FOR THE FISCAL YEAR ENDED JUNE 30, 2010

COMPREHENSIVE ANNUAL FINANCIAL REPORT

2010

FAIRFAX COUNTY EMPLOYEES' RETIREMENT SYSTEM

A PENSION TRUST FUND OF FAIRFAX COUNTY, VIRGINIA

Table of Contents

County of Fairfax, Virginia

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

October 25, 2010

Dear Members of the Board of Trustees:

I am pleased to submit to you the annual report of the Fairfax County Employees' Retirement System (System) for the fiscal year ended June 30, 2010. This annual report is provided as an aid to understanding the structure and evaluating the status of the System. The System's management is responsible for the accuracy of financial information contained herein.

The annual report for fiscal 2010 consists of five sections: (1) an Introductory Section that contains this transmittal letter along with the organization structure and review of plan provisions; (2) a Financial Section that contains the opinion of the independent auditors, management's discussion and analysis (MD&A), the financial statements of the System and required supplementary information. The MD&A provides further detail to the financial statements; (3) an Investment Section that contains investment results; (4) an Actuarial Section that includes the independent actuary's certification letter, a summary of the results of the actuarial valuation, and actuarial procedures and assumptions; and (5) a Statistical Section that contains information regarding the System membership.

History

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

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.

Retirement Administration Agency
10680 Main Street * Suite 280 * Fairfax, VA 22030
Phone: 703-279-8200 * 1-800-333-1633 * Fax: 703-273-3185
http://www.fairfaxcounty.gov/retirement/

Capital Markets and Economic Conditions

During fiscal year 2010, the economy gradually recovered from the deep recession of the prior year. Despite continued high unemployment rates and the slow rate of recovery, the capital markets provided strong returns for the year, albeit with significant volatility and a decline in the final quarter. In this environment, the System's portfolio was well positioned and achieved outstanding results, both in absolute and relative terms. The rate of return on investments was 25.7% (25.2%, after fees and expenses), well ahead of the long-term target return of 7.5%. This return also placed well above the median public fund return of 13.5% and was the highest return of all funds (public, corporate, foundations and endowments) in the BNY Mellon universe of asset pools.

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 maintaining internal accounting controls to provide reasonable assurance that transactions are properly authorized and recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles.

Investment Policies and Strategies

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

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

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

Funded Status

An actuarial valuation of the System to determine funding requirements is performed annually. The System's funding policy provides for periodic employer contributions at actuarially determined rates, which 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, 2009 indicated that the ratio of assets accumulated by the System to total actuarial accrued liabilities for benefits showed a decline from 82.7% to 73.6%. The actuarial section contains further information on the results of the July 1, 2009 valuation.

Based on the July 1, 2009 actuarial valuation, the employer contribution rate for 2011 based on the adopted corridor-based funding policy was 14.22%, an increase of 4.51% over the 2010 rate of 9.71%. This increase in the rate is required to amortize the increase in unfunded liability from FY 2009 actuarial experience. During establishment of the FY 2011 County budget, the Board of Supervisors adopted a contribution rate of 14.70% to increase the rate of amortization of the unfunded liability.

Major Initiatives

During FY 2010, we continued to focus on diversifying our risk profile. Traditional approaches to portfolio construction have resulted in return volatility being driven primarily by the equity markets. Over the course of several years, we have moved away from that model to one which focuses on the allocation of risk instead of the traditional asset allocation, without reducing our long-term return target. This process resulted in setting a strategic target of a 30% allocation to equity. Given the increased volatility in the market, a tactical decision was made to reduce that target to 25% for the near term.

In addition, we continued to take advantage of the opportunities created by the market dislocations resulting from the financial crisis and funded the 5% opportunistic allocation that had been established in FY 2009.

Both of these initiatives enabled us to produce returns for FY 2010 that placed at the very top in the nation and far in excess of median plan returns. Looking forward, we will continue our focus on maintaining a diverse risk profile and identifying opportunities as they become apparent in the global markets.

Also during FY 2010, a thorough independent audit of the PensionGold pension administration system and related processes was conducted by the County’s internal audit staff, and I am pleased to report that no major audit findings were identified.

During FY 2011, our plan actuary will be conducting a five-year actuarial experience study. This study will analyze our actual experience on the financial and demographic assumptions that underlie the calculation of plan liabilities and determine ongoing funding requirements. Assumption changes, if any, that are adopted based on this review will be reflected in the actuarial valuation for FY 2011.

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' annual report and certification from the actuary are included in this report.

Acknowledgements

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

Respectfully submitted,

Robert L. Mears
Executive Director

Board of Trustees

Administrative Organization

Administrative Staff

Robert L. Mears
Executive Director

Andrew J. Spellar
Senior Investment Manager

Laurnz A. Swartz
Chief Investment Officer

John P. Sahm
Retirement Administrator

Professional Services

Actuary
CHEIRON
Actuaries
McLean, VA

Auditor
KPMG LLP
Certified Public Accountants
Washington, DC

Investment Managers

Artio Global Investors
New York, NY

BlackRock
San Francisco, CA

BNY Mellon Cash Investment Strategies
Pittsburgh, PA

Brandywine Global Investment Management LLC
Philadelphia, PA

Bridgewater Associates
Westport, CT

The Clifton Group
Edina, MN

Cohen & Steers Capital Management Inc.
New York, NY

Deerfield Capital Management, LLC
Rosemont, IL

DePrince, Race & Zollo
Winter Park, FL

DoubleLine Capital, LP
Los Angeles, CA

First Quadrant Partners
Pasadena, CA

FrontPoint Partners
Greenwich, CT

Investment Managers (continued)

Gramercy Advisors LLC
Greenwich, CT

INTECH Investment Management, LLC
Palm Beach Gardens, FL

JP Morgan Investment Management Inc.
New York, NY

LSV Asset Management
Chicago, IL

MacKay Shields LLC
New York, NY

Marathon Asset Management LLP
London, UK

PIMCO
Newport Beach, CA

Post Advisory Group LLC
Los Angeles, CA

Pzena Investment Management LLC
New York, NY

Sands Capital Management
Arlington, VA

Shenkman Capital Management
New York, NY

Stark Investments
St. Francis, WI

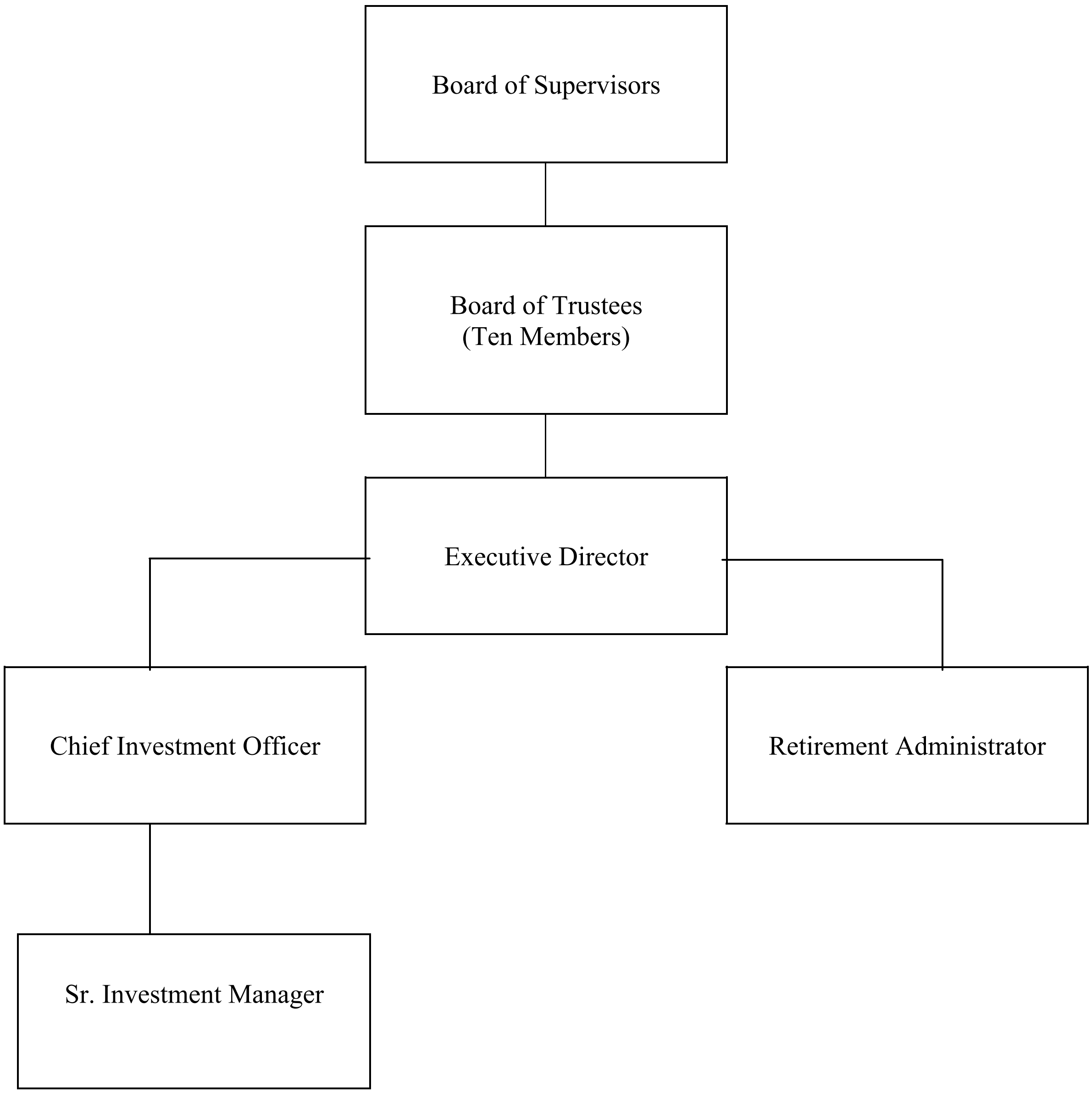
Trust Company of the West
Los Angeles, CA

Wanger Asset Management, L.P.
Chicago, IL

Custodian Bank

BNY Mellon Asset Servicing
Pittsburgh, PA

Organization Chart



Summary of Plan Provisions

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

The general provisions of the Employees' Retirement System follow:

Contribution Rates:

Member:

Plan A: The contribution rate for Plan A is 4% of base salary up to the maximum Social Security wage base plus 5 1/3 % of base salary over the wage base.

Plan B: The contribution rate for Plan B is 5 1/3% of base salary.

Employer: The contribution rate for both plans for Fiscal Year 2010 is 9.71%.

Benefit:

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

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

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

Plans A & B

Normal Retirement:

A member is eligible for normal retirement at either age 65 with at least 5 years of creditable service or at least age 50 when the member's age plus creditable service totals 80 or more.

Summary of Plan Provisions
(continued)

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.

Deferred Retirement Option Program (DROP):
Those eligible for normal retirement may participate in DROP for up to three years. While 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 at age 50 or older when the member's age plus creditable service totals 75 or more. Reduction factors are applied to the basic formula for early retirement and no Pre-Social Security Benefit is payable.

Deferred Vested Retirement:
Deferred vested retirement is available for vested members (vesting is at 5 years of service) who leave their contributions in the System when they terminate. These members are entitled to their normal retirement benefit, at age 65, based on service with the County or a reduced benefit earlier when they reach age 50 and age plus years of creditable service equal 75.

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

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

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

Summary of Plan Provisions
(continued)

If death occurs because of a job-related illness or injury: 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.

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

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

(This Page Intentionally Left Blank)

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report

The Board of Supervisors
County of Fairfax, Virginia:

The Board of Trustees
Of the Fairfax County Employees' Retirement System

We have audited the Statement of Plan Net Assets of the Fairfax County Employees' Retirement System (the System), a pension trust fund of the County of Fairfax, Virginia as of June 30, 2010, and the related Statements 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, 2010, 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 is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

KPMG

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 22, 2010

Management's Discussion and Analysis

This section presents management's discussion and analysis of the Fairfax County Employees' Retirement System's ("System" or "plan") financial performance and provides an overview of the financial activities for the fiscal year ended June 30, 2010. 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

Financial Statements. The System presents the Statement of Plan Net Assets and Statement of Changes in Plan Net Assets as of June 30, 2010. These statements reflect the resources available for the payment of benefits as of year end and the sources and uses of these funds during the year.

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

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

Financial Analysis

Summary of Plan Net Assets. For fiscal year 2010, the assets of the Employees' Retirement System increased 21.1% resulting in a total net asset value of $2.5 billion, reflecting an increase of $430.0 million over fiscal year 2009. The growth in assets was primarily due to investment gains of $506.1 and $95.8 million in contributions offset by benefit payment deductions of $171.9 million.

The actuarial value of the assets as of the last valuation on June 30, 2009, was $2.6 billion while actuarial liabilities as of the same period were $3.5 billion. This resulted in a funded ratio of 73.6%.

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.

