Comprehensive Annual Financial Report 2012

Employees' Retirement System

For the Fiscal Year Ended June 30, 2012

A Pension Trust Fund of Fairfax County, Virginia

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October 29, 2012

Dear Members of the Board of Trustees:

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

History

The Fairfax County 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). There were 14,107 active members, 629 in the Deferred Retirement Option Program (DROP) and 6,888 retirees participating in the System as of June 30, 2012.

Provisions

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

Capital Markets and Economic Conditions

During fiscal year 2012, the economy continued its gradual recovery from the global financial crisis of 2008 and unemployment rates remained high. As a result, for the equity markets, it proved to be an extremely difficult and volatile year, with a poor first quarter, followed by two strong quarters and then a pull back in the final quarter. In the face of these conditions, the System's portfolio was tilted away from equities and, benefiting from the decline in interest rates, produced a solid return of 8.9% (8.5%, net of fees), ahead of the long term target return of 7.5%. This return also was well above the median public fund return of 1.1% and placed in the 4th percentile of the BNY Mellon universe of public funds. Investment returns for the three-year period were 19.3% per year, exceeding the returns of all other public funds in the BNY Mellon universe.

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

Internal and Budgetary Controls

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

Investment Policies and Strategies

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

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

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

Funded Status

An actuarial valuation of the System to determine funding requirements is performed annually. The System's funding policy provides for periodic employer contributions at actuarially determined rates, which are expected to remain relatively level over time as a percentage of payroll, but will be adjusted as necessary to accumulate sufficient assets to meet the costs of benefit payments when due. The valuation of the System performed as of July 1, 2011, indicated that the ratio of assets accumulated by the System to total actuarial accrued liabilities for benefits showed an increase from 69.9% to 70.7%. The actuarial section contains further information on the results of the July 1, 2011 valuation.

Based on the July 1, 2011 actuarial valuation, the employer contribution rate for 2013 following the adopted corridor-based funding policy was 18.49%, an increase of 1.79% over the 2011 rate of 16.70%. This increase in the rate is required to amortize the increase in unfunded liability from FY 2011 actuarial experience. During establishment of the FY 2013 County budget, the Board of Supervisors adopted a higher contribution rate of 19.05%.

Major Initiatives

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

- Raising the minimum retirement age from 50 to 55 and changing retirement eligibility from a "rule of 80" (age plus service) to a "rule of 85".
- Limiting the use of accumulated sick leave in determining length of service for eligibility and in the calculation of benefits to a maximum of 2,080 hours.
- Excluding the pre-Social Security benefit from the amount credited to DROP accounts.

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

On the investment front, long-term strategy remained unchanged; the investment manger line-up was modified with a change in global macro managers from First Quadrant to Eagle Trading Systems and the liquidation of the FrontPoint Partners multi-strategy fund. Also, following a search conducted at the end of the previous year, a new Investment Officer was hired early in FY 2012 to provide consulting support to the Board.

Awards

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

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

Other Information

Independent Audit and Actuarial Certifications

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

Acknowledgements

The annual report of the 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

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Fairfax County Employees' Retirement System Virginia

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

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

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

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President

Jeffrey R. Esser

Executive Director

Board of Trustees

Administrative Organization

Administrative Staff

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Executive Director

Laurnz A. Swartz
Chief Investment Officer

Gregory A. Samay
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, Inc.
San Francisco, CA

BNY Mellon Cash Investment Strategies
Pittsburgh, PA

Brandywine Global Investment Management, LLC
Philadelphia, PA

Bridgewater Associates, LP.
Westport, CT

The Clifton Group
Edina, MN

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

ColumbiaWanger Asset Management, LLC
Chicago, IL

Dearborn Partners
Chicago, IL

DePrince, Race & Zollo
Winter Park, FL

DoubleLine Capital, L.P.
Los Angeles, CA

Eagle Trading Systems, Inc.
Princeton, NJ

Frontpoint Partners, LLC
Greenwich, CT

Gramercy Advisors, LLC
Greenwich, CT

Investment Managers
(continued)

