 0.91%
2006 DPSC Transfer	N/A	+ 0.62%
2007 Reduce Disability Offset	+ 0.02%	+ 0.30%
2008 Reduce Disability Offset	+ 0.01%	+ 0.12%
2010 Assumption Changes	+ 0.13%	+ 0.17%
Total Increase	**+ 1.91%**	**+ 7.05%**

The basic corridor funding contribution is currently 26.76% of payroll. The normal cost rate and actuarial accrued liability will continue to be measured using the entry age funding method. If the funded status falls outside the corridor, a credit (if above 120%) or charge (if below 90%) will be established based on a 15-year amortization equal to the amount necessary to re-enter the corridor. Once the funded status is within the corridor, the contribution rate will return to normal cost rate plus expense rate, and any remaining amortization for benefit or assumption changes.

The valuation as of July 1, 2011 shows that the actuarial funded ratio (including a credit for the amortization of prior benefit increases) remains outside of the corridor.

The employer contribution rate for FY 2013 will increase from 32.99% to 34.04% 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.

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

Trends

The rebound in the financial markets continued during the fiscal year ending in 2011 resulting in an actuarial gain on the asset side of the System. The actual return on a market value basis was approximately 24.12%. On an actuarial value basis the assets returned 9.10% compared with an assumed rate of return of 7.5%. The gain recognized for funding purposes was $17.4 million.

The measurement of liabilities produced a loss this year in the amount of $13.7 million. This loss was due to experience not meeting our assumptions about salary increases, retirement behavior, death, etc. Specific components of the loss include:

- The average salary increase was 3.1% for active participants who were in both the July 1, 2010 and July 1, 2011 valuations. This was less than the expected salary growth based on the actuarial assumption (per the most recent experience study), which worked out to average 3.3%. This resulted in a small gain.

- The valuation assumed a 1% cost-of-living adjustment in 2011 for benefits in pay status (per the most recent experience study). The actual CPI-based COLA was 3% last year, creating a liability loss of $14.7 million.

- The 2011 valuation is the first to incorporate actual sick leave hours into both eligibility and projected benefits for active participants. The accrual of sick leave from 2010 to 2011 produced a loss of $2.2 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 $1.1 million to that number.

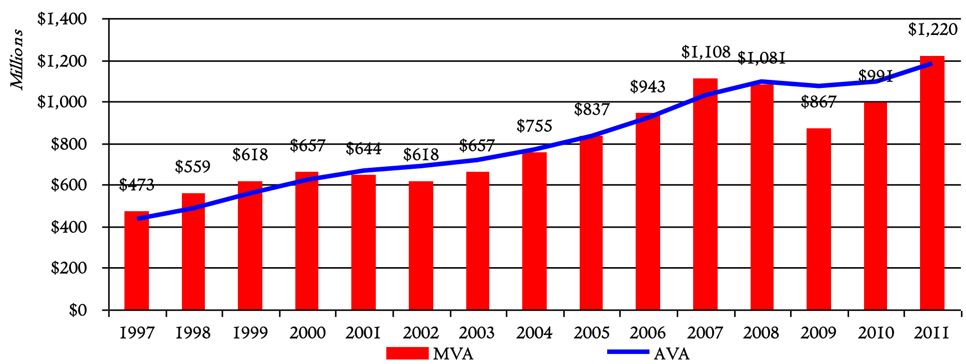
- There was a $4.3 million liability gain component that is made up of various other causes such as members terminating, dying or becoming disabled in a way contrary to the assumption and also data changes from previous years.

In addition to the liability loss, the System's liabilities also increased by $2.8 million due to changes in the actuarial assumptions used, as recommended by an experience study performed in 2011.

The combination of assumption changes and liability and investment experience over the last year caused an increase in the System's funding ratio (actuarial value of assets over actuarial accrued liability) from 76.7% at July 1, 2010 to 77.7% at July 1, 2011. For purposes of measuring whether the System remains within the funding corridor, an adjusted funding ratio is used. In this ratio, there is an additional asset recognized in the amount of the unfunded actuarial liability (UAL) payments being made by the County to pay for benefit increases and assumption changes. On this basis, the System's actuarial funded ratio increased from 82.1% at July 1, 2010 to 82.2% at July 1, 2011.

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

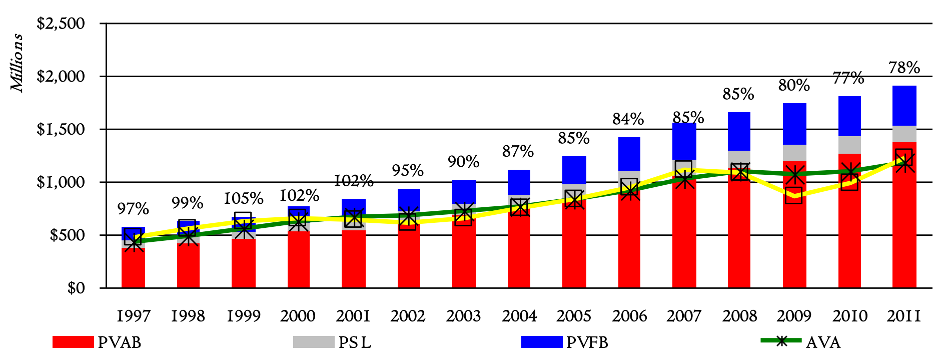
Growth in Assets



There was a substantial increase in the market value of assets (MVA) over last year due to a return of 24.1%. The actuarial value of assets (AVA) increased as well but not as significantly because a portion of this year's investment gain is being held for future recognition. Due to the significant market increases this year and last, the System has $35 million in unrecognized gains that will be phased in over the next few years.