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

Fiscal Year	Ending Balances (billions)	Net Change in Dollars (millions)	Net Change in Percent
2009	$2.04	$(724.8)	(26.2)
2010	$2.47	$430.0	21.1

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	**2010**	**2009**	**Difference**
Total cash and investments	$2,737,386,927	$2,375,395,252	$361,991,675
Total receivables	97,083,489	100,381,015	(3,297,526)
Total assets	2,834,470,416	2,475,776,267	358,694,149
Total liabilities	365,390,326	436,724,871	(71,334,545)
Net assets held in trust	$2,469,080,090	$2,039,051,396	$430,028,694

Summary of Additions and Deductions

Additions	**2010**	**2009**	**Difference**
Contributions			
Employer	$64,069,102	$65,110,832	$(1,041,730)
Plan members	31,733,516	33,927,190	(2,193,674)
Total investment income	506,165,571	(653,558,145)	1,159,723,716
Total additions	601,968,189	(554,520,123)	1,156,488,312
Deductions			
Benefit payments	166,271,110	165,529,137	741,973
Refunds	4,075,162	3,256,153	819,009
Administrative expense	1,593,223	1,519,846	73,377
Total deductions	171,939,495	170,305,136	1,634,359
Net increase/(decrease)	$430,028,694	$(724,825,259)	$1,154,853,953

Statement of Plan Net Assets

As of June 30, 2010

Assets		
Cash and short-term investments		
Equity in County's pooled cash and temporary investments	$2,424,246	
Cash collateral received for securities on loan	240,117,512	
Short-term investment	213,005,951	
Currency fluctuations	1,457,459	
Total cash and short-term investments		$457,005,168
Receivables		
Accounts receivable	5,971,618	
Accrued interest and dividends	9,302,303	
Prepaid expense	31,484	
Securities sold	81,778,084	
Total receivables		97,083,489
Investments, at fair value		
Common & preferred Stock	692,674,528	
Fixed Income		
Asset backed securities	175,135,048	
Corporate and other bonds	311,956,219	
U.S. Government obligations	56,581,657	
Pooled and mutual funds	1,044,034,577	
Total investments		2,280,382,029
Total assets		2,834,470,686
Liabilities		
Purchase of investments	120,587,209	
Cash collateral received for securities on loan	240,117,512	
Accounts payable and accrued expenses	4,685,875	
Total liabilities		365,390,596
Net assets held in trust for pension benefits		$2,469,080,090

(A schedule of funding progress is presented on page 23.)

See accompanying notes to financial statements.

Statement of Changes in Plan Net Assets

For the year ended June 30, 2010

Additions		
Contributions		
Employer	$64,069,102	
Plan members	31,733,516	
Total contributions		$95,802,618
Investment income from investment activities		
Net appreciation/(depreciations) in fair value of investments	435,709,807	
Interest	63,232,101	
Dividends	17,500,578	
Total investment income	516,442,486	
Investment activity expense		
Management fees	(9,253,414)	
Custodial fees	(192,000)	
Consulting fees	(66,000)	
Allocated administrative expense	(717,453)	
Total investment expense	(10,228,867)	
Net income /(loss) from investment activities		506,213,619
From securities lending activities		
Securities lending income	323,466	
Securities lending expenses		
Borrower rebates	(97,287)	
Management fees	(274,227)	
Total securities lending activities expense	(371,514)	
Net income from securities lending activities		(48,048)
Total net investment income/(loss)		506,165,571
Total additions		$601,968,189
Deductions		
Annuity benefits	155,512,982	
Disability benefits	7,172,699	
Survivor benefits	3,585,429	
Refunds	4,075,162	
Administrative expense	1,593,223	
Total deductions		171,939,495
Net increase/(decrease)		430,028,694
Net assets held in trust for pension benefits		
Beginning of fiscal year		2,039,051,396
End of fiscal year		$2,469,080,090

See accompanying notes to financial statements.

Notes to the Financial Statements
For the year ended June 30, 2010

The System is considered part of the County's reporting entity and its financial statements are included in the County's basic financial statements as a pension trust fund.

A. Summary of Significant Accounting Policies
Basis of Accounting. The System's financial statements have been prepared under the accrual basis of accounting in accordance with accounting principles applicable to governmental units in the United States of America. Member and employer contributions to the System 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 System. The cost of administering the System 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 the trade date. These transactions are not finalized until the settlement date, which occurs approximately three business days after the trade date. The amounts of trade receivables and payables are shown as receivables and payables on the Statement of Plan Net Assets. Cash received as collateral on securities lending transactions and investments made with such cash are reported as assets along with a related liability for collateral received.

Equity in County's pooled cash and temporary investments. The System maintains cash with the County, which invests cash and allocates interest earned, net of a management fee, on a daily basis to the System based on the System's average daily balance of equity in pooled cash. As of June 30, 2010, the bank balance of the County's public deposits was either insured by the Federal Deposit Insurance Corporation or through the State Treasury Board pursuant to the provisions of the Security for Public Deposit Act.

B. Plan Description, Contribution Information, Plan's Funded Status, and Actuarial Methods and Assumptions
Membership. At July 1, 2009, the date of the latest actuarial valuation, membership in the System consisted of:

Retirees and beneficiaries receiving benefits	5,931
Terminated plan members entitled to but not yet receiving benefits	1342
DROP participants	418
Active plan members	14,616
Total	22,307

Plan Description. The System is a cost-sharing multiple-employer defined benefit pension plan which covers employees of the County and its component units. The plan covers full-time and certain part-time County, Public Schools, Economic Development Authority and Fairfax County Redevelopment and Housing Authority employees who are not covered by other plans of the County or the Virginia Retirement System. Benefit provisions are established and may be amended by County ordinance. All benefits vest at five years of service. To be eligible for normal retirement, an individual must meet the following criteria: (a) attain the age of 65 with five years of service, or (b) attain the age of 50 with age plus years of service being greater than or equal to 80. The normal retirement is calculated using average final compensation (i.e., the highest consecutive three years) and years, or partial years, of service at date of termination. The plan provides that unused sick leave credit may be used in the calculation of average final compensation by projecting the final salary during the unused sick leave period. Members eligible for normal retirement have the option of participating in a deferred retirement option program (DROP). Participating members continue working up to an additional three years after eligibility for normal retirement. In lieu of continuing to earn service credit, DROP members accrue a lump sum benefit. The benefit for early retirement is actuarially reduced and payable at early termination.

Annual cost-of-living adjustments are provided to retirees and beneficiaries equal to the lesser of 4 percent or the percentage increase in the Consumer Price Index for the Washington-Consolidated Metropolitan Statistical Area.

Contributions. The contribution requirements of the System members are established and may be amended by County ordinances. Members may elect to join Plan A or Plan B. Plan A requires member contributions of 4 percent of compensation up to the social security wage base and 5.33 percent of compensation in excess of the wage base. Plan B requires member contributions of 5.33 percent of compensation. The County is required to contribute at an actuarially determined rate; the rates for the years ended June 30, 2010 and 2009 were 9.71 percent and 9.62 percent, respectively, of annual covered payroll.

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

System's Funded Status Information. The actuarial valuation performed as of July 1, 2009 showed the System's funded status at 73.6%, a decline from the July 1, 2008 funded percentage of 82.7%. 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 Actuarial Accrued Liability as a % of Covered Payroll
	(a)	**(b)**	**(b-a)**	**(a/b)**	**(c)**	**((b-a)/c)**
7/1/2009	$2,603,283,631	$3,535,873,545	$932,589,914	73.6%	$628,481,359	148.4%

The required Schedule of Funding Progress which presents multiyear trend information is reported immediately following the financial statement notes.

Actuarial Methods and Assumptions.

Valuation date	July 1, 2009
Actuarial cost method	Entry Age
Amortization method	Level percent open
Remaining amortization period	15 years
Asset valuation method	3-year smoothed
Actuarial assumptions:	
Investment rate of return *	7.5%
Projected salary increases *	4.0% - 6.5%
* Includes inflation at	4.0%
Cost of living adjustments	3.0%

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

The rate of employer contributions to the System 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 System's actual administrative expenses.

The actuarial valuation performed as of July 1, 2009 in accordance with the GASB methodology resulted in a contribution rate of 18.63% for fiscal 2011, an increase of 4.57% over the fiscal 2010 rate of 14.06%. 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 90.0% and 120.0%. Use of the corridor method, with adjustments for plan changes effective after the valuation date, resulted in a rate of 14.22%. The decision was made to commit additional funding for fiscal 2011 and a rate of 14.70% was adopted, an increase of 4.51 percentage points over the fiscal year 2010 adopted rate of 9.71%.

C. Investments

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

The System has adopted the Employees' Retirement System Investment Policy Statement to provide a well-managed investment program to meet the long-term needs of the System. Investment decisions for these assets are made by the Board of Trustees or investment managers selected by the Board. The overall investment policies do not address specific levels of credit risk, interest rate risk or foreign currency risk. The Board of Trustees believes that risks can be managed, but not eliminated, by establishing constraints on the investment portfolio and by properly monitoring the investment markets, the System's asset allocation and the investment managers hired by the System. Each individual investment portfolio is managed by an investment management firm selected by the Board. Each investment manager has a specific benchmark and investment guidelines appropriate for the type of mandate they are managing and that fit within the total risk tolerance of the fund. The interest rate risk for the fixed income accounts is controlled by limiting the credit quality of the securities held and the duration of the portfolio against the duration of the benchmark. While the System is not subject to the provisions of the Employment Retirement Income Security Act (ERISA), the Board wishes to comply with the spirit of ERISA to the extent that it does not conflict with the Code of Virginia. The investment policy states that the securities of any one issuer shall not exceed 10.0% at market value. At June 30, 2010 the System did not have investments (other than U.S. Government and U.S. Government guaranteed obligations) in any one organization that represented 5 percent or more of net assets available for benefits. All investments, except for the pooled and mutual funds, short-term investment fund and a short-term collateral investment pool are held by an unaffiliated custodian. There is no custodial credit risk since the custodian's records establish the System's interest in the securities.

The System's investment quality ratings at June 30, 2010 were as follows:

Type of Investment	Fair Value	Ratings	Percent of Fixed
U. S. Government Obligations	$56,581,657	AAA	10.4%
Corporate and other bonds	28,845,162	AAA	5.3%
	9,548,798	AA	1.8%
	38,095,341	A	7.0%
	20,283,865	BBB	3.7%
	48,902,904	BB	9.0%
	95,237,870	B	17.5%
	25,058,970	CCC	4.6%
	660,250	CC	0.1%
	-	C	0.0%
	371,094	D	0.1%
	44,951,966	UNRATED	8.3%
Asset Backed	86,186,837	AAA	15.9%
	4,226,980	AA	0.8%
	2,542,331	A	0.4%
	2,317,359	BBB	0.4%
	3,681,919	BB	0.7%
	8,132,614	B	1.5%
	30,222,625	CCC	5.6%
	10,019,690	CC	1.8%
	4,381,900	D	0.8%
	23,422,794	UNRATED	4.3%
Total Fixed Income	**$543,672,924**	BBB	100.0%
Short Term	$10,995,266	AAA	
	202,010,685	UNRATED	
Total Short Term	**$213,005,951**		

As of June 30, 2010 the fixed income portfolio, excluding pooled funds, exhibited an overall credit quality rating of "BBB", and approximately 41.7% of the total fixed income portfolio was invested in below-investment-grade securities.

The Barclays Capital Aggregate Bond Index (BCAG) is the standard benchmark against which the industry and the System's Board measures its fixed income portfolio performance and volatility. The System's fixed income managers have discretion, within circumscribed limits, to extend the duration of their portfolios beyond that of the BCAG if they forecast falling interest rates (and thus higher bond prices). Conversely, if managers anticipate that the general level of interest rates will rise, they have the ability to shorten the duration of their portfolio, thus reducing the portfolio's sensitivity to rising rates.

The System's investments' sensitivity to interest rates at June 30, 2010 follows:

Investment Type	Fair Value	Option - Adjusted Duration (yrs)	Percentage of Fixed
U. S. Government Obligations	$56,581,657	5.9	10.4%
Corporate and other bonds	311,956,219	4.7	57.4%
Asset-Backed	175,135,048	3.2	32.2%
Total Fixed Income	**$543,672,924**	4.3	100.0%
Short-Term Investments	**$213,005,951**	0.1	

As of June 30, 2010, duration of the System's overall fixed income portfolio excluding pooled funds was 4.3 years compared with the 4.3 year 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, 2010 held in currencies other than US dollars were as follows:

International Securities	Short Term & Other	Equity	Convertible and Fixed Income	Total
Euro Currency Unit	$2,179,203	$39,096,986	$6,054,399	$47,330,588
British Pound Sterling	1,197,831	27,025,127	7,150,775	35,373,733
Japanese Yen	1,546,073	29,043,460	191,660	30,781,193
Australian Dollar	682,325	14,405,179	12,061,224	27,148,728
Hong Kong Dollar	9,020	17,682,277	-	17,871,297
Canadian Dollar	491,481	6,531,755	4,255,873	11,279,109
Swiss Franc	96,905	9,942,945	-	10,039,850
Singapore Dollar	62,325	6,806,541	-	6,868,866
Polish Zloty	34,897	1,034,925	5,491,744	6,561,566
Other Currencies	360,273	13,738,256	35,376,396	49,474,925
Total International	**$6,660,333**	**$165,487,451**	**$70,582,071**	**$242,729,855**

Derivative Financial Instruments. In accordance with the Board's investment policies, the System regularly invests in derivative financial instruments with off-balance-sheet risk in the normal course of its investing activities to 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 2010, 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 mutual and commingled funds which may use, hold or write derivative financial instruments.

As permitted by the Board's policies, the System holds derivatives with off balance sheet exposure. As of June 30,2010, the net exposure for currency forwards and swaps is $21.6 million and for futures and swaps is $33.8 million.

Securities Lending. Board of Trustees' policies permit the System to lend its securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The System's custodian is the agent in lending the plan's domestic securities for collateral of 102.0 percent and international securities of 105.0 percent of fair value. The custodian receives cash or securities as collateral from the borrower. All securities loans can be terminated on demand by either the System or the borrower. Cash collateral is invested in the lending agents' collective collateral investment pool, which at June 30, 2010 had a weighted average maturity of 25 days.