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, Inc.
Arlington, VA

Shenkman Capital Management, Inc.
Arlington, VA

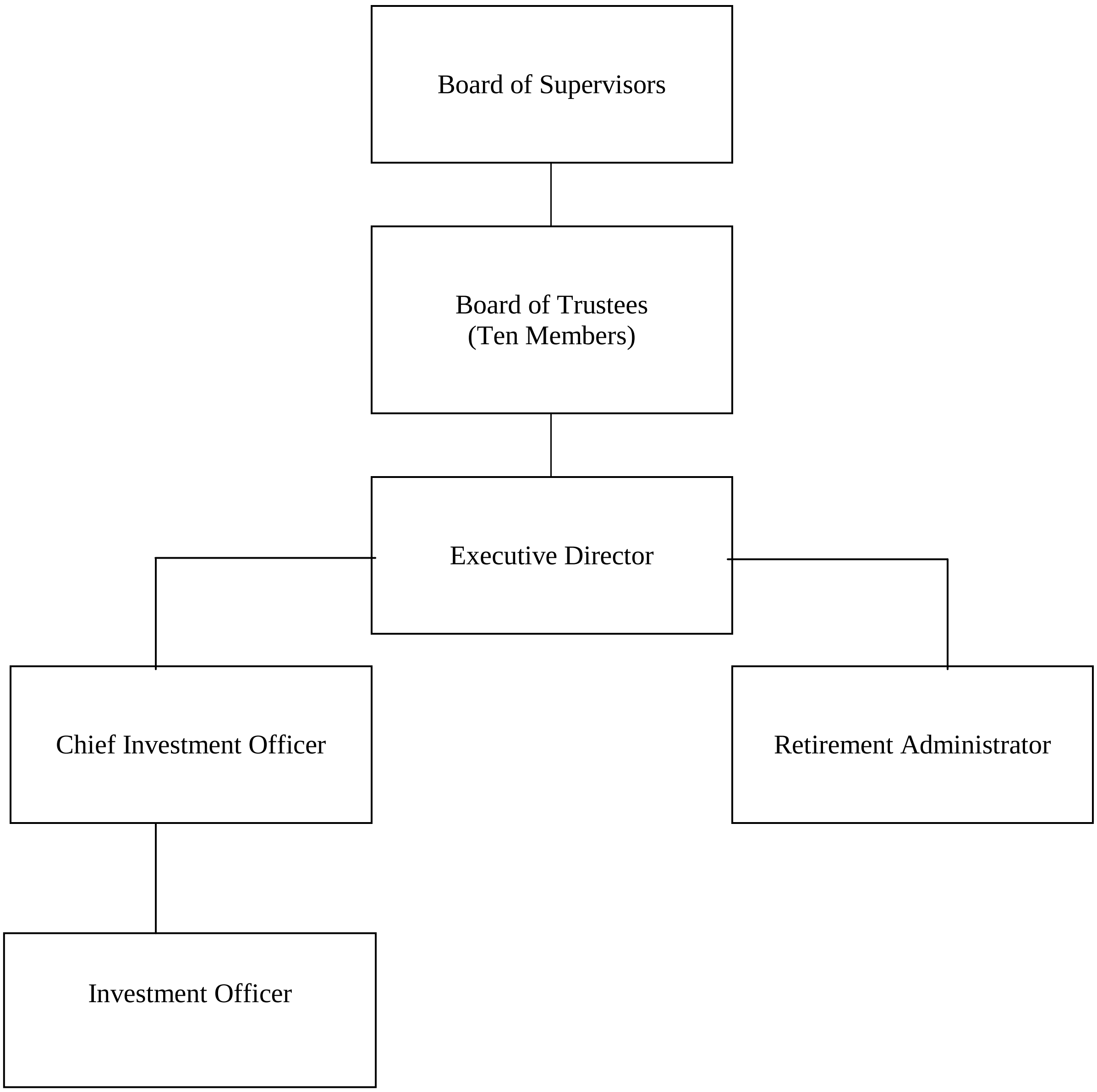
Stark Investments
St. Francis, WI

Trust Company of the West (TCW)
Los Angeles, CA

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 2012 was17.20%.

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 the age of eligibility for unreduced Social Security benefits.

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.

Types of 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.

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 (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.

Summary of Plan Provisions
(continued)

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.

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

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

The Board of Supervisors
County of Fairfax, Virginia:

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

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

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

Management's Discussion and Analysis on pages 9 to 11 is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information on page 21. However, we did not audit the information and express no opinion on it.

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

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

KPMG LLP

October 25, 2012

Management's Discussion and Analysis (unaudited)

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

Overview of Financial Statements and Accompanying Information

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

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

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

Financial Analysis

Plan Net Assets. For fiscal year 2012 the assets of the Employees' Retirement System increased 6.3% resulting in a total net asset value of $3.17 billion, reflecting an increase of $187.8 million over fiscal year 2011. The growth in assets was primarily due to investment gains of $246.4 million and $146.4 million in contributions offset by benefit payment deductions of $203.3 million and administrative expenses of $1.7 million.