Over the period of July 1, 1997 to June 30, 2011, the System's assets returned approximately 6.89% per year measured at actuarial value, compared to a valuation assumption of 7.5% per year.

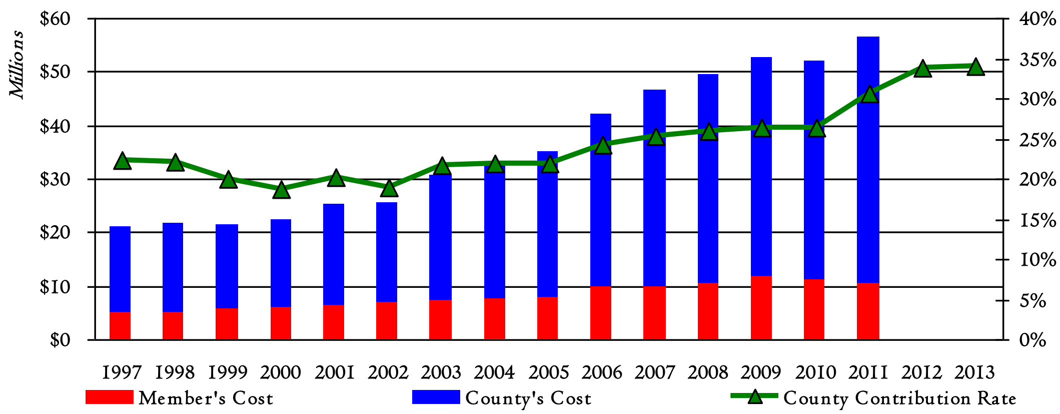
Assets and Liabilities



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

Since 2007, the System's funded status has declined from 85% to 78% as a result of investment gains and losses, liability gains and losses, and the underfunding inherent in the corridor method once it falls below 90%.

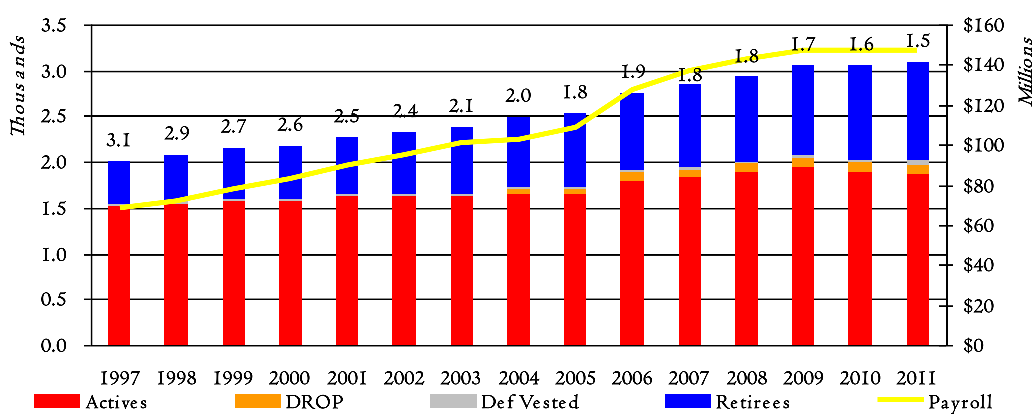
Contribution Rates



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

The member contribution rate is set by the County Ordinance. The County contribution rate is set by the actuarial process, as constrained by the corridor method. Note, there is a lag in the rate shown. For example, the 2011 value is the rate prepared by the 2009 valuation and implemented for the period July 1, 2010 to June 30, 2011.

Participant Trends

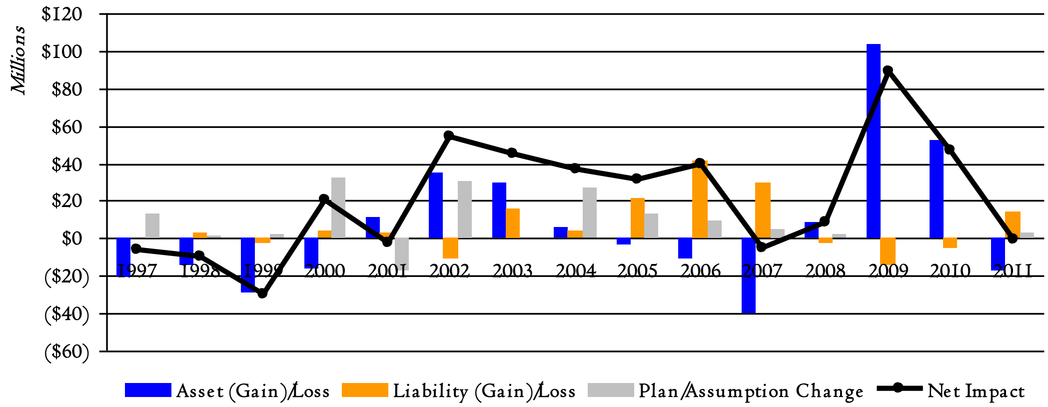


As with many funds in this country, there has been a steady growth in the number of retired members as the System has matured. The active-to-inactive ratio has decreased from 3.1 actives to each inactive in