The following represents the balances relating to the securities lending transactions at June 30, 2010.

Securities Lent	Underlying Securities	Cash Collateral Investment Value	Securities Collateral Investment Value
Lent for cash collateral:			
U.S. Government securities	$22,321,430	$22,777,244	
Corporate and other bonds	68,203,519	69,850,766	
Common and preferred stock	143,415,245	147,489,502	
Lent for securities collateral:			
Corporate and other bonds	2,040,981		$2,091,199
Common and preferred stock	21,653,790		24,282,369
Total	**$257,634,965**	**$240,117,512**	**$26,373,568**

The System did not impose any restrictions during fiscal 2010 on the amounts of loans the lending agent made on its behalf. At year end, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts the borrowers owed the System. The custodian provides full indemnification to the System for any losses that might occur in the program due to the failure of a broker/dealer to return a borrowed security or failure to pay the System income earned on the securities while on loan.

D. Income Taxes

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

Required Supplementary Information

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

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (in thousands) (a)	Actuarial Accrued Liability-AAL Entry Age (in thousands) (b)	Unfunded AAL-UAAL (in thousands) (b-a)	Funded Ratio (a/b)	Covered Payroll (in thousands) (c)	UAAL as a Percentage of Covered Payroll (in thousands) ((b-a)/c)
7/1/2003	$1,903,970	$2,251,187	$347,217	84.58%	$530,216	65.5%
7/1/2004	2,030,539	2,411,135	380,596	84.22%	552,738	68.9%
7/1/2005	2,202,515	2,676,418	473,903	82.29%	565,063	83.9%
7/1/2006	2,363,844	2,881,780	517,936	82.03%	574,294	90.2%
7/1/2007	2,596,658	3,139,187	542,529	82.72%	579,075	93.7%
7/1/2008	2,752,874	3,328,901	576,027	82.70%	610,877	94.3%
7/1/2009	2,603,284	3,535,874	932,590	73.62%	628,481	148.4%

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
2004	$51,992,031	66%
2005	67,996,277	69%
2006	74,548,972	66%
2007	81,551,794	70%
2008	89,480,173	70%
2009	95,052,308	69%
2010	92,771,532	69%

Capital Markets and Economic Conditions

Fiscal Year 2010 Economic Environment

The fiscal year ending 2010 witnessed a year of gradual recovery following the deepest recession since the Great Depression of the 1930s. The 2007-2009 recession wiped out 7.3 million jobs, cut 4.1% from economic output and cost Americans 21% of their net worth. Equity markets, anticipating the economic recovery, troughed in February of 2009 and began a year-long climb that retraced nearly 75% of the recessionary decline, while the economy sputtered at a subpar rate of growth. The recession officially ended in June of 2009, which marked the beginning of our 2010 fiscal year. During the initial quarters of the recovery in fiscal 2010, optimism was strong that with rock bottom interest rates and numerous government stimulus programs, the economy could stage a solid recovery. However, by the end of the fiscal year in June 2010, this optimism had waned as unemployment remained stubbornly high, businesses and consumers continued to deleverage their balance sheets, and no answers were found to alleviate the mortgage crisis.

During the final quarter of the year, concerns that Greece would default on its debt shook global bond markets. Fears that other European countries might be in similarly poor situations led to a flight to quality and appreciation in the U.S. Dollar and U.S. Treasuries. Other events during the quarter also dented investor confidence, including the U.S. financial reform debates, the BP Gulf of Mexico oil spill, charges of fraud brought by the SEC against Goldman Sachs and signs of slowing growth in China.

During the past fiscal year the Federal Open Market Committee (FOMC) held rates at the target range of 0.0% to 0.25%, as it saw little risk of near-term inflation. Core inflation declined over the last year from 1.7% to 0.9%.

Equity Markets

Equity markets were positive across the board. The S&P 500 Index gained 14.4% for the fiscal year, in spite of a decline in the final fiscal quarter of 11.4%, as prices fizzled after peaking in April of 2010. Small capitalization stocks outperformed large capitalization stocks, as the Russell 2000 Index returned 21.5% during the year. For the fiscal year, value stocks outperformed growth stocks. The two best performing economic sectors during the year were industrials and consumer discretionary, both of which gained over 26%. The energy sector was the worst performing sector among large cap U.S. stocks, gaining 3.5% for the fiscal year.

The international developed equity markets underperformed the domestic markets in fiscal 2010. The MSCI EAFE Index returned 6.4%, trailing the S&P 500 Index by around 8 percentage points. The rebound of developed international countries from the bottom was hindered by lingering effects of the financial crisis, problems with sovereign balance sheets including Greece and a resurgence of double-dip recession fears. Again in 2010, a strengthening U.S. dollar detracted from returns for U.S.-based investors. Emerging markets were the bright spot in 2010, outperforming all major equity markets with a gain of 23.5% for the year. However, emerging market countries had an uneven ride gaining 31.4% in the first half of the fiscal year and then declining 6.0% in the last two quarters of the year.

Real Estate Markets

Real estate markets were particularly volatile over the past two fiscal years. Public REIT markets, which reacted immediately to the recession by falling over 70%, achieved a sharp rebound in fiscal 2010 as investors realized that REITs possessed reasonable balance sheets, retained access to capital markets, and would be in a prime position to take advantage of distress in the commercial property marketplace. The FTSE NAREIT Index gained 53.9% for the year. Private real estate markets, on the other hand, have experienced a gradual decline in valuations throughout the two year period as occupancies and rents have continued to slide lower.

Fixed Income Markets

Fixed income markets performed well for the fiscal year. After starting the year with extremely high interest rates for corporate and other higher-risk bonds, the Barclays Capital Aggregate Bond Index returned 9.5% for the year. Corporate bond spreads decreased during the year as investors seized on the opportunity to take advantage of market dislocations stemming from the financial crisis. However, the market tone changed during the final fiscal quarter as resurgent economic concerns drove investors back into the safety of Treasury bonds. Despite this move, corporate bonds outperformed government bonds during the year 14.7% to 6.5%, as measured by the Barclays Capital Credit Index and Barclays Capital Government Index, respectively. Lower quality issues rallied during the year as the Barclays Capital High Yield Composite Index gained 26.8%.

Employees' System

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

For fiscal 2010, investments provided a return of 25.7%, gross of fees (25.2%, net of fees), reflecting the recovery of the economic environment. The System's annualized rates of return, gross of fees, were -0.8% (-1.2%, net of fees) over the last three years and 4.2%, (3.8%), over the last five years. These System returns ranked in the 1st percentile of The Bank of New York Mellon universe of public plans in 2010, in the 11th percentile for the latest 3-year period, and in the 13th 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 terminated TCW, due to major changes in its organization structure, and hired DoubleLine Capital to manage mortgage-backed securities in the fixed income allocation. The System also added The Gramercy Argentina Bond Fund and JP Morgan Global Maritime Investment Fund to take advantage of pricing dislocations in these distressed markets.

Investments by Category and Investment Manager

June 30, 2010

Asset Class / Manager	Investment Style	Total Assets	% of Total Net Assets
Domestic Equities			
DePrince, Race & Zollo	Large Cap Value	$78,009,321	3.2%
Enhanced Inv. Technologies (INTECH)	Large Cap Growth	78,404,194	3.2%
Pzena Investment Management	Large Cap Value	76,745,729	3.1%
Sands Capital Management	Large Cap Growth	33,222,773	1.3%
Columbia Wanger Asset Management	Small/Mid Cap Core	115,268,892	4.7%
International Equities			
LSV Asset Management	Developed Markets Value	58,338,330	2.4%
Artio Investment Management	Developed Markets	64,065,583	2.6%
Marathon Asset Management*	Developed Markets	31,529,899	1.3%
BGI Emerging Markets Fund *	Emerging Markets Index	23,304,714	0.9%
TCW Worldwide Opportunity Fund*	Emerging Markets	39,915,567	1.6%
Fixed Income			
Bridgewater Associates	Enhanced TIPS Index	245,687,661	10.0%
Bridgewater Associates	Enhanced Multi-Asset Real Return	298,999,197	12.1%
Brandywine Asset Management	Global Bonds	119,415,973	4.8%
JPMorgan*	Fixed Income Opportunity Fund	21,574,625	0.9%
DoubleLine Capital	Mortgage-Backed Securities	131,917,220	5.3%
DoubleLine Capital	Special Mortage Credit	27,077,254	1.1%
Trust Company of the West*	Special Mortage Credit	181,442	0.0%
Gramercy Distressed Opportunity Fund*	Distressed Opportunity	13,266,836	0.5%
Gramercy Argentina Debt	Distressed Opportunity	9,746,328	0.4%
JPMorgan Global Maritime Fund*	Distressed Opportunity	160,017	0.0%
Pacific Investment Management Co. (PIMCO)*	Distressed Opportunity	37,687,994	1.5%
Post Advisory	High Yield Bonds	65,779,871	2.7%
MacKay Shields	High Yield Bonds	66,238,383	2.7%
Shenkman Capital Management	High Yield Bonds	65,806,303	2.7%
Alternative Investments			
Cohen & Steers Capital Management	US Real Estate Inv. Trusts	125,515,713	5.1%
Cohen & Steers Capital Management	Int'l Real Estate Securities	56,407,504	2.3%
Pacific Investment Management Co. (PIMCO)	Collateralized Commodity Futures	138,941,099	5.6%
Absolute Return			
BGI GlobalAlpha Fund*	Global Bonds	70,621,134	2.9%
BGI Global Ascent Fund*	Global Macro Absolute Return Fund	53,385,416	2.2%
Deephaven Capital Management*	Multi-Strategy Absolute Return Fund	4,485,060	0.2%
Deerfield Capital Management	Long/Short Duration Mgt.	38,035,574	1.5%
First Quadrant Partners*	Global Macro Absolute Return Fund	42,252,196	1.7%
FrontPoint Partners*	Multi-Strategy Absolute Return Fund	47,677,080	1.9%
Pacific Investment Management Co. (PIMCO)	Global Credit	64,926,883	2.6%
Short-term			
The Clifton Group	Policy Implementation Overlay	46,975,002	1.9%
BNY Mellon Cash Investment Strategies	Plan Level Cash Accounts	73,770,318	3.0%
Cash Held at County Treasurer	Operating Cash Account	2,424,246	0.1%
Total Investments		**$2,467,761,331**	**100.0%**

* Pooled fund

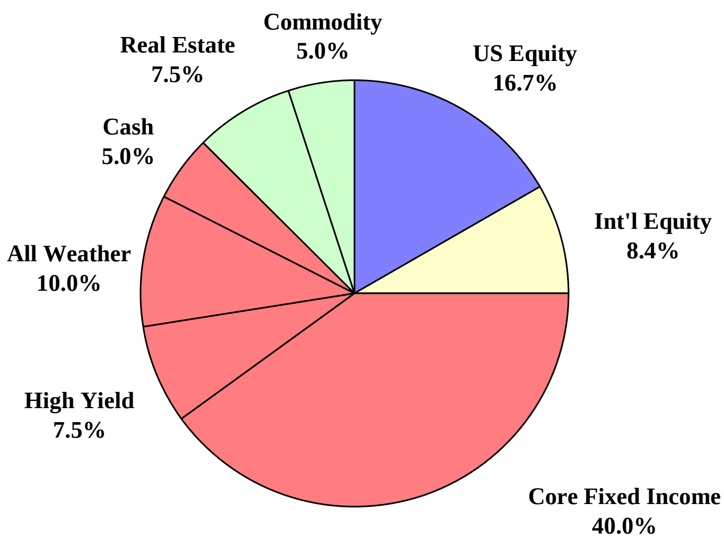
Employees' Retirement System – Allocation of Market Exposures

Target Asset Allocation

The asset structure shown below represents the Trustees' assessment of their optimal asset allocation as of June 30, 2010. The target asset allocation provides a reasonable expectation that the System's investment objective can be achieved based on historic 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, 2010.

Target Asset Allocation
(based on market exposures)



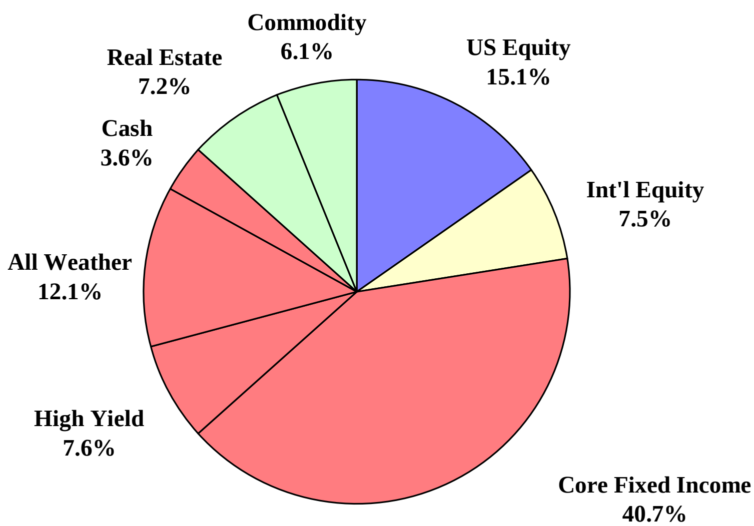
*Asset Allocation includes cash securitization and absolute return strategies overlays.

Actual Asset Allocation as of June 30, 2010

The asset structure of ERS 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, 2010.