The actuarial value of the assets as of the last valuation on June 30, 2011, was $2.84 billion while actuarial liabilities as of the same period were $4.02 billion. This resulted in a funding ratio of 70.7%.

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

Additions and Deductions. The employer contributions for FY12 increased by 18.7% due primarily to an increase in the employer contribution rate from 14.70% to 17.20% of salary. Employee contributions increased slightly due to a small increase in covered payroll. Investment returns were lower for FY12 reflecting lower returns in the capital markets. Benefit payments increased due to a cost-of-living increase of 3%, an increase in the number of retirees and higher benefits for new retirees. Refunds of contributions declined as a result of lower employee turnover.

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

Fiscal Year	Ending Balances (millions)	Net Change in Dollars (millions)	Net Change in Percent
2011	$2,984.9	$515.8	20.9
2012	$3,172.7	$187.8	6.3

Contacting the System's Financial Management

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

Summary Statement of Plan Net Assets

Assets	**2012**	**2011**	**Difference**
Total cash and investments	$3,278,335,953	$3,285,837,731	($7,501,778)
Total fixed assets	6,344	---	6,344
Total receivables	119,725,881	144,684,398	(24,958,517)
Total assets	3,398,068,178	3,430,522,129	(32,453,951)
Total liabilities	225,415,582	445,658,485	(220,242,903)
Net assets held in trust	**$3,172,652,596**	**$2,984,863,644**	**$187,788,952**

Summary of Additions and Deductions

Additions	**2012**	**2011**	**Difference**
Contributions			
Employer	$114,682,538	$96,607,535	$18,075,003
Plan Members	31,702,075	31,041,076	660,999
Total investment income	246,376,212	577,459,169	(331,082,957)
Total Additions	392,760,825	705,107,780	(312,346,955)
Direct Deductions			
Benefit payments	199,503,336	183,800,128	15,703,208
Refunds of contributions	3,781,497	3,884,082	(102,585)
Administrative expenses	1,687,040	1,640,016	47,024
Total deductions	204,971,873	189,324,226	15,647,647
Net increase/(decrease)	**$187,788,952**	**$515,783,554**	**($327,994,602)**

Statement of Plan Net Assets

As of June 30, 2012

Assets		
Cash and short-term investments		
Equity in County's pooled cash and temporary investments	$7,739,618	
Cash collateral received for securities on loan	44,021,640	
Short-term investments	302,599,224	
Total cash and short-term investments		$354,360,482
Fixed Assets		
Equipment	6,344	
Total fixed assets		6,344
Receivables		
Accounts receivable	4,939,687	
Accrued interest and dividends	9,879,365	
Securities sold	104,906,829	
Total receivables		119,725,881
Investments, at fair value		
Common and preferred stock	927,534,827	
Fixed income		
Asset-backed securities	196,599,979	
Corporate and other bonds	387,260,815	
U.S. Government obligations	82,542,298	
Pooled and mutual funds	1,330,037,552	
Total investments		2,923,975,471
Total assets		3,398,068,178
Liabilities		
Purchase of investments	170,574,613	
Cash collateral received for securities on loan	44,021,640	
Accounts payable and accrued expenses	10,819,329	
Total liabilities		225,415,582
Net assets held in trust for pension benefits		**$3,172,652,596**

See accompanying notes to financial statements.

Statement of Changes in Plan Net Assets

For the Year Ended June 30, 2012

Additions		
Contributions		
Employer	$114,682,538	
Plan members	31,702,075	
Total contributions		$146,384,613
Investment income from investment activities		
Net appreciation in fair value of investments	185,981,313	
Interest	54,587,768	
Dividends	21,838,848	
Total investment income	262,407,929	
Investment activity expense		
Management fees	(15,653,471)	
Custodial fees	(192,000)	
Consulting fees	(66,480)	
Allocated administration expense	(774,036)	
Total investment expense	(16,685,987)	
Net income from investment activities		245,721,942
Securities lending activities		
Securities lending income	942,614	
Securities lending expenses	(288,344)	
Net income from securities lending activities		654,270
Total net investment income		246,376,212
Total additions		392,760,825
Deductions		
Annuity benefits	187,702,064	
Disability benefits	7,541,875	
Survivor benefits	4,259,397	
Refunds of employee contributions	3,781,497	
Administrative expense	1,687,040	
Total deductions		204,971,873
Net increase		187,788,952
Net assets held in trust for pension benefits		
Beginning of fiscal year		2,984,863,644
End of fiscal year		**$3,172,652,596**

See accompanying notes to financial statements.