1997 to 1.5 actives for each inactive today. While this would be an alarming trend in a pay-as-you-go system, the pool of invested assets has been established in anticipation of this development.

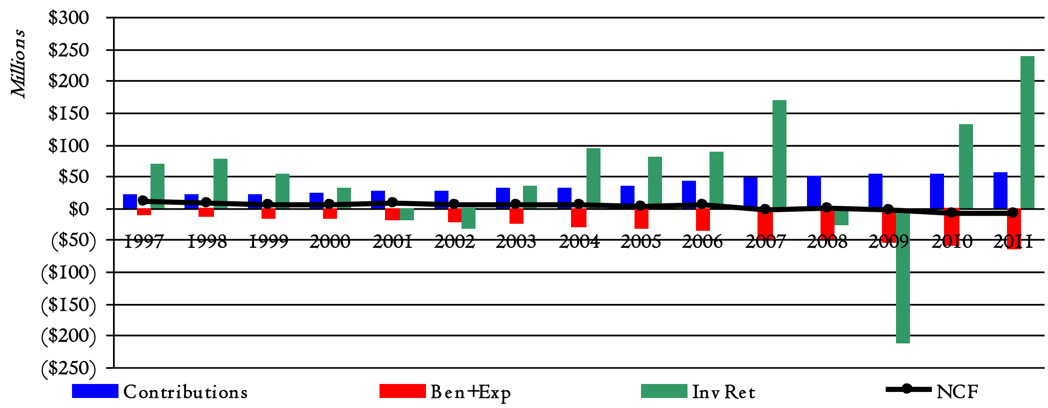
Starting in 2004, the chart also shows the number of DROP participants. Neither employer nor member contributions are made on their behalf, which leads to a slightly lower growth in effective covered payroll for this System.

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



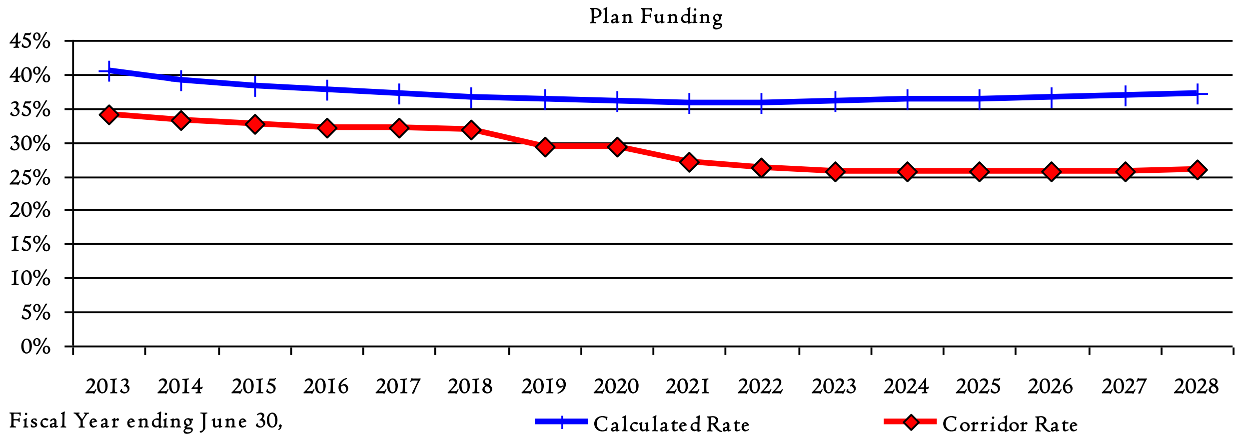
The graph shows the annual cash flows into and out of the System. The graph shows the magnitude of the investment returns on the market value (green bars) compared to the contributions (blue bars). The net cash flow (line) is comparing the contributions to benefits and expenses (red bar). Negative cash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