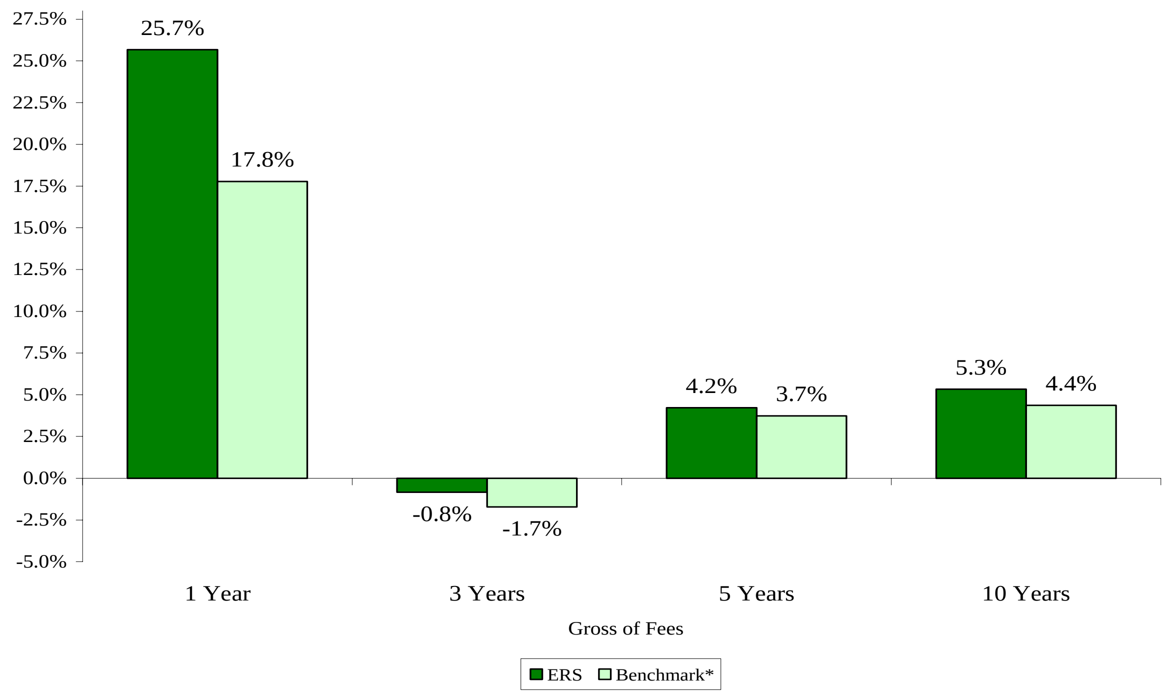
Actual Asset Allocation
(based on market exposure)



*Asset Allocation includes cash securitization and absolute return strategies overlays.

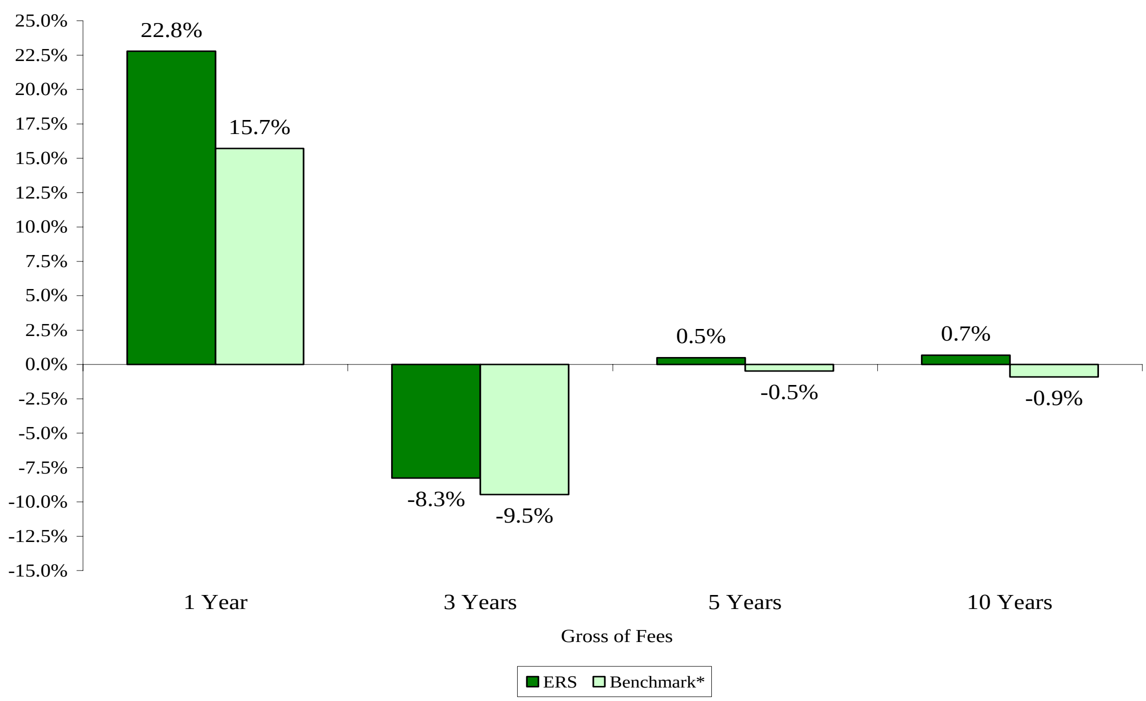
Investment Results

Total Fund:



*Benchmark: 20% Russell 3000, 7% EAFE, 3% MSCI EMI, 3.75% CSFB High Yield, 3.75% ML High Yield Master, 50% Barclays Agg x 1.5 – 3 Month LIBOR x 0.5, 7.5% NAREIT, 5% DJ UBS Commodity

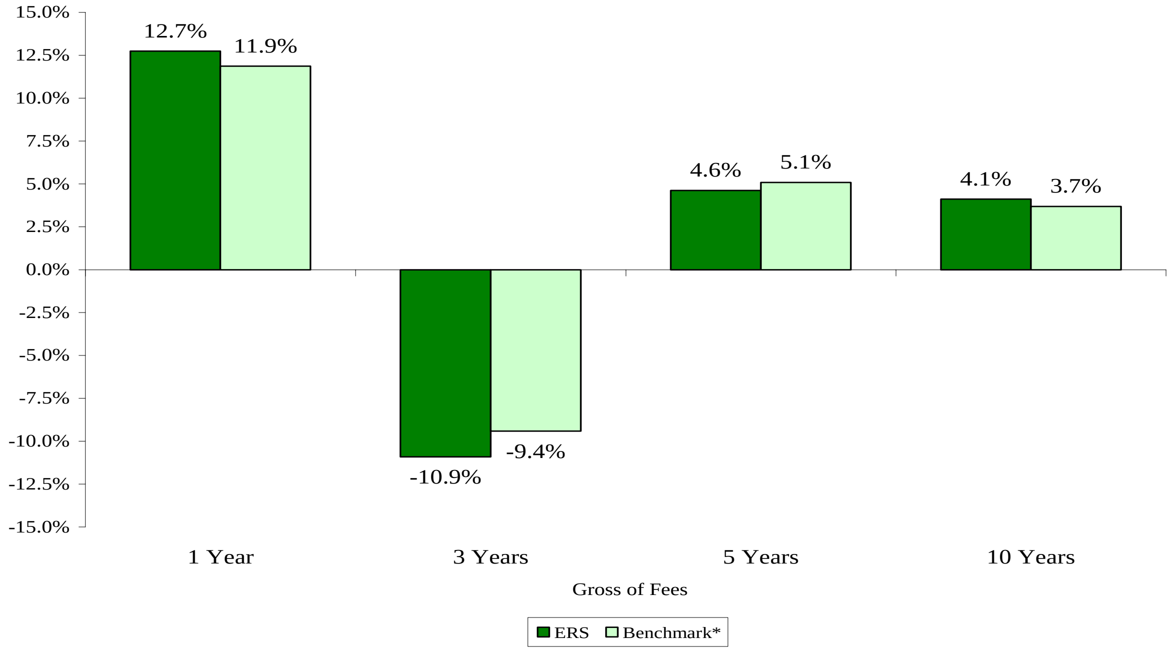
Domestic Equity:



*Benchmark: Russell 3000

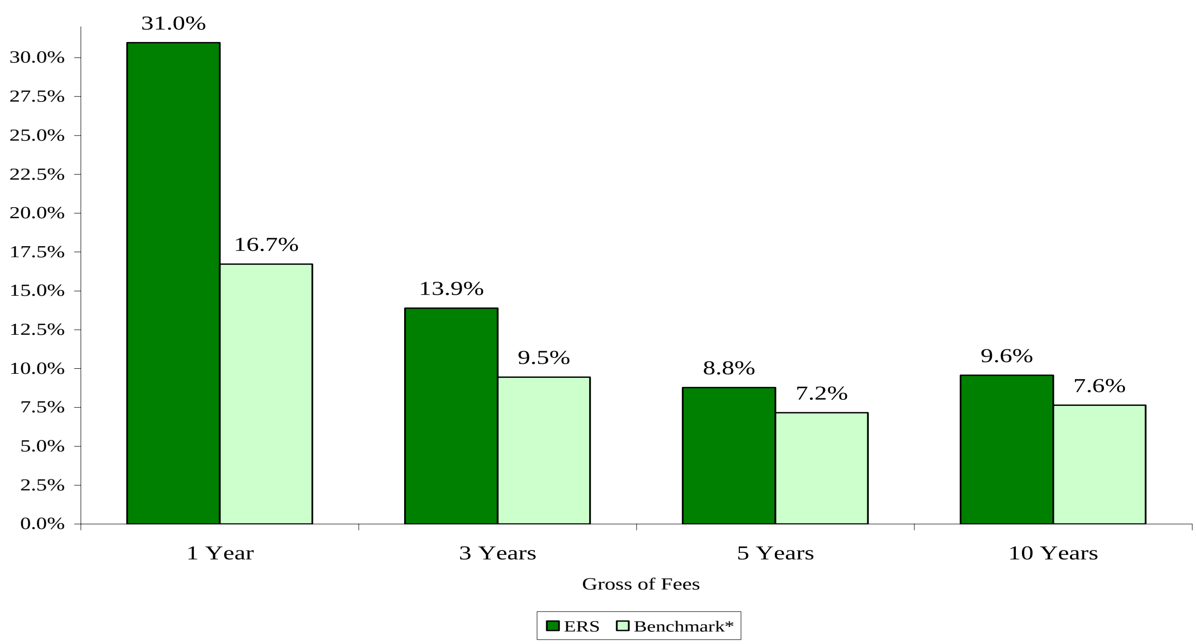
Investment Results

International Equity:



*Benchmark: 67% MSCI EAFE, 33% MSCI EM

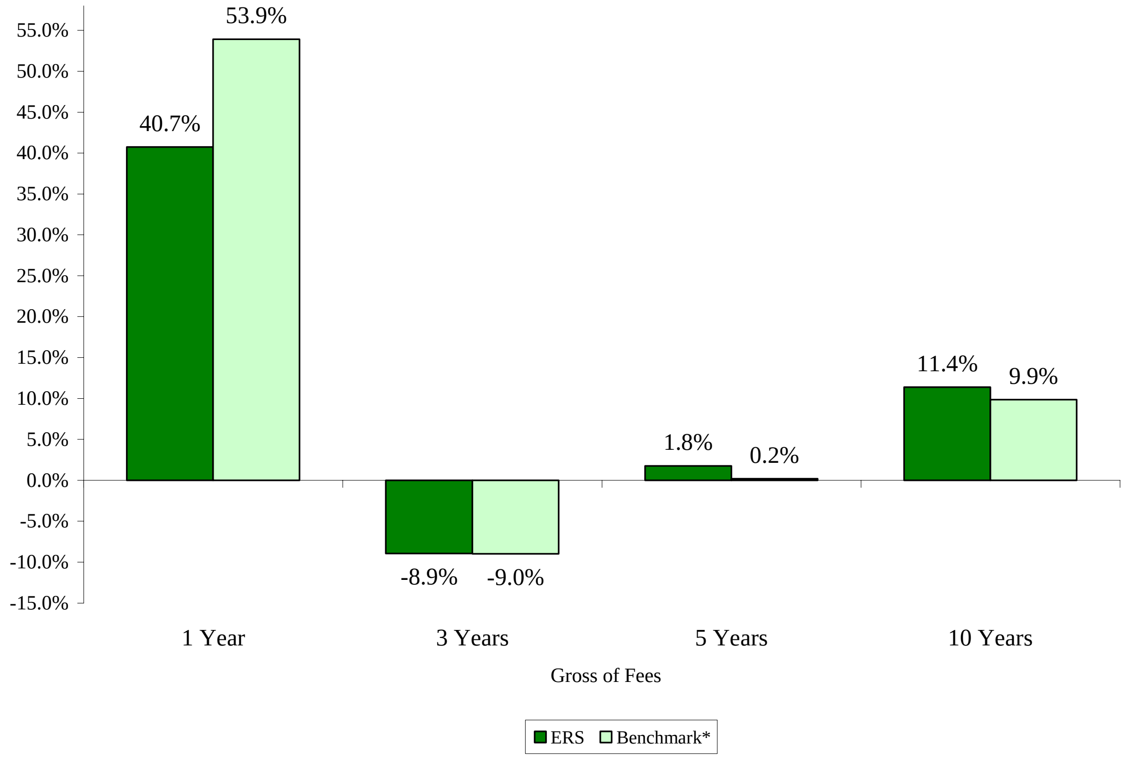
Fixed Income:



*Benchmark: 81.25% Barclays Agg x 1.5 – 3 Month LIBOR x 0.5, 9.375% CSFB High Yield, 9.375% ML High Yield Master