Notes to the Financial Statements

As of and For the year ended June 30, 2012

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. The market values of private investments and direct real estate are lagged by one quarter due to the timing of receipt of private market valuations and information.

Equity in County's pooled cash and temporary investments. The System maintains cash with the County, which invests cash and allocates interest earned, net of a management fee, on a daily basis to the System based on the System's average daily balance of equity in pooled cash. As of June 30, 2012, the bank balance of the County's public deposits was either insured by the Federal Deposit Insurance Corporation or through the State Treasury Board pursuant to the provisions of the Security for Public Deposit Act. The County's investments are exposed to various risks such as interest rate risk, market and credit risks. Such risks, and the resulting investment security values, may be influenced by changes in economic conditions and market perceptions and expectations. Accordingly, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

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

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

Retirees and beneficiaries receiving benefits	6,568
Terminated plan members entitled to but not yet receiving benefits	1,427
Deferred Retirement Option Program (DROP) participants	531
Active plan members	14,256
Total	**22,782**

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 rate for the year ended June 30, 2012, was 16.70% of annual covered payroll. The decision was made to commit additional funding and a rate of 17.20% was adopted for fiscal year 2012.

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

System's Funded Status Information. The actuarial valuation performed as of July 1, 2011, showed the System's funded status at 70.7%, an increase from the July 1, 2010, funded percentage of 69.9%. 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 Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability	Funded Ratio	Covered Payroll	Unfunded Percent of Covered Payroll
	(a)	**(b)**	**(b-a)**	**(a/b)**	**(c)**	**((b-a)/c)**
7/1/2011	$2,841,466,151	$4,018,924,133	$1,177,457,982	70.7%	$642,073,198	183.4%

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

Actuarial Methods and Assumptions.

Valuation date	July 1, 2011
Actuarial cost method	Entry Age
Amortization method	Level percent open
Remaining amortization period	15 years
Asset valuation method	3-year smoothed market
Actuarial assumptions:	
Investment rate of return *	7.5%
Projected salary increases *	4.0% - 10.0%
* Includes inflation at	1.0% in 2012, 3.0 % thereafter
Cost of living adjustments	1.0% in 2012, 2.75% thereafter

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

The rate of employer contributions to the 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, 2011, in accordance with the GASB methodology resulted in a contribution rate of 23.64% for fiscal 2013, an increase of 2.32% over the fiscal 2012 rate of 21.34%. 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 18.49% for fiscal year 2013. The decision was made to commit additional funding for fiscal year 2013 and a rate of 19.05% was adopted, an increase of 1.85% over the fiscal year 2012 adopted rate of 17.20%.

C. Investments

The authority to establish the System is set forth in Section 51.1-800 *Code of Virginia* (Code). Section 51.1-803 of the Code authorizes fiduciaries of the System to purchase investments *with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with the same aims. The Board shall also diversify such investments as to minimize the risk of large losses unless under the circumstances it is clearly prudent not to do so.* While the System is not subject to the provisions of the 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 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. The investment policy states that the securities of any one issuer shall not exceed 10.0% at market value. At June 30, 2012, 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 fixed income portfolio shall be, on average, comprised of high-quality issues and limits are imposed on investment manager's below-investment-grade holdings. Unless otherwise specified, if any security has a split rating, the lower of the two ratings is used for the purposes of meeting minimum quality standards.

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

Type of Investment	**Fair Value**	**Ratings**	**Percent of Fixed**
U. S. Government obligations	$82,542,298	AA	12.4%
Corporate & other bonds	14,360,778	AAA	2.2%
	16,506,925	AA	2.5%
	55,560,837	A	8.3%
	18,703,994	BBB	2.8%
	74,191,231	BB	11.1%
	117,971,390	B	17.7%
	21,827,378	CCC	3.3%
	68,138,282	Unrated	10.2%
Asset-backed securities	5,074,405	AAA	0.8%
	82,643,700	AA	12.4%
	5,145,452	A	0.8%
	642,791	BBB	0.1%
	793,665	BB	0.1%
	6,232,729	B	0.9%
	23,315,466	CCC	3.5%
	18,045,464	CC	2.7%
	37,421,770	D	5.6%
	17,284,537	Unrated	2.6%
Total fixed income	**$666,403,092**	**BBB**	100.0%
Short-term investments	$13,437,259	AA	
	289,161,965	Unrated	
	$302,599,224		

As of June 30, 2012, the fixed income portfolio, excluding pooled funds, exhibited an overall credit quality rating of “BBB”, and approximately 44.9% of the total fixed income portfolio was invested in below-investment-grade securities. The overall rating reflects the change in credit quality of U.S. Government Obligations to “AA”.