Future Outlook

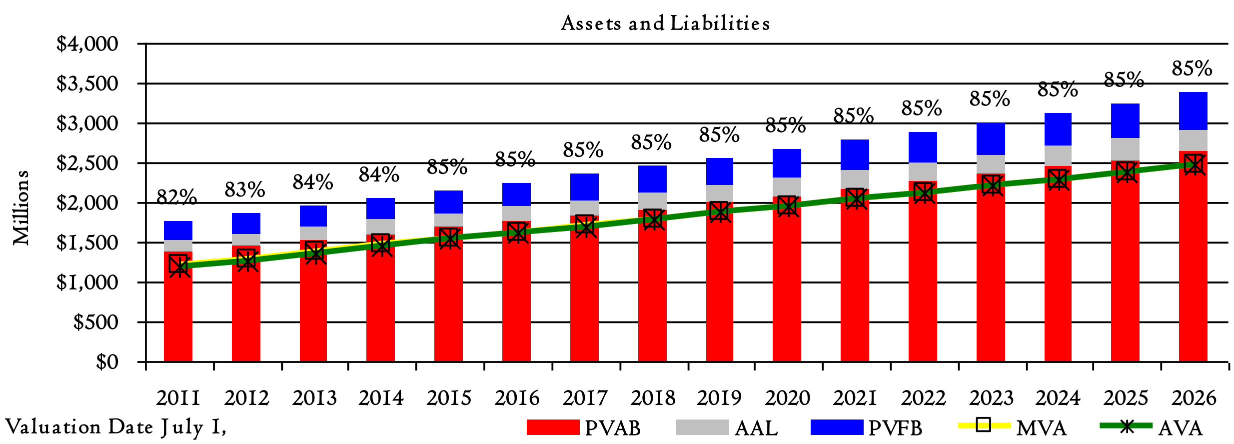
Base-line Projections

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 contribution rates declining, but the System does not re-enter the corridor (if all other actuarial assumptions are met as well as the 7.5% interest rate). The contribution rate decreases as the stored investment gains are fully phased-in and as plan change bases become fully amortized and drop out. The red line shows the actuarially calculated rate if the corridor were not in place. Under this scenario the corridor rate declines from 34% to 26% of payroll.



The "Assets and Liabilities" graph shows the projected funding status over the next 15 years. Note that the 2011 funded level differs from that shown in the historical graphs; the ratio used here reflects the corridor method. The corridor funded ratio will slowly increase in the short-term as unrecognized investment gains are incorporated in the actuarial value of assets. After that, the corridor method basically marks time and keeps the System around 85% funded.



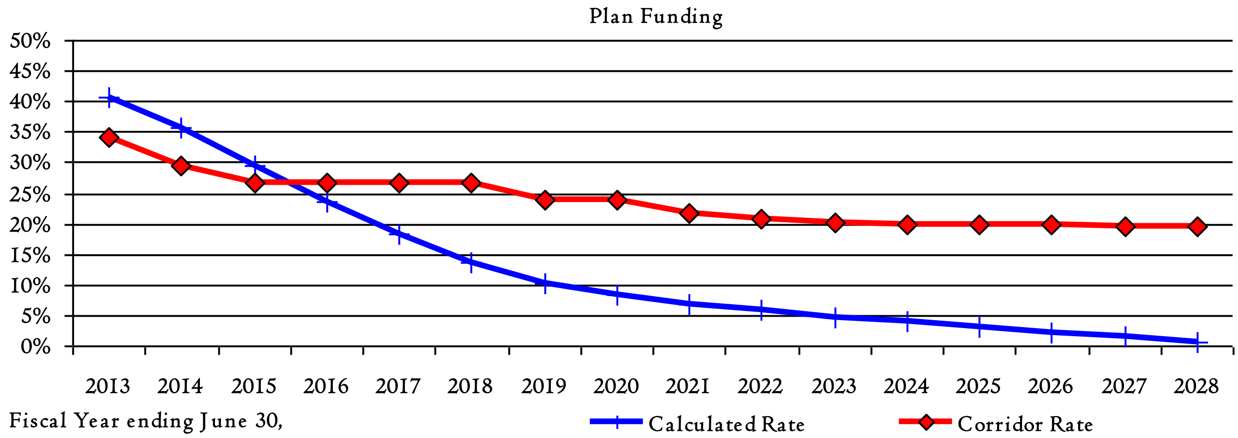
The future funding status of this System will be influenced by the investment earnings. The prior projection assumed the System would earn 7.5% each and every year, which is extremely unlikely.

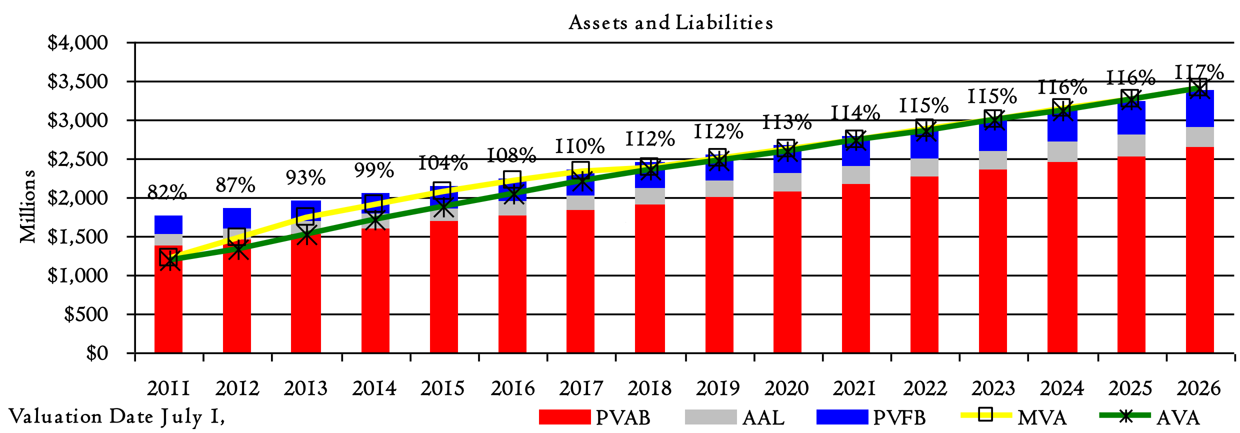
In the projections that follow, we show the risk to the System under volatile markets. Since 1980 the System has averaged 9.58% return per year. Therefore, for this analysis we have created the following three scenarios that produce the same average return.