Investment Results

Real Estate:



*Benchmark: NAREIT Equity Share Price Index

Schedule of Ten Largest Equity & Fixed Income Holdings

Ten Largest Equity Holdings

No. Shares	Description	Cost	Fair Value	% of Total Portfolio
151,051	Simon Property Group Inc	$9,585,498	$12,197,368	0.49%
116,347	Exxon Mobil Corp	8,303,854	6,639,923	0.27%
26,071	Apple Inc	3,278,592	6,557,639	0.27%
71,477	Public Storage	5,115,605	6,283,543	0.25%
140,983	Equity Residential	4,958,754	5,870,532	0.24%
75,425	Vornado Realty Trust	4,401,570	5,502,254	0.22%
73,780	Boston Properties Inc	5,019,192	5,263,465	0.21%
330,908	Sun Hung Kai Properties	4,419,613	4,563,867	0.18%
198,185	Microsoft Corp	5,570,372	4,560,237	0.18%
144,500	Allstate Corp	5,954,144	4,151,485	0.17%
	Total	**$56,607,193**	**$61,590,313**	**2.48%**

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
7,846,860	U.S. Treas-CPI Inflation Index, 1.875%, 07/15/2015	$8,323,694	$8,407,754	0.34%
7,550,000	U.S. Treasury Bond, 4.500%, 05/15/2038	8,364,709	8,327,424	0.34%
8,735,000	New South Wales Treasury Corp, 5.500%, 03/01/2017	6,671,723	7,424,898	0.30%
5,291,661	U.S. Treas-CPI Inflation Index, 2.500%, 07/15/2016	5,862,015	5,888,613	0.24%
6,028,000,000	Korea (Republic of), 5.750%, 09/10/2018	5,469,807	5,203,630	0.21%
4,744,302	U.S. Treas-CPI Inflation Index, 0.625%, 04/15/2013	4,814,550	4,841,797	0.20%
6,719,545	Bear Stearns Asset Backed, Var Rt, 02/25/2036	4,255,437	4,806,020	0.19%
29,860,000	Norway (Kingdom of) Bonds, 6.000%, 05/16/2011	5,302,819	4,739,985	0.19%
6,100,000	Poland (Republic of), 5.250%, 10/25/2017	5,849,045	4,648,026	0.19%
3,995,845	U.S. Treas-CPI Inflation Index, 1.625%, 01/15/2015	4,190,917	4,218,134	0.17%
	Total	**$59,104,717**	**$58,506,281**	**2.37%**

Schedule of Brokerage Commissions

Year Ended June 30, 2010

Broker Name	Base Volume	Total Shares	Base Commission	Commission Percentage
JP Morgan Secs Asia Pacific, Hong Kong	$5,893,547	3,180,131	$15,352	0.26%
RBC Capital Markets Corp, Minneapolis	8,206,768	586,373	16,693	0.20%
Macquarie Securities Limited, Hong Kong	10,822,260	5,145,797	17,714	0.16%
Stifel Nicolaus	15,315,855	773,914	24,493	0.16%
Wells Fargo Securities LLC, Charlotte	7,183,505	450,446	11,309	0.16%
Barclays Capital Inc./Le, New Jersey	15,022,865	725,034	23,181	0.15%
Citigroup Gbl Mkts/Salomon, New York	10,743,949	2,856,850	16,435	0.15%
Morgan J P Secs Inc, New York	7,297,784	398,746	11,145	0.15%
Baird, Robert W & Co Inc, Milwaukee	7,863,553	385,842	12,000	0.15%
Morgan Keegan & Co Inc, Memphis	5,609,069	262,666	8,172	0.15%
National Finl Svcs Corp, New York	6,332,389	293,885	9,153	0.14%
Merrill Lynch Pierce Fenner, Wilmington	11,044,348	3,179,223	15,884	0.14%
Pershing LLC, Jersey City	29,819,085	1,324,762	42,338	0.14%
Ubs Warburg Asia Ltd, Hong Kong	13,674,777	5,658,398	19,312	0.14%
Goldman Sachs & Co, NY	126,694,525	5,899,740	178,356	0.14%
Keybanc Capital Markets Inc, New York	9,586,775	376,689	13,090	0.14%
J P Morgan Secs Ltd, London	8,504,473	1,335,091	11,494	0.14%
Bernstein Sanford C & Co, New York	6,714,915	310,481	8,805	0.13%
Raymond James & Assoc Inc, St Petersburg	8,328,419	503,873	10,828	0.13%
BNY Convergex, New York	57,519,130	2,411,711	74,722	0.13%
Liquidnet Inc, Brooklyn	22,248,205	1,016,555	28,589	0.13%
Abel Noser Corp, New York	8,522,350	303,800	10,379	0.12%
Nomura Secs Intl Inc, New York	10,037,896	1,397,055	11,936	0.12%
Morgan Stanley & Co Inc, NY	50,748,959	5,594,888	54,694	0.11%
Citigroup Gbl Mkts Inc, New York	24,251,413	1,115,861	25,767	0.11%
Merrill Lynch Pierce Fenner Smith Inc NY	140,695,775	5,460,525	147,965	0.11%
Barclays Capital Le, Jersey City	15,204,593	690,013	15,885	0.10%
Merrill Lynch Intl London Equities	8,341,406	1,144,445	8,552	0.10%
BNY Convergex / LJR, Houston	41,075,184	1,597,917	42,095	0.10%
J.P. Morgan Clearing Corp, New York	63,612,922	3,909,001	62,118	0.10%
Knight Sec Broadcort, Jersey City	7,018,831	234,125	6,805	0.10%
Deutsche Bk Secs Inc, NY	72,797,495	6,115,443	67,599	0.09%
UBS Securities LLC, Stamford	44,144,378	1,618,143	40,990	0.09%
Jefferies & Co Inc, New York	30,701,826	1,418,966	27,948	0.09%
Jonestrading Instl Svcs LLC, Westlake	6,702,544	271,450	6,080	0.09%
Credit Suisse (Europe), London	6,746,706	551,666	6,048	0.09%
Cap Instl Svcs Inc-Equities, Dallas	23,955,141	769,497	20,327	0.08%
UBS Equities, London	11,864,593	1,660,718	9,859	0.08%
Credit Suisse, New York	111,394,024	11,350,825	82,205	0.07%
Frank Russell Securities, Jersey City	6,335,922	201,700	4,034	0.06%
SG Sec (London) Ltd, London	7,951,850	361,349	4,641	0.06%
Instinet Corp, NY	30,903,286	901,096	17,813	0.06%
Goldman Sachs Execution & Clearing, NY	22,500,844	791,374	12,679	0.06%
Weeden & Co, New York	40,570,364	1,165,116	22,449	0.06%
Barclays Capital, London	15,685,561	1,775,261	8,478	0.05%
Sanford C Bernstein & Co Inc, London	12,172,788	1,411,700	6,296	0.05%
Rosenblatt Securities LLC, Jersey City	11,100,390	290,300	5,550	0.05%
Guzman & Co, New York	13,440,333	351,745	6,720	0.05%
WJB Capital Group Inc, New York	5,477,595	114,963	2,299	0.04%
Mellon Financial Mrkts LLC, Jersey City	17,000,003	411,513	4,115	0.02%
Other Brokers	186,911,787	38,968,546	261,148	0.14%
Total	**$1,442,292,953**	**129,025,208**	**$1,572,542**	**0.11%**

Investment Summary
(Based on Capital Allocation)

	As of June 30, 2009		As of June 30, 2010	
	Market Value	**% Market Value**	**Market Value**	**% Market Value**
Domestic Equities	$336,821,749	16.5%	$381,650,910	15.5%
International Equities	225,399,964	11.1%	217,154,093	8.8%
Fixed Income	818,938,297	40.2%	1,103,539,102	44.7%
Alternative Investments	290,889,610	14.3%	320,864,316	13.0%
Absolute Return	328,002,951	16.1%	321,383,345	13.0%
Short-term	37,155,502	1.8%	123,169,566	5.0%
Total	**$2,037,208,073**	**100.0%**	**$2,467,761,331**	**100.0%**

Schedule of Direct Investment Management Fees

Year Ended June 30, 2010

Asset Class Manager	Investment Style	Total Assets	Fees
Domestic Equities			
DePrince, Race & Zollo	Large Cap Value	$78,009,321	$ 341,836
Enhanced Inv. Technologies (INTECH)	Large Cap Growth	78,404,194	424,010
Pzena Investment Management	Large Cap Value	76,745,729	425,786
Sands Capital Management	Large Cap Growth	33,222,773	279,130
Columbia Wanger Asset Management	Small/Mid Cap Core	115,268,892	746,164
International Equities			
LSV Asset Management	Developed Markets Value	58,338,330	471,766
Artio Investment Management	Developed Markets	64,065,583	404,399
Marathon Asset Management	Developed Markets	31,529,899	296,298
Fixed Income			
Brandywine Asset Management	Global Bonds	119,415,973	453,485
Trust Company of the West*	Mortgage-Backed Securities	-	1,039,027
DoubleLine Capital	Mortgage-Backed Securities	131,917,220	195,587
DoubleLine Capital	Special Mortage Credit	27,077,254	24,161
Gramercy Argentina Debt	Distressed Opportunity	9,746,328	72,813
Post Advisory	High Yield Bonds	65,779,871	123,046
MacKay Shields	High Yield Bonds	66,238,383	296,742
Shenkman Capital Management	High Yield Bonds	65,806,303	323,583
Alternative Investments			
Cohen & Steers Capital Management	US Real Estate Inv. Trusts	125,515,713	600,893
Cohen & Steers Capital Management	Int'l Real Estate Securities	56,407,504	417,002
Pacific Investment Management Co. (PIMCO)	Collateralized Commodity Futures	138,941,099	493,525
Absolute Return			
BGI GlobalAlpha Fund	Global Bonds	70,621,134	991,223
Deerfield Capital Management	Long/Short Duration Mgt.	38,035,574	339,852
Short-term			
The Clifton Group	Policy Implementation Overlay	46,975,002	368,415
BNY Mellon Cash Investment Strategies	Plan Level Cash Accounts	73,770,318	124,671
Total		**$ 1,571,832,396**	**$ 9,253,414**

* Terminated during FY 2010

CHEIRON Classic Values, Innovative Advice

March 3, 2010

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

Dear Members of the Board:

At your request, we have conducted our annual actuarial valuation of the Fairfax County Employees' Retirement System as of July 1, 2009. The results of the valuation are contained in this report.

Funding Objective

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

Assumptions

The actuarial assumptions used in performing the July 1, 2009 valuation were recommended by the actuary and adopted by the Board of Trustees based on our most recent review of the System's experience for the five year period ending June 30, 2005. The assumptions reflect our understanding of the likely future experience of the System and the assumptions as a whole represent our best estimate for the future experience of the System. The results of this report are dependent upon future experience conforming to these assumptions. To the extent that future experience deviates from these assumptions, the true cost of the System could vary from our results.

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

Reliance on Others

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

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

CHEIRON Classic Values, Innovative Advice

March 3, 2010
Fairfax County Employees' Retirement System
Page 2

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

We are responsible for the 2004 through 2009 information in the Schedule of Funding Progress, Schedule of Employer Contributions and Notes to Trend Data shown in the Financial Section.

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

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

I certify that, to the best of my knowledge and understanding, the Fairfax County Employees' Retirement System satisfies the requirements of the Code of Virginia §51.1-800.

Certification
I, Fiona Liston, am a consulting actuary for Cheiron. I am also a member of the American Academy of Actuaries and meet their Qualification Standards to render the actuarial opinion contained herein.

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

Sincerely,
Cheiron

Fiona E. Liston

Fiona E. Liston, FSA
Consulting Actuary

Summary of Valuation Results

Overview

This report presents the results of the July 1, 2009 actuarial valuation of the Fairfax County Employees' Retirement System. The primary purposes of performing the annual actuarial valuation are to:

- Measure and disclose, as of the valuation date, the financial condition of the Plan;
- Indicate trends in the financial progress of the Plan;
- Determine the contribution rate to be paid by the County for Fiscal Year 2011;
- 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

The employer's annual contribution to this System is determined by using a corridor funding method. Under this funding approach, the County's contribution rate is based on the normal cost rate plus expense rate determined as of the implementation date of the corridor method (July 1, 2001) 5.85% of payroll plus an expense rate, currently 0.15% of payroll. This rate is adjusted for benefit and assumption changes, but otherwise will remain the same as long as the System's actuarial funded ratio remains within a corridor of 90% to 120%.

The employer 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 0.10% and the UAL rate has increased by 1.47%, the specific changes are summarized in the table below:

	Impact on	
Changes Since 2001	**Normal Cost Rate**	**UAL Rate**
2002 ad-hoc COLA	N/A	+ 0.13%
2005 Assumption Changes	+ 0.05%	+ 1.23%
2006 DROP Implementation	+ 0.03%	+ 0.10%
2006 DPSC Conversion	N/A	- 0.04%
2007 Reduce Disability Offset	+ 0.01%	+ 0.03%
2008 Reduce Disability Offset	+ 0.01%	+ 0.02%
Total Increase	+ 0.10%	+ 1.47%

The basic corridor funding contribution is currently 7.57% of payroll. The normal cost rate and actuarial accrued liability will continue to be measured using the entry age funding method. If the funded status falls outside the corridor, a credit (if above 120%) or charge (if below 90%) will be established based on a 15-year amortization equal to the amount necessary to re-enter the corridor. Once the funded status is within the corridor, the contribution rate will return to the normal cost rate plus expense rate, and any remaining amortization for benefit or assumption changes.