The Barclays Capital Aggregate Bond Index (BCAG) is the standard benchmark against which the industry and the System’s Board measures its 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, 2012, follows:

Investment Type	**Fair Value**	**Option - Adjusted Durations (yrs)**	**Percentage of Fixed**
U.S. Government obligations	$82,542,298	6.3	12.4%
Corporate and other bonds	387,260,815	4.3	58.1%
Asset-backed securities	196,599,979	2.9	29.5%
Total fixed income	**$666,403,092**	4.1	100.0%
Short-term investments	**$302,599,224**	0.1	

As of June 30, 2012, duration of the System’s overall fixed income portfolio excluding pooled funds was 4.1 years compared with the 5.1 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, 2012, held in currencies other than US dollars were as follows:

International Securities	Short Term Investments & Other	Equity	Convertible and Fixed Income	Total
Euro Currency Unit	$6,481,724	$43,716,914	$2,946,503	$53,145,141
British Pound Sterling	5,786,677	32,787,731	11,624,731	50,199,139
Japanese Yen	758,708	34,273,961	82,216	35,114,885
Australian Dollar	3,182,417	13,564,675	17,717,327	34,464,419
Hong Kong Dollar	739,100	21,588,242	---	22,327,342
Canadian Dollar	4,715,552	9,161,276	1,556,600	15,433,428
Mexican New Peso	4,152	---	15,226,079	15,230,231
Swiss Franc	204,826	10,560,248	---	10,765,074
Singapore Dollar	4,634	9,198,257	---	9,202,891
Polish Zloty	532	---	8,766,938	8,767,470
South Korean Won	11,579	1,285,778	6,644,622	7,941,979
Malaysian Ringgit	---	---	6,465,288	6,465,288
S. African Comm Rand	21	279,012	5,918,600	6,197,633
Hungarian Forint	---	---	5,969,930	5,969,930
Brazil Real	80,204	1,134,940	4,493,389	5,708,533
Swedish Krona	273,201	5,096,009	---	5,369,210
New Zealand Dollar	---	---	4,872,555	4,872,555
Danish Krone	81,244	2,004,233	---	2,085,477
Norwegian Krone	35,910	1,534,288	---	1,570,198
Other Currencies	22,837	3,217,659	---	3,240,496
Total International	**$22,383,318**	**$189,403,223**	**$92,284,778**	**$304,071,319**

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 2012, the System invested directly in various derivatives including asset-backed securities, collateralized mortgage obligations, exchange-traded futures contracts, forward currency contracts, options, swaps, and floating rate securities. Investment managers are prohibited from purchasing securities on margin or using leverage unless specifically permitted within the investment manager's guidelines. These investments generally contain market risk resulting from fluctuations in interest and currency rates. The credit risk of these investments is associated with the creditworthiness of the related parties to the contracts. The System could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. The Board's investment policy seeks to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. In addition, the System has indirect exposure to market and credit risk through its ownership interests in certain mutual and commingled funds which may use, hold or write derivative financial instruments.

As permitted by the Board's policies, the System holds off-financial statement derivatives. As of June 30, 2012, the System held futures with net exposure of $487.2 million. Gains and losses on derivative securities are determined based upon fair values and recorded in the Statement of Changes in Plan Net Assets.

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

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

Securities Lent	**Underlying Securities**	**Cash Collateral Investment Value**	**Securities Collateral Investment Value**
Lent for cash collateral			
Corporate and other bonds	$6,946,217	$7,112,265	---
Common and preferred stock	35,585,797	36,909,377	---
Lent for securities collateral			
US Government securities	53,292,386	---	$54,404,124
Corporate and other bonds	9,070	---	9,277
Common and preferred stock	99,004,450	---	108,589,767
Total	**$194,837,920**	**$44,021,642**	**$163,003,168**

The System did not impose any restrictions during fiscal 2012 on the amounts of loans the lending agent made on its behalf. At year end, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts the borrowers owed the System. The custodian provides full indemnification to the System for any losses that might occur in the program due to the failure of a broker/dealer to return a borrowed security or failure to pay the System income earned on the securities while on loan. Cash collateral is invested in the lending agent's collective investment pool which at June 30, 2012, had a weighted-average maturity of 15 days.