Fiscal Year Ending June 30,	Favorable Returns Early	Poor Returns Early	Random Returns
2012	22.70%	5.20%	23.72%
2013	18.20%	7.20%	4.00%
2014	12.20%	9.20%	1.95%
2015	10.20%	10.20%	11.70%
2016	9.20%	12.20%	4.10%
2017	7.20%	18.20%	10.59%
2018	5.20%	22.70%	16.04%
2019	7.50%	7.50%	21.82%
2020	7.50%	7.50%	5.39%
2021	7.50%	7.50%	6.35%
2022	7.50%	7.50%	5.37%
2023	7.50%	7.50%	16.10%
2024	7.50%	7.50%	6.64%
2025	7.50%	7.50%	-5.02%
2026	7.50%	7.50%	18.36%
Average	**9.57%**	**9.57%**	**9.53%**

<u>Alternative Projection -- with favorable returns early in the projection</u>

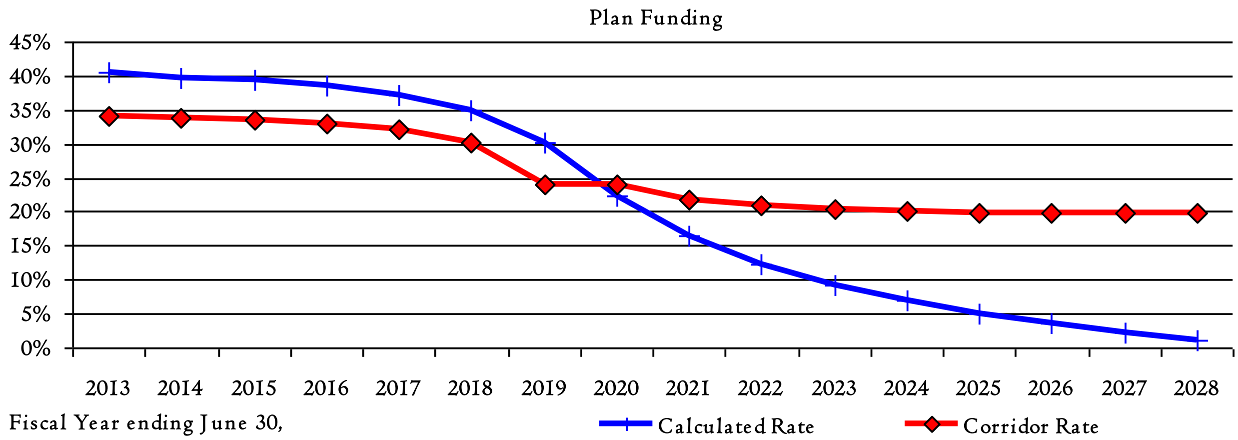
Under this scenario, the corridor contribution rate would decrease each year as the System experiences investment gains in the first five years. The System re-enters the corridor in 2013 and reaches full funding by 2015.