The valuation as of July 1, 2009 shows that the actuarial funded ratio of this System (including a credit for the amortization piece of prior benefit increases and assumption changes) remains out of the corridor.

The County's contribution rate for FY 2011 will increase from 9.71% to 14.22% of payroll, on the basis of this valuation's results.

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

Trends

There was a significant downturn in the financial markets during the fiscal year ending in 2009, which produced an actuarial loss on the asset side of the System. The actual return on a market value basis was approximately -23.96%. On an actuarial value basis, the assets returned -2.88% compared with an assumed rate of return of 7.5%. The loss recognized for funding purposes was $282.1 million.

The measurement of liabilities produced a loss this year in the amount of $62.4 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 6.3% for active participants who were in both the July 1, 2008 and July 1, 2009 valuations. This was more than the expected salary growth based on the actuarial assumption, which worked out to average 5.2%. This resulted in a $16.7 million loss.

- The valuation assumes a 3% cost-of-living adjustment each year for benefits in pay status. The actual CPI-based COLA was 0.4% last year, creating a liability gain of $33.6 million.

- 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 $5.9 million to that number.

- This valuation closes a source of "false gains" that were arising over the last two valuations. The false gains arose due to a timing difference between when the records for those leaving DROP status were being updated. In the 2008 valuation a group of former DROP participants were excluded from the valuation liabilities. This group has been added back this year as being in a retired status. This correction gave rise to a loss of $50.7 million.

- There was a $22.7 million liability loss component that is made up of various other causes such as members terminating, dying or becoming disabled in a way contrary to the assumption and also data changes from previous years.

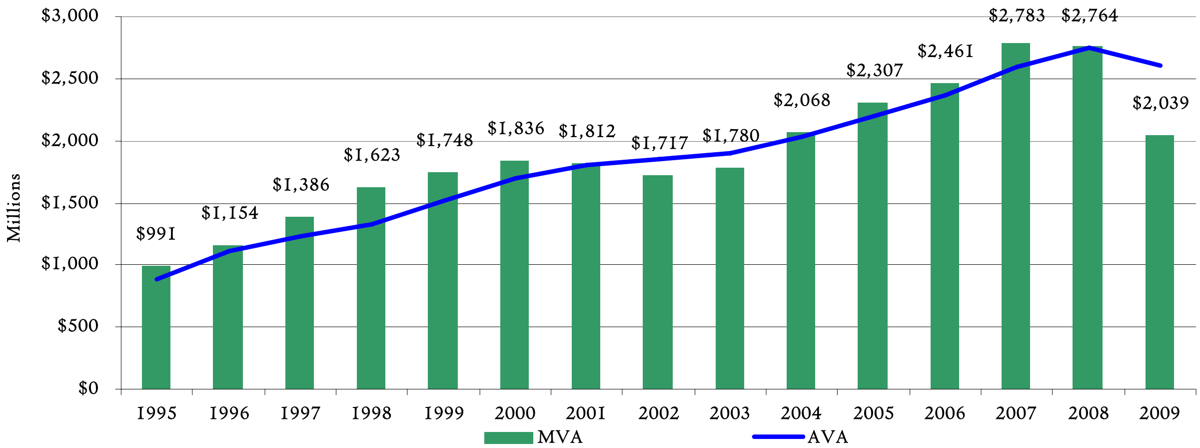
The combination of plan changes, liability and investment experience over the last year led to the System's funding ratio (actuarial value of assets over actuarial accrued liability) decreasing from 82.7% at July 1, 2008 to 73.6% at July 1, 2009. For purposes of measuring whether the System remains within the funding corridor, an adjusted funding ratio is used. In this ratio there is an additional asset recognized in the amount of the unfunded actuarial liability (UAL) payments being made by the County to pay for benefit increases and assumption changes. On this basis, the System's actuarial funded ratio decreased from 85.3% at July 1, 2008 to 76.0% at July 1, 2009.

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.

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

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

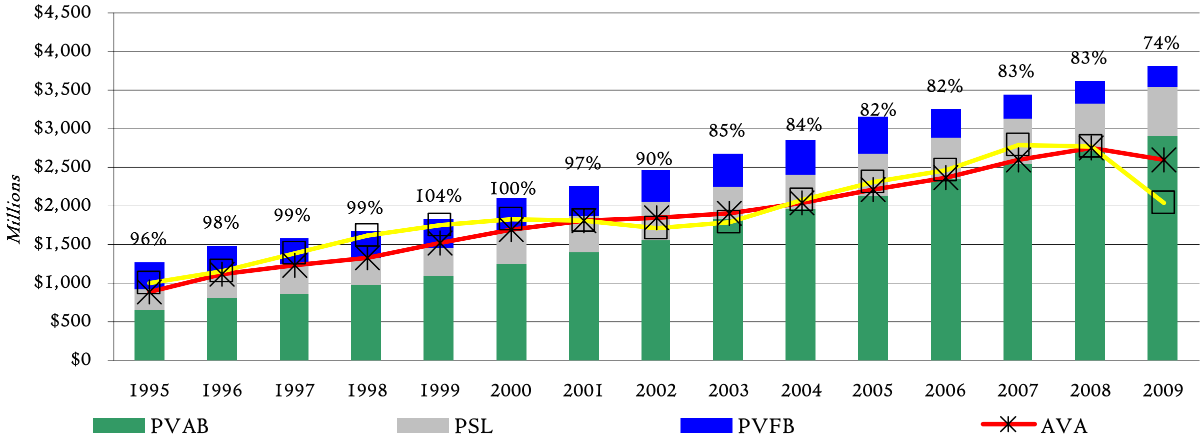
Growth in Assets



There was a substantial decline in the market value of assets (MVA) over last year due to a negative return of 24.0%. The actuarial value of assets (AVA) decreased as well but not as significantly because a portion of this year's investment loss is being held for future recognition. The System recognized only a third of the actuarial asset loss this year, and there remains $564 million unrecognized losses that will be phased in over the next few years.

Over the period July 1, 1995 to June 30, 2009 the System's assets returned approximately 6.4% per year measured at market value, compared to a valuation assumption of 7.5% per year.

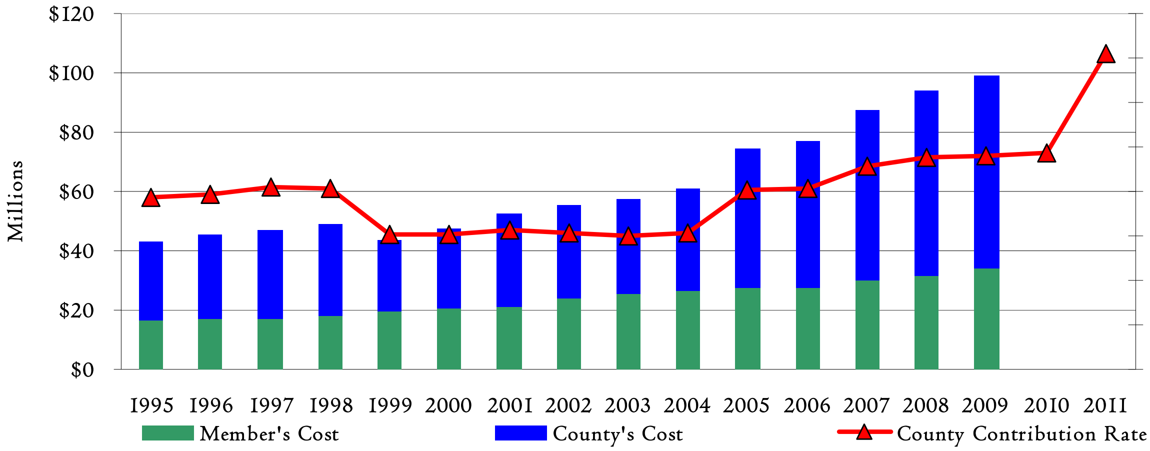
Assets and Liabilities



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.

Over the past two years, the System's funded status has declined from 83% to 74% as a result of investment losses recognized so far in the smoothing process.

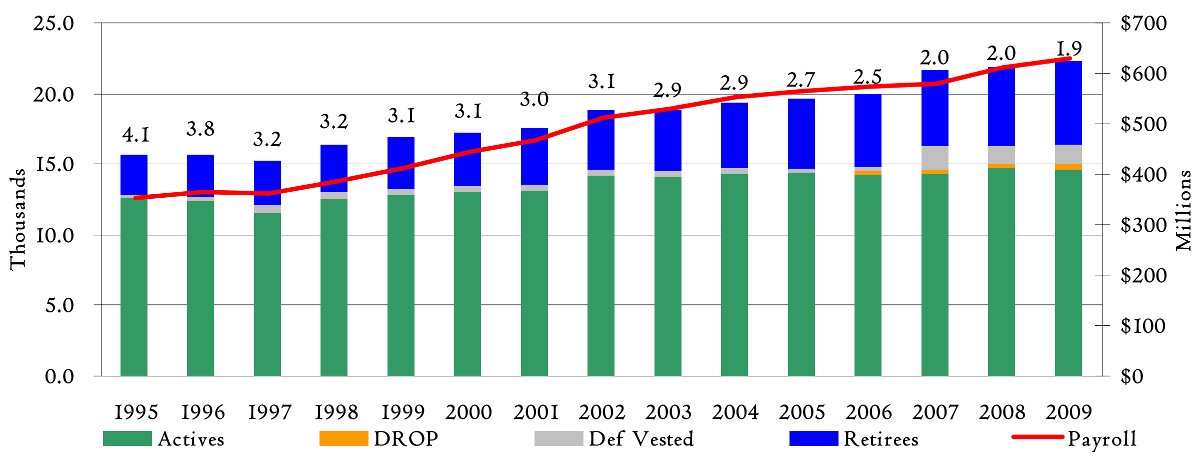
Contribution Rates



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

The member contribution rate is set by the County Ordinance. 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 2009 value is the rate prepared by the 2007 valuation and implemented for the period July 1, 2008 to June 30, 2009.

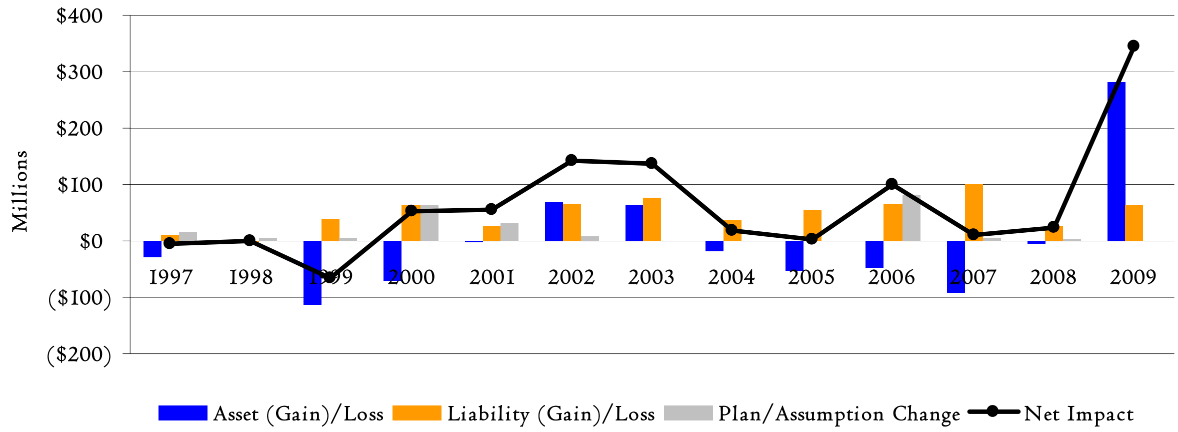
Participant Trends



As with many funds in this country, there has been a steady growth in the number of retired members as the System has matured. The active-to-inactive ratio has decreased from 4.1 actives to each inactive in 1995 to 1.9 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.

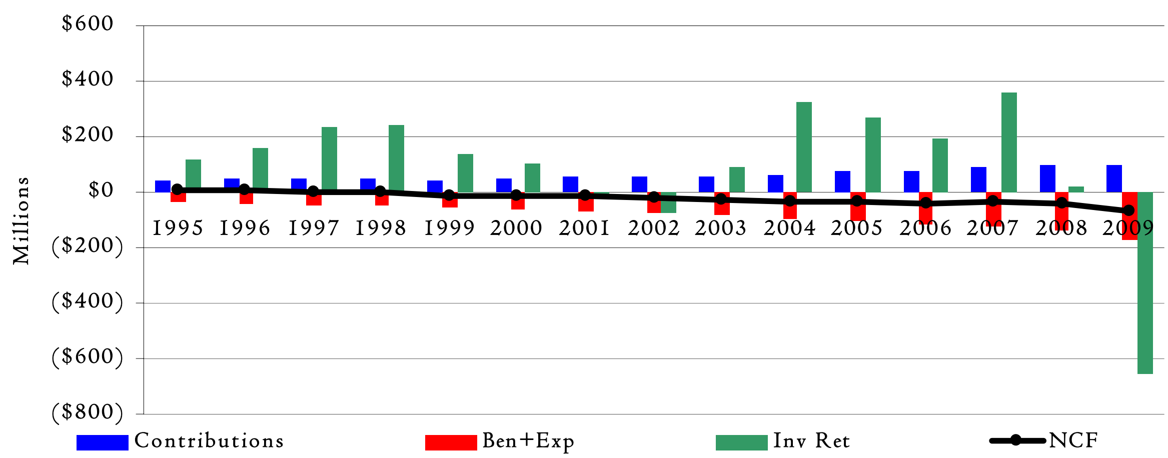
Starting in 2006, the chart also shows the number of DROP participants. Neither employer nor member contributions are made on their behalf, which leads to a slightly lower growth in effective covered payroll for this System.