D. Income Taxes

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

Required Supplementary Information (unaudited)

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

Schedule of Funding Progress (in thousands)

Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded % of Covered Payroll ((b-a)/c)
7/1/2002	1,854,089	2,051,677	197,588	90.4%	507,905	38.9%
7/1/2003	1,903,970	2,251,187	347,217	84.6%	530,216	65.5%
7/1/2004	2,030,539	2,411,135	380,596	84.2%	552,738	68.9%
7/1/2005	2,202,515	2,676,418	473,903	82.3%	565,063	83.9%
7/1/2006	2,363,844	2,881,780	517,936	82.0%	574,294	90.2%
7/1/2007	2,596,658	3,139,187	542,529	82.7%	579,075	93.7%
7/1/2008	2,752,874	3,328,901	576,027	82.7%	610,877	94.3%
7/1/2009	2,603,284	3,535,874	932,590	73.6%	628,481	148.4%
7/1/2010	2,636,052	3,771,060	1,135,008	69.9%	629,249	180.4%
7/1/2011	2,841,466	4,018,924	1,177,457	70.7%	642,073	183.4%

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
2003	36,408,121	88%
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%
2011	122,435,265	79%
2012	142,286,358	81%

Additional Supplementary Information

Schedule of Administrative Expenses for the year ending June 30, 2012

Personnel services		
Salaries and wages	$930,563	
Fringe benefits	338,975	
Total personnel services		$1,269,538
Professional services		
Actuarial	33,120	
Audit	26,134	
Legal	14,937	
Total professional services		74,191
Communications		
Phone charges	11,912	
Printing, binding and copying	29,870	
Postage	10,752	
Total communications		52,534
Supplies		
Office supplies	12,888	
Total supplies		12,888
Other services and charges		
Board and staff travel and development	9,599	
Professional memberships	1,039	
Insurance	27,937	
Building rent	79,843	
Computer systems	150,629	
Other operating	8,842	
Total other services and charges		277,889
Total administrative expenses		**$1,687,040**

Capital Markets and Economic Conditions (unaudited)

Fiscal Year 2012 Economic Environment

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

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

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

Domestic Equity Markets

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

International Markets

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

Fixed Income Markets

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

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. The System follows a risk parity approach to diversify market risk exposures and returns. Using futures, the System increases the allocation to low risk and return assets classes and reduces the relative allocation to high risk, higher return asset classes. By using futures, the System's economic exposure to all asset classes commonly exceeds the 100% weighting of the capital value of the portfolio's aseets.

On a market value basis, the total net assets held in trust increased from $2,982.5 million at June 30, 2011 to $3,172.8 million at June 30, 2012. For fiscal 2012, investments provided a return of 8.9%, gross of fees (8.5%, net of fees). The System's annualized rates of return, gross of fees, were 19.3% (18.9%, net of fees) over the last three years and 5.6%, (5.2%, net of fees), over the last five years. These System returns ranked in the 6th percentile of The Bank of New York Mellon universe of public plans for 2012, in the 1st percentile for the latest 3-year period, and in the 8th percentile of public plans for the last 5 years.

During the past twelve months, First Quadrant Partners was replaced by Eagle Trading Systems in the Absolute Return Manager lineup.