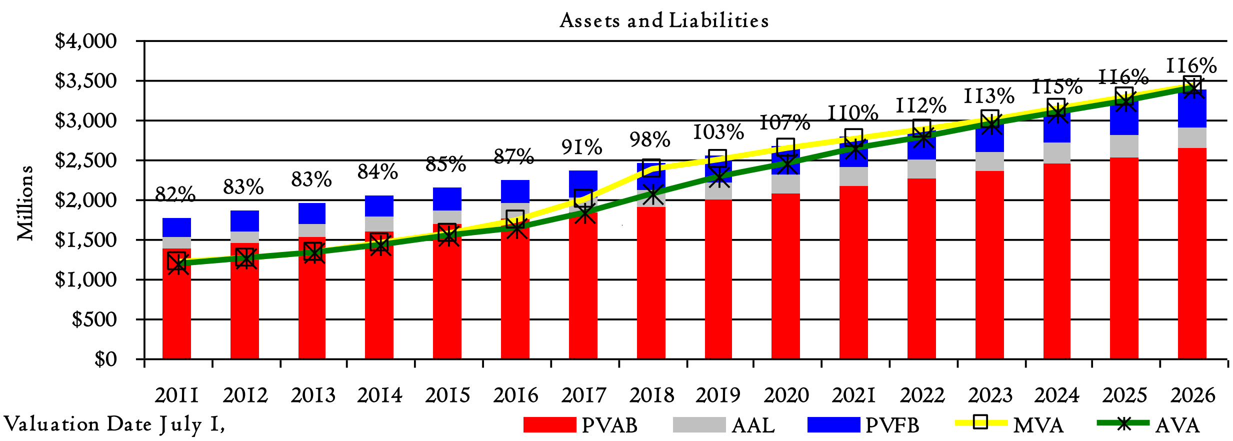




Alternative Projection -- with poor returns early in the projection

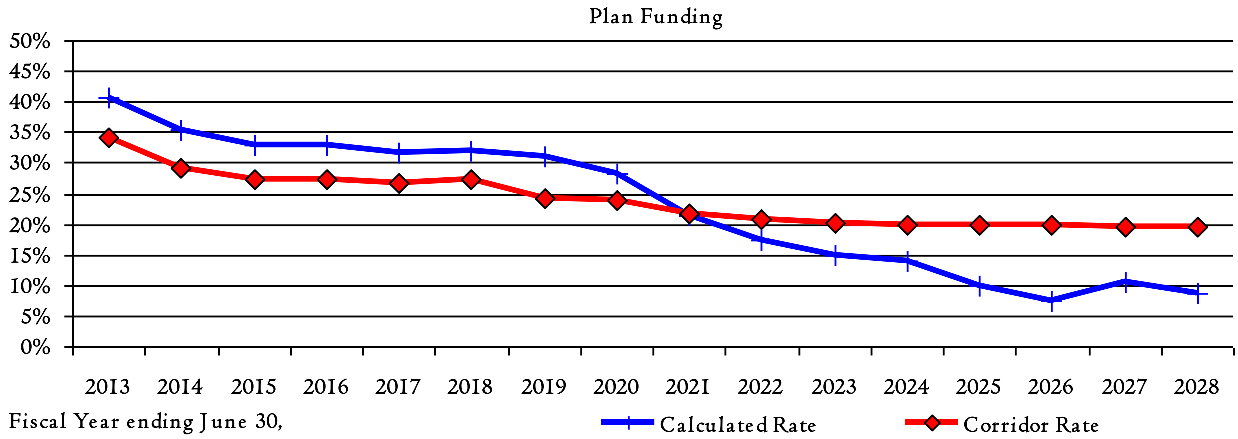
Under this scenario, the corridor contribution rate still declines given the current amount of stored gains. The County would re-enter the corridor in 2017 and reach full funding in 2019.

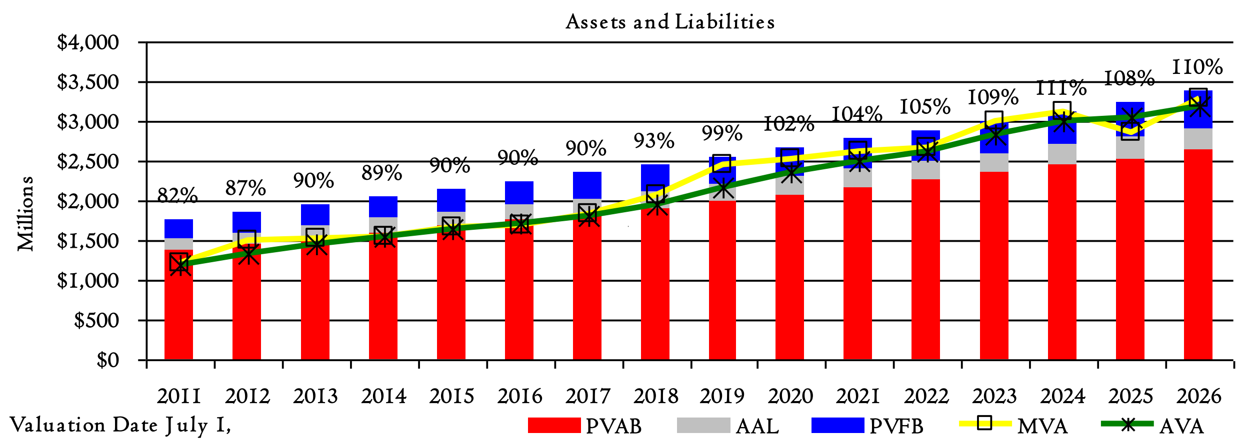




Alternative Projection -- with random returns

Under this scenario, the corridor contribution rate declines each year until FY2019 when the County re-enters the corridor. This scenario shows the System at 110% funded at the end of the period.