Gains and Losses



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

Cash Flow



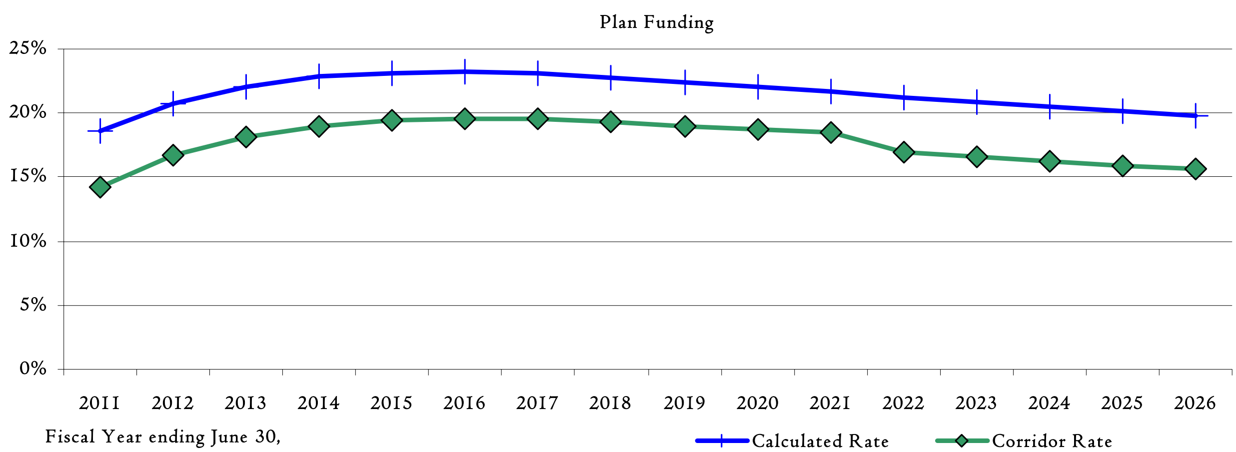
The graph shows the annual cash flows into and out of the System. The graph shows the magnitude the investment returns on the market value (green bars) compared to the contributions (blue bars). The net cash flow (line) is comparing the contributions to benefits and expenses (red bar). Negative cash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

Future Outlook

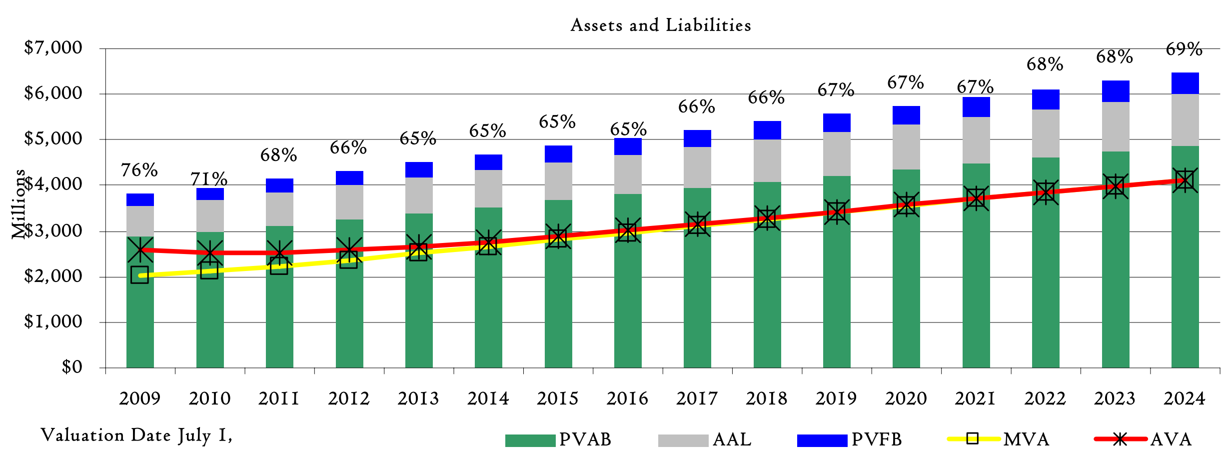
Base Line Projections

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 System not re-entering the corridor (if all other actuarial assumptions are met as well as the 7.5% interest rate). The decrease in corridor contributions (green line) towards the end of the period show plan change bases becoming fully amortized and dropping out. The blue line shows the actuarially calculated rate if the corridor were not in place. Under this scenario the corridor rate approaches a high point of almost 20% of payroll.



The "Assets and Liabilities" graph shows the projected funding status over the next 15 years. The corridor funded ratio will continue to decline in the short term as unrecognized investment gains are incorporated in the actuarial value of assets. After this period the funding ratio increases slightly to 69% by the end of the period shown.



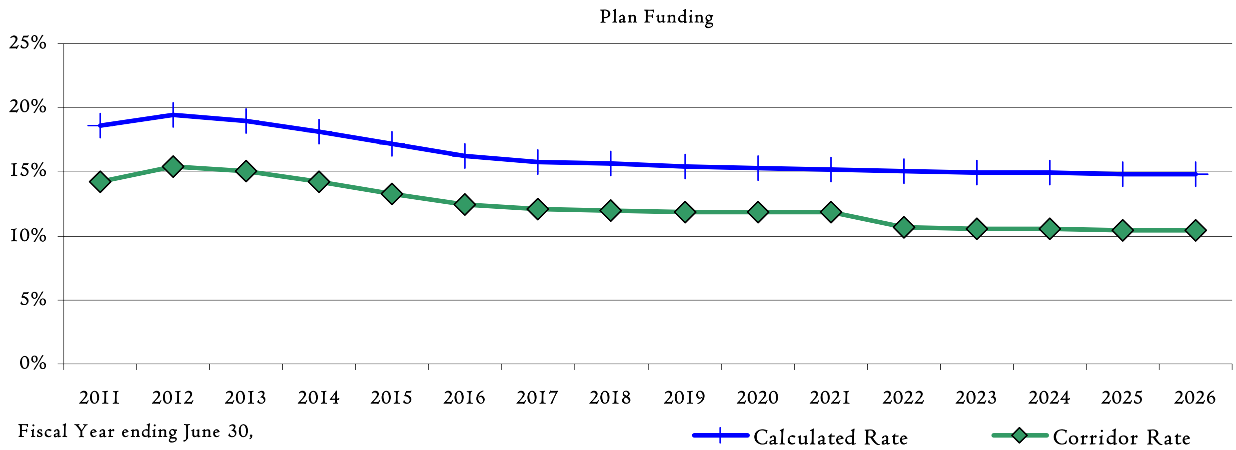
The future funding status of this System will be influenced by the investment earnings. The prior projection assumed the System would earn 7.5% each and every year, which is extremely unlikely.

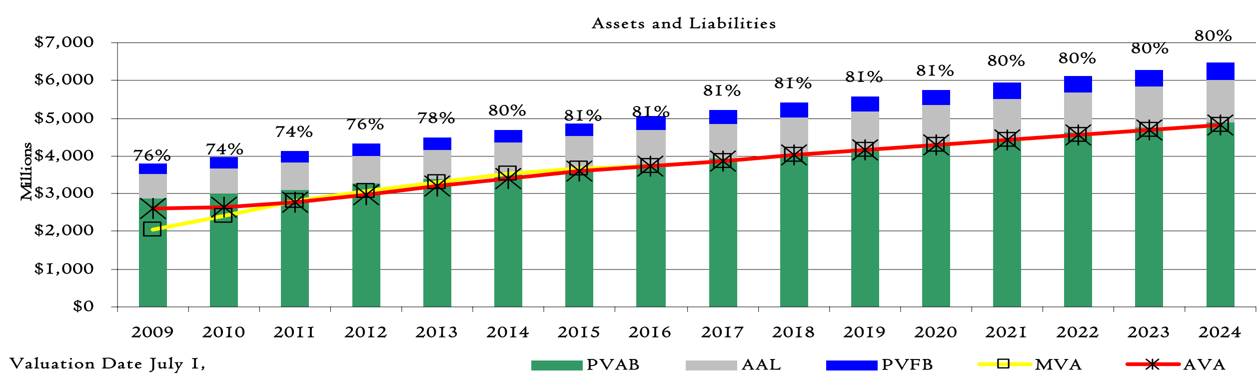
In the projections that follow we show the risk to the System under volatile markets. Since 1981 the System has averaged 9.50% return per year, therefore, for this analysis we have created the following three scenarios that produce the same average return.

Fiscal Year Ending June 30,	**Favorable Returns Early**	**Poor Returns Early**	**Random Returns**
2010	22.50%	5.00%	23.72%
2011	18.00%	7.00%	4.00%
2012	12.00%	9.00%	1.95%
2013	10.00%	10.00%	11.70%
2014	9.00%	12.00%	4.10%
2015	7.00%	18.00%	10.59%
2016	5.00%	22.50%	16.04%
2017	7.50%	7.50%	21.82%
2018	7.50%	7.50%	5.39%
2019	7.50%	7.50%	6.35%
2020	7.50%	7.50%	5.37%
2021	7.50%	7.50%	16.10%
2022	7.50%	7.50%	6.64%
2023	7.50%	7.50%	-5.02%
2024	7.50%	7.50%	18.36%
Average	**9.52%**	**9.48%**	**9.53%**

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

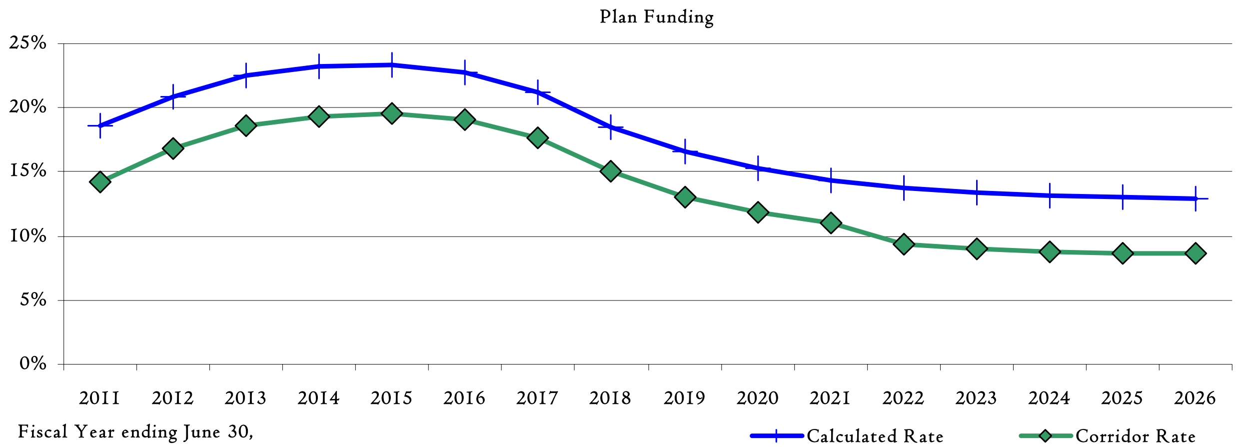
Under this scenario the corridor contribution rate would increase slightly for FY 2012 as prior asset losses are phased-in, but then decline thereafter. The System reaches 81% funded by 2015 after the period of favorable returns modeled in this scenario are completely phased-in, but then declines to 80% by 2021 after the phase-in of the poor returns.

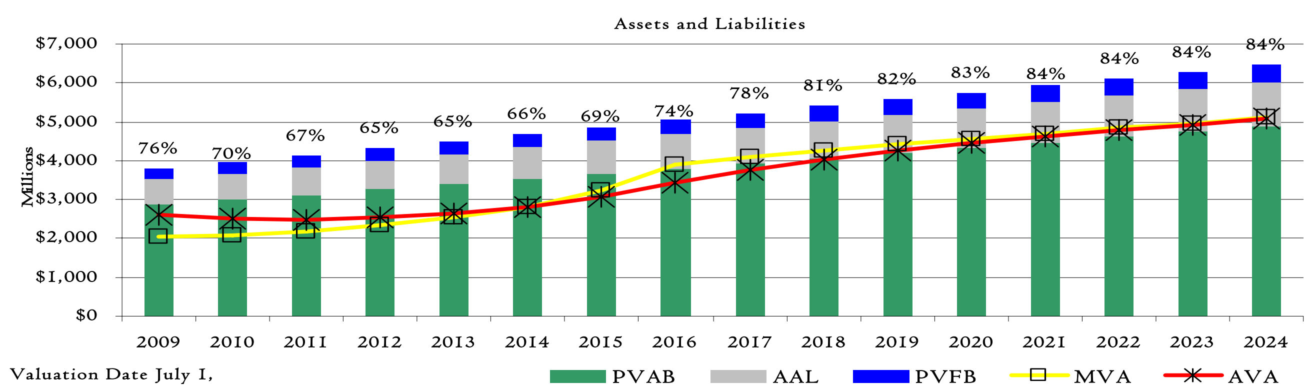




Alternative Projection -- with poor returns early in the projection:

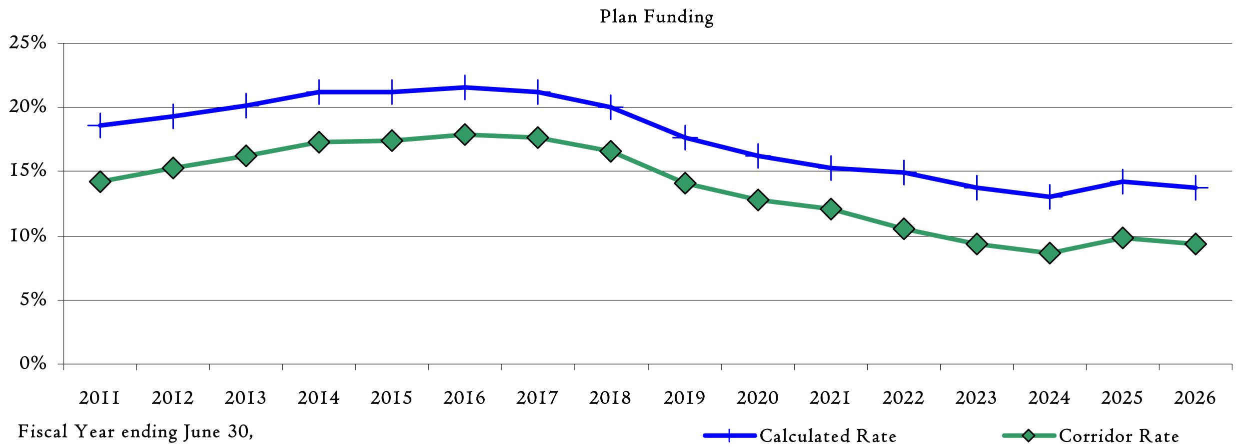
Under this scenario the corridor contribution rate increase over the next four years due to the investment performance modeled in this scenario and the phase-in of prior asset losses. The rate would decline from FY 2015 due to the returns in excess of the actuarial assumption. The funding ratio would reach 84% by 2021.