Investments by Category and Investment Manager

June 30, 2012

Asset Class / Manager	Investment Style	Total Assets	% of Total Net Assets
Domestic Equities			
DePrince, Race & Zollo	Large Cap Value	$ 99,413,722	3.1%
Enhanced Inv. Technologies (INTECH)	Large Cap Growth	110,799,186	3.5%
Pzena Investment Management	Large Cap Value	93,127,765	2.9%
Sands Capital Management	Large Cap Growth	53,039,698	1.7%
Columbia Wanger Asset Management	Small/Mid Cap Core	160,495,614	5.0%
International Equities			
LSV Asset Management	Developed Markets Value	64,286,887	2.0%
Artio Investment Management	Developed Markets	64,790,695	2.0%
Marathon Asset Management*	Developed Markets	36,151,759	1.1%
BGI Emerging Markets ETF	Emerging Markets Index	47,845,697	1.5%
TCW Worldwide Opportunity Fund*	Emerging Markets	40,284,337	1.3%
Fixed Income			
Bridgewater Associates	Enhanced TIPS Index	341,179,651	10.7%
Bridgewater Associates	Enhanced Multi-Asset Real Return	423,675,920	13.3%
Brandywine Asset Management	Global Bonds	147,475,079	4.6%
JPMorgan*	Fixed Income Opportunity Fund	22,796,034	0.7%
DoubleLine Capital	Mortgage-Backed Securities	190,985,912	6.0%
DoubleLine Capital	Special Mortage Credit	33,327,600	1.0%
Gramercy Distressed Opportunity Fund*	Distressed Opportunity	12,912,720	0.4%
Gramercy Argentina Debt*	Distressed Opportunity	9,907,782	0.3%
JPMorgan Global Maritime Fund*	Distressed Opportunity	440,924	0.0%
Pacific Investment Management Co. (PIMCO)*	Distressed Senior Credit	43,153,446	1.4%
Czech Asset Management	Direct Lending	22,727,178	0.7%
Post Advisory	High Yield Bonds	81,693,610	2.6%
MacKay Shields	High Yield Bonds	81,656,992	2.6%
Shenkman Capital Management	High Yield Bonds	79,349,576	2.5%
Alternative Investments			
Cohen & Steers Capital Management	U.S. Real Estate Inv. Trusts	186,197,415	5.9%
Cohen & Steers Capital Management	Int'l Real Estate Securities	67,127,716	2.1%
Pacific Investment Management Co. (PIMCO)	Collateralized Commodity Futures	172,844,381	5.4%
Absolute Return			
BGI GlobalAlpha Fund*	Global Bonds	92,641,342	2.9%
BGI Global Ascent Fund*	Global Macro Absolute Return Fund	53,333,944	1.7%
Deephaven Capital Management*	Multi-Strategy Absolute Return Fund	969,076	0.0%
Dearborn Partners	Long/Short Duration Mgt.	36,672,356	1.2%
Eagle Trading Systems*	Global Macro Absolute Return Fund	70,724,900	2.2%
FrontPoint Partners*	Multi-Strategy Absolute Return Fund	867,711	0.0%
Pacific Investment Management Co. (PIMCO)*	Global Credit	75,984,543	2.4%
Short-term			
The Clifton Group	Policy Implementation Overlay	50,885,047	1.6%
BNY Mellon Cash Investment Strategies	Plan Level Cash Accounts	101,014,242	3.2%
Cash Held at County Treasurer	Operating Cash Account	7,739,618	0.2%
Total Investments		**$3,178,520,075**	**100.0%**

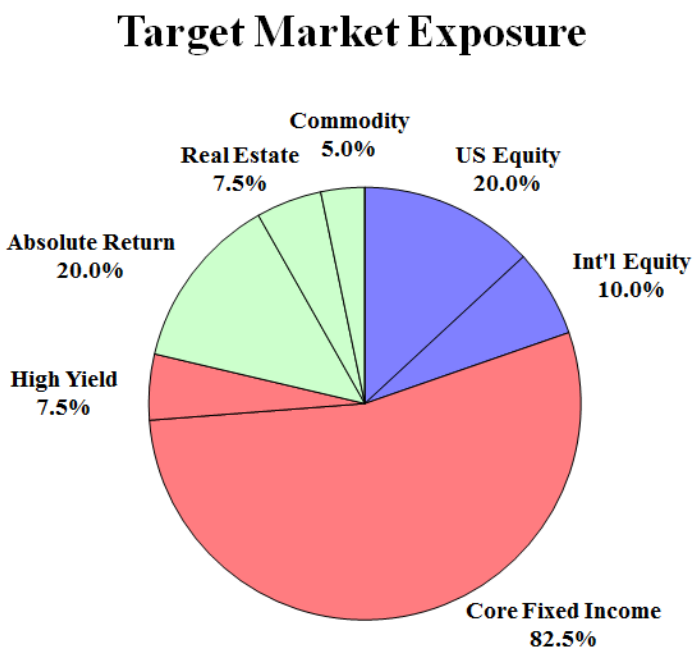
* Pooled fund

Employees' Retirement System – Allocation of Market Exposures

Target Market Exposures

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

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



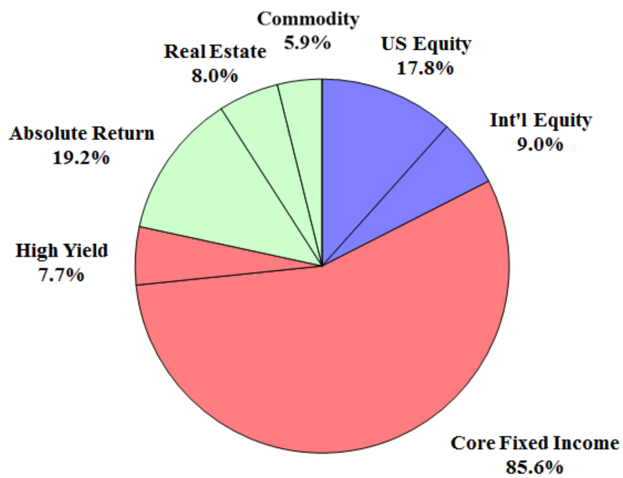
Total exposure exceeds 100% from the use of futures

Actual Allocations as of June 30, 2012

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.