Summary of Principal Plan Results

Valuation as of:	7/1/2010	7/1/2011	% Chg
Participant Counts			
Actives (excluding DROP)	1,887	1,865	-1.2%
DROPs	108	106	-1.9%
Terminated Vesteds	34	43	26.5%
In Pay Status	1,021	1,075	5.3%
Total	3,050	3,089	1.3%
Annual Salaries of Active Members	$ 146,776,955	$ 147,326,067	0.4%
Annual Retirement Allowances for Retired Members and Beneficiaries (Base amount only – not supplements)	$ 50,359,498	$ 55,363,979	9.9%
Assets and Liabilities			
Actuarial Accrued Liability	$ 1,427,616,710	$ 1,526,218,244	6.9%
Assets for Valuation Purposes	1,095,079,616	1,185,593,678	8.3%
Unfunded Actuarial Liability	$ 332,537,094	$ 340,624,566	2.4%
Funding Ratio	76.7%	77.7%	
Present Value of Accrued Benefits	$ 1,261,519,192	$ 1,378,159,608	9.2%
Market Value of Assets	991,072,540	1,220,411,973	23.1%
Unfunded Accrued Liability (not less than $0)	$ 270,446,652	$ 157,747,635	-41.7%
Accrued Benefit Funding Ratio	78.6%	88.6%	
Contributions as a Percentage of Payroll	**Fiscal Year 2012**	**Fiscal Year 2013**	
GASB Method:			
Normal Cost Contribution	19.33%	19.46%	
Unfunded Actuarial Liability Contribution	19.14%	20.84%	
Administrative Expense	0.25%	0.25%	
Total Contribution	38.72%	40.55%	
Corridor Method:			
Normal Cost Contribution	19.33%	19.46%	
Increase Due to Amortized Changes	6.88%	7.05%	
Amortization of Amount Outside Corridor	6.53%	7.28%	
Administrative Expense	0.25%	0.25%	
Corridor Method	32.99%*	34.04%	

*The actual contribution rate being paid by the County in FY 2012 is 33.81%.

Summary of Actuarial Assumptions and Methods

Funding Method

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

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

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

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

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

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

Actuarial Value of Assets

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

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

Changes Since Last Valuation

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

Long Term Assumptions Used to Determine System Costs and Liabilities

Demographic Assumptions

Mortality

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

* 5% 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		
Service	**Sheriffs**	**Non-Sheriffs**
0	135	120
5	43	18
10	10	8
15	5	5
20	5	5
25	5	5

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

Disability

Annual Disabilities Per 1,000 Members*	
Age	**Male and Female**
20	1
25	2
30	2
35	3
40	4
45	7
50	11
55	16
60	16

* Disabilities are assumed to be all service-connected. Of these, 30% are assumed to receive Social Security benefits and 38% are assumed to receive Workers' Compensation benefits.

Retirement

Annual Retirement Per 1,000 Eligible*	
Service	**Normal**
20	0
21	0
22	0
23	0
24	350
25	350
26	350
27	350
28	350
29	350
30	350

* 75% are assumed to DROP.

Merit/Seniority Salary Increase (In Addition to Across-the-Board Increase)

Year of Service	Merit/Seniority Increase*
0	8.0%
5	5.0%
10	1.5%
15	3.0%
20	1.8%
25	1.8%
30	1.8%

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

Family Composition

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

Sick Leave Credit

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

Economic Assumptions

Investment Return:	7.50% compounded per annum.
Rate of General Wage Increase:	3.00% compounded per annum.*
Rate of Increase in Cost-of-Living:	3.00% compounded per annum.**
Total Payroll Increase (For Amortization):	3.00% compounded per annum.
Administrative Expenses:	0.25% of payroll.

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

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

Changes Since Last Valuation

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

Analysis of Financial Experience

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

Type of Activity	2006	2007	2008	2009	2010	2011
Investment Income	$ 10,617,063	$39,813,140	$(8,352,154)	$(103,521,233)	$(52,003,538)	$17,409,148
Combined Liability Experience	(41,223,033)	(29,998,557)	1,986,816	14,593,398	5,509,116	(13,747,922)
Gain (or Loss) During Year from Financial Experience	$(30,605,970)	$ 9,814,583	$(6,365,338)	$ (88,927,835)	$(46,494,422)	$3,661,226
Non-Recurring Items	(9,356,621)	(4,847,761)	(2,027,721)	0	0	(2,808,343)
Composite Gain (or Loss) During Year	**$(39,962,591)**	**$ 4,966,822**	**$(8,393,059)**	**$ (88,927,835)**	**$(46,494,422)**	**$ 852,883**

Schedule of Retirees and Beneficiaries Added To and Removed From Rolls

Year Ended June 30,	Added to Rolls No.	Added to Rolls Annual Allowance	Removed From Rolls No.	Removed From Rolls Annual Allowance	On Rolls @ Yr. End No.	On Rolls @ Yr. End Annual Allowance	% Increase Allowance	Average Allowance
2006	61	$ 3,797,302	15	$ 691,879	845	$ 35,845,094	9.49%	$ 42,420
2007	94	6,751,363	39	899,814	900	41,696,643	16.32%	46,330
2008	41	4,211,865	9	327,811	932	45,580,697	9.32%	48,906
2009	65	4,323,678	10	469,400	987	49,434,975	8.46%	50,086
2010	51	4,614,464	17	549,813	1,021	53,499,626	8.22%	52,399
2011	66	5,869,824	12	546,541	1,075	58,822,909	9.95%	54,719