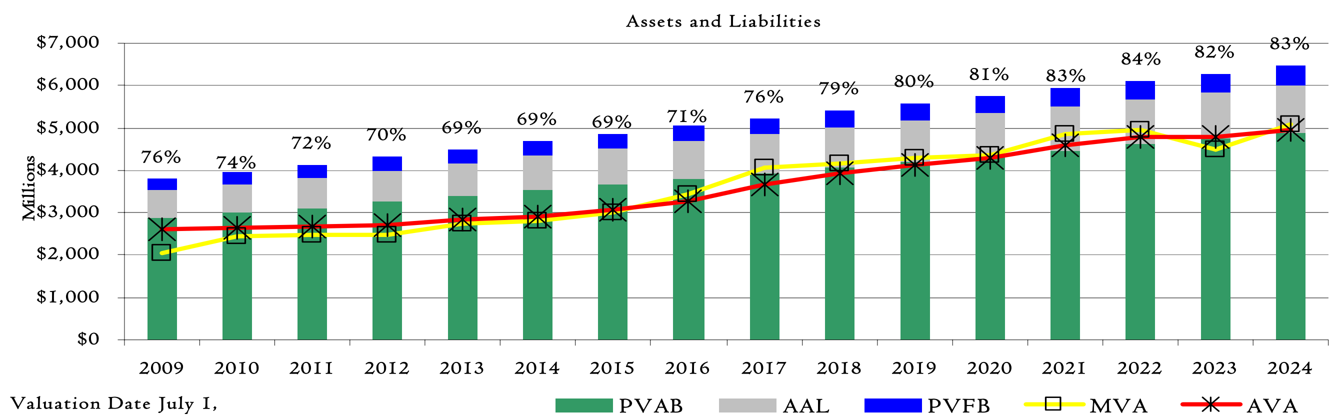




Alternative Projection (Random Returns):

Under this scenario the corridor contribution rate ranges between 14% and 18% until FY 2017. At that point the contribution would start to decline as the funding ratio improves. This scenario shows the System at 83% funded at the end of the period.





Summary of Principal Plan Results Valuation as of:	7/1/2008	7/1/2009	% Chg
Participant Counts			
Actives (excluding DROP)	14,705	14,616	-0.6%
DROPs	366	418	14.2%
Terminated Vesteds	1,241	1,342	8.1%
In Pay Status	5,585	5,931	6.2%
Total	21,897	22,307	1.9%
Annual Salaries of Active Members	$ 610,876,960	$ 628,481,359	2.9%
Annual Retirement Allowances for Retired Members and Beneficiaries (Base amount only – not supplements)	$ 113,441,455	$ 123,176,801	8.6%
Assets and Liabilities			
Actuarial Accrued Liability	$ 3,328,900,991	$ 3,535,873,545	6.2%
Assets for Valuation Purposes	2,752,873,842	2,603,283,631	-5.4%
Unfunded Actuarial Liability	$ 576,027,149	$ 932,589,914	61.9%
Funding Ratio	82.7%	73.6%	
Present Value of Accrued Benefits	$ 2,705,935,238	$ 2,896,231,821	7.0%
Market Value of Assets	2,763,876,655	2,039,051,396	-26.2%
Unfunded FASB Accrued Liability (not less than $0)	$ 0	$ 857,180,425	
Accrued Benefit Funding Ratio	102.1%	70.4%	
Contributions as a Percentage of Payroll	**Fiscal Year 2010**	**Fiscal Year 2011**	
GASB Method:			
Normal Cost Contribution	5.95%	5.95%	
Unfunded Actuarial Liability Contribution	7.96%	12.53%	
Administrative Expense	0.15%	0.15%	
Total Contribution	14.06%	18.63%	
Corridor Method:			
Normal Cost Contribution	5.95%	5.95%	
Increase Due to Amortized Changes	1.47%	1.47%	
Amortization of Amount Outside Corridor	2.14%	6.65%	
Administrative Expense	0.15%	0.15%	
Corridor Method	9.71%	14.22%	

Summary of Actuarial Assumptions and Methods

Funding Method

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

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

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

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

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

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

Actuarial Value of Assets

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

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

Changes Since Last Valuation

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

Long Term Assumptions Used to Determine System Costs and Liabilities

Demographic Assumptions

Mortality

1994 Uninsured Pensioners Mortality Table Annual Deaths Per 1,000 Members*					
Age	Male Deaths	Female Deaths	Age	Male Deaths	Female Deaths
20	1	0	65	16	9
25	1	0	70	26	15
30	1	0	75	40	24
35	1	1	80	67	42
40	1	1	85	105	73
45	2	1	90	164	125
50	3	2	95	251	200
55	5	2	100	341	297
60	9	5	105	441	415

* 5% of deaths are assumed to be service-connected.

Annual Deaths per 1,000 Disabled Members		
Age	Male	Female
45	43	24
50	48	28
55	53	33
60	58	38
65	64	44
70	73	51
75	89	63
80	107	80

Termination of Employment: (Prior to Normal Retirement Eligibility)

Annual Termination Rates Per 1,000 Members – Male Years of Employment With County			
Age	**0-3**	**3-5**	**5+**
20	283	174	80
25	270	150	80
30	210	122	65
35	130	103	50
40	125	89	35
45	125	74	20
50	125	59	20
55	125	50	20

Annual Termination Rates Per 1,000 Members – Female Years of Employment With County			
Age	**0-3**	**3-5**	**5+**
20	333	150	150
25	320	150	150
30	260	150	150
35	180	138	100
40	175	125	50
45	168	113	50
50	160	100	50
55	153	100	50

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

Disability

Annual Disabilities Per 10,000 Members*		
Age	**Male**	**Female**
25	3	2
30	3	2
35	3	3
40	6	4
45	15	12
50	28	22
55	43	34
60	53	43

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

Retirement

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

* To further account for unused sick leave we are assuming that members can retire early on Rule of 74 (instead of Rule of 75) and normal on Rule of 79 (instead Rule of 80).

** Upon reaching 1st eligibility for normal retirement we assume members retire at the above rates plus 5%.

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

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

Family Composition

For purposes of valuing the pre-retirement death benefit, an assumption is made that 80% of employees are married at death while active and that the female spouse is 3 years younger than the male spouse.

Sick Leave Credit

Active members are assumed to receive an additional 2% of service credit due to sick leave and an additional 1.8% for average final compensation.

Economic Assumptions

Investment Return: 7.5% compounded per annum.

Rate of General Wage Increase: 4.00% compounded per annum.

Rate of Increase in Cost-of-Living: 4.00% compounded per annum.
(Benefit increases limited to 4% per year. Post-retirement cost-of-living increases are assumed to be 3% per year.)

Total Payroll Increase (For amortization): 4.00% compounded per annum.

Administrative Expenses: 0.15% of payroll.

Changes Since Last Valuation

There have been no changes since the last valuation.

Analysis of Financial Experience

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

Type of Activity	2004	2005	2006	2007	2008	2009
Investment Income	$18,488	$52,403	$ 48,113	$93,322	$5,501	$(282,116)
Combined Liability Experience	(57,139)	(48,719)	(66,263)	(99,930)	(26,428)	(62,427)
Gain (or Loss) During Year from Financial Experience	(38,651)	3,684	(18,150)	(6,608)	(20,927)	(344,543)
Non-Recurring Items	-	(82,052)	(4,778)	(2,057)	(1,446)	-
Composite Gain (or Loss) During Year	$(38,651)	$(78,368)	$(22,928)	$(8,665)	$(22,373)	$(344,543)

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
2004	365	$11,473,126	136	$2,478,847	4,619	$93,782,199	10.61%	$20,304
2005	410	13,203,836	140	2,578,496	4,889	104,407,539	11.33%	21,356
2006	365	11,467,357	135	2,924,626	5,119	112,950,270	8.18%	22,065
2007	398	13,429,405	162	3,752,603	5,355	122,627,072	8.57%	22,900
2008	388	13,490,523	158	2,650,227	5,585	133,467,368	8.84%	23,897
2009	533	14,697,864	187	3,032,662	5,931	145,132,570	8.74%	24,470

Solvency Test
Aggregate Accrued Liabilities For
(in thousands)

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)
2004	$243,581	$1,046,687	$1,120,867	$2,030,539	100%	100%	66%
2005	260,336	1,155,976	1,260,106	2,202,515	100%	100%	62%
2006	259,773	1,351,131	1,270,875	2,363,844	100%	100%	59%
2007	285,105	1,537,540	1,316,542	2,596,658	100%	100%	59%
2008	298,908	1,662,930	1,367,063	2,752,874	100%	100%	58%
2009	312,357	1,813,483	1,410,033	2,603,284	100%	100%	34%

(This Page Intentionally Left Blank)

Schedule of Additions by Source

Fiscal Year	Plan Member Contributions	Employer Contributions	Employer Contributions % of Covered Payroll	Net Investment Income (loss)	Total Additions
2003	$25,467,082	$31,983,708	6.00%	$89,440,289	$146,891,079
2004	27,716,595	34,418,051	6.13%	319,741,487	381,876,133
2005	27,563,754	46,958,113	8.08%	271,340,627	345,862,494
2006	27,605,933	49,436,463	8.24%	204,149,213	281,191,609
2007	29,805,266	57,452,711	9.25%	358,779,626	446,037,603
2008	31,583,496	62,636,121	9.59%	23,018,667	117,238,284
2009	33,927,190	65,110,832	9.62%	(653,558,145)	(554,520,123)
2010	31,733,516	64,069,102	9.71%	506,165,571	601,968,189

Schedule of Deductions by Type

Fiscal Year	Benefit Payments	Refunds of Contributions	Administrative Expenses	Transfers	Total Deductions
2003	$79,442,355	$3,425,017	$845,537		$83,712,909
2004	89,675,104	3,780,390	1,019,054		94,474,548
2005	98,494,430	6,545,800	1,015,986		106,056,216
2006	108,735,741	6,059,597	1,016,292	$ 11,750,084	127,561,714
2007	117,885,907	3,935,886	1,866,410		123,688,203
2008	130,453,013	4,376,612	1,832,903		136,662,528
2009	165,529,137	3,256,153	1,519,846		170,305,136
2010	166,271,110	4,075,162	1,593,223		171,939,495

Schedule of Benefit Payments by Type

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Total
2003	$71,933,909	$2,634,434	$2,918,607	$1,955,406	$79,442,356
2004	81,795,303	2,749,554	3,155,573	1,974,674	89,675,104
2005	90,329,194	2,748,877	3,257,053	2,159,306	98,494,430
2006	100,083,209	2,736,141	3,479,564	2,436,827	108,735,741
2007	108,782,484	2,768,116	3,646,607	2,688,700	117,885,907
2008	120,689,116	2,958,765	3,835,111	2,970,020	130,453,012
2009	155,179,988	3,200,844	3,845,105	3,303,200	165,529,137
2010	155,512,982	3,232,803	3,939,896	3,585,429	166,271,110

Schedule of Retired Members by Benefit Type

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Total
2003	3,674	172	364	178	4,388
2004	3,888	168	375	188	4,619
2005	4,137	167	378	207	4,889
2006	4,365	156	378	220	5,119
2007	4,566	167	386	236	5,355
2008	4,791	161	383	250	5,585
2009	5,133	153	383	262	5,931
2010	5,392	157	389	280	6,218

Schedule of Average Monthly Benefit Amounts

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Average
2003	$1,750	$1,326	$687	$886	$1,610
2004	1,840	1,333	708	915	1,692
2005	1,932	1,401	740	939	1,780
2006	1,987	1,460	777	998	1,839
2007	2,061	1,502	816	1,030	1,908
2008	2,144	1,619	845	1,070	1,991
2009	2,187	1,710	841	1,092	2,039
2010	2,250	1,708	872	1,193	2,102

(This Page intentionally Left Blank)

Fairfax County Employees' Retirement System

A Fairfax County, Va.,
publication

Comprehensive Annual Financial Report

For the Fiscal Year ended June 30, 2010