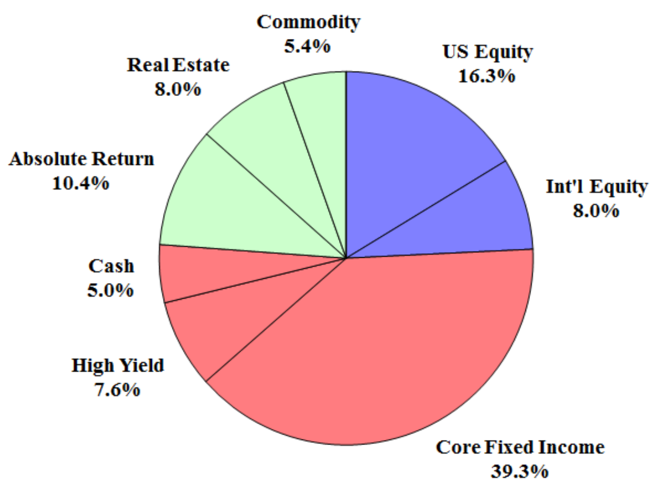
The pie chart below details the actual asset allocations as of June 30, 2012.

Actual Market Exposure



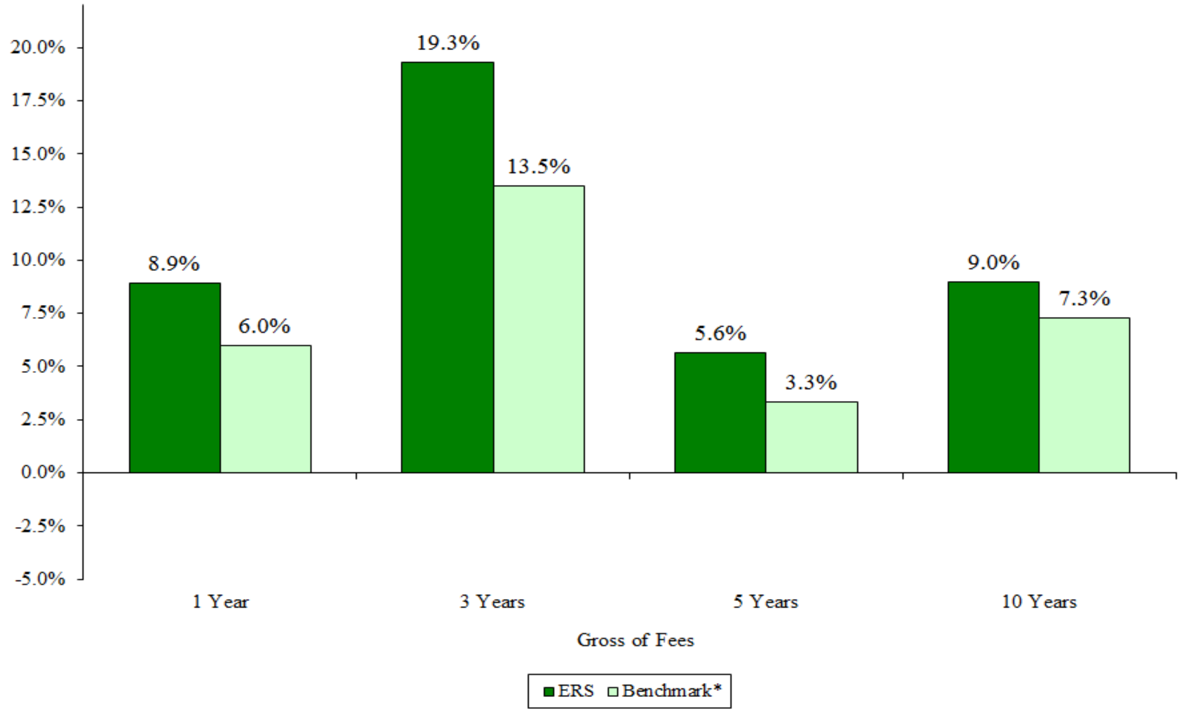
Total Exposure exceeds 100% from the use of futures

Actual Allocation of Capital