Solvency Tests
Aggregate Accrued Liabilities For

Valuation Date July 1,	(1) Active Member Contributions	(2) Retirees, Vested Terms, Beneficiaries & DROP	(3) Active Members (Employer Financed Portion)	Reported Assets *	Portion of Accrued Liabilities by Reported Assets (1)	(2)	(3)
2006	$ 87,206,883	$ 568,374,094	$ 447,087,737	$ 921,414,147	100%	100%	59%
2007	95,478,570	645,236,172	465,909,413	1,028,384,897	100%	100%	62%
2008	100,789,409	693,098,403	491,806,439	1,097,994,261	100%	100%	62%
2009	108,449,048	745,549,680	497,205,327	1,074,229,685	100%	100%	44%
2010	113,757,792	813,049,990	500,808,928	1,095,079,616	100%	100%	34%
2011	120,040,592	896,003,321	510,174,331	1,185,593,678	100%	100%	33%

** Based on the Actuarial Value of Assets*

Statistical Section (unaudited)

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

Schedule of Additions by Source

Fiscal Year	Plan Member Contributions	Employer Contributions	Transfer	Employer Contributions % of Covered Payroll	Net Investment Income (loss)	Total Additions
2003	7,478,708	23,027,237		21.65%	33,576,497	64,082,442
2004	7,800,284	24,823,288		22.60%	94,008,180	126,631,752
2005	7,953,800	27,192,791		24.30%	78,696,049	113,842,640
2006	9,860,429	32,135,984	$11,750,084	24.92%	88,814,121	142,560,618
2007	9,988,515	36,486,832		26.01%	167,240,928	213,716,275
2008	10,535,823	39,085,662		26.33%	(27,523,779)	22,097,706
2009	11,750,810	40,855,102		26.46%	(211,603,541)	(158,997,629)
2010	11,094,505	40,771,184		26.46%	131,320,268	183,185,957
2011	10,521,525	45,817,015		30.56%	238,039,247	294,377,787
2012	10,603,097	50,351,335		33.81%	(4,168,239)	56,786,193

The transfer in FY 2006 was a transfer of assets supporting the future benefits for the employees of the Department of Public Safety Communications who elected to leave the Employees' Retirement System and transfer to the Fairfax County Uniformed Retirement System.

Schedule of Deductions by Type

Fiscal Year	Benefit Payments	Refunds of Contributions	Administrative Expenses	Total Deductions
2003	23,863,933	259,624	223,110	24,346,667
2004	27,954,431	452,616	297,188	28,704,235
2005	31,678,214	544,777	223,499	32,446,490
2006	36,023,777	349,572	223,842	36,597,191
2007	47,194,476	737,506	421,390	48,353,372
2008	47,544,913	833,454	440,564	48,818,931
2009	54,122,953	656,683	325,469	55,105,105
2010	58,356,915	597,955	345,766	59,300,636
2011	63,822,794	853,906	361,654	65,038,354
2012	67,361,605	599,188	372,770	68,333,563

Schedule of Benefit Payments by Type

Fiscal Year	Service Annuity	Service-Connected Disability	Ordinary Disability	Survivor Benefit	Total
2003	17,410,370	5,806,457	269,750	377,356	23,863,933
2004	21,252,301	6,148,149	159,241	394,740	27,954,431
2005	24,716,535	6,242,349	291,306	428,024	31,678,214
2006	28,710,205	6,559,201	309,940	444,431	36,023,777
2007	39,729,752	6,669,085	309,674	485,965	47,194,476
2008	39,604,805	7,077,598	333,440	529,070	47,544,913
2009	45,854,076	7,323,730	343,405	601,742	54,122,953
2010	50,139,482	7,275,973	300,836	640,624	58,356,915
2011	55,344,665	7,513,492	317,253	647,384	63,822,794
2012	58,531,116	7,751,042	339,101	740,346	67,361,605

Schedule of Retired Members by Benefit Type

Fiscal Year	Service Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Total
2003	503	191	17	20	731
2004	533	194	17	22	766
2005	569	193	17	20	799
2006	618	189	17	21	845
2007	672	190	17	21	900
2008	706	186	18	22	932
2009	758	187	18	24	987
2010	798	185	16	22	1,021
2011	845	186	18	26	1,075
2012	878	187	18	26	1,109

Schedule of Average Monthly Benefit Amounts

Fiscal Year	Service Annuity	Service-Connected Disability	Ordinary Disability	Survivor Benefit	Average
2003	3,166	2,659	1,460	1,477	2,948
2004	3,529	2,684	1,442	1,735	3,217
2005	3,718	2,855	1,471	1,843	3,415
2006	3,827	2,942	1,518	1,909	3,535
2007	4,252	2,908	1,596	1,936	3,864
2008	4,434	3,199	1,606	1,997	4,076
2009	4,532	3,233	1,596	2,123	4,174
2010	4,726	3,339	1,505	2,045	4,367
2011	4,945	3,439	1,570	2,122	4,560
2012	5,136	3,578	1,617	2,126	4,746

Fairfax County Uniformed Retirement System

A Fairfax County, Va., publication

Comprehensive Annual Financial Report

For the Fiscal Year ended June 30, 2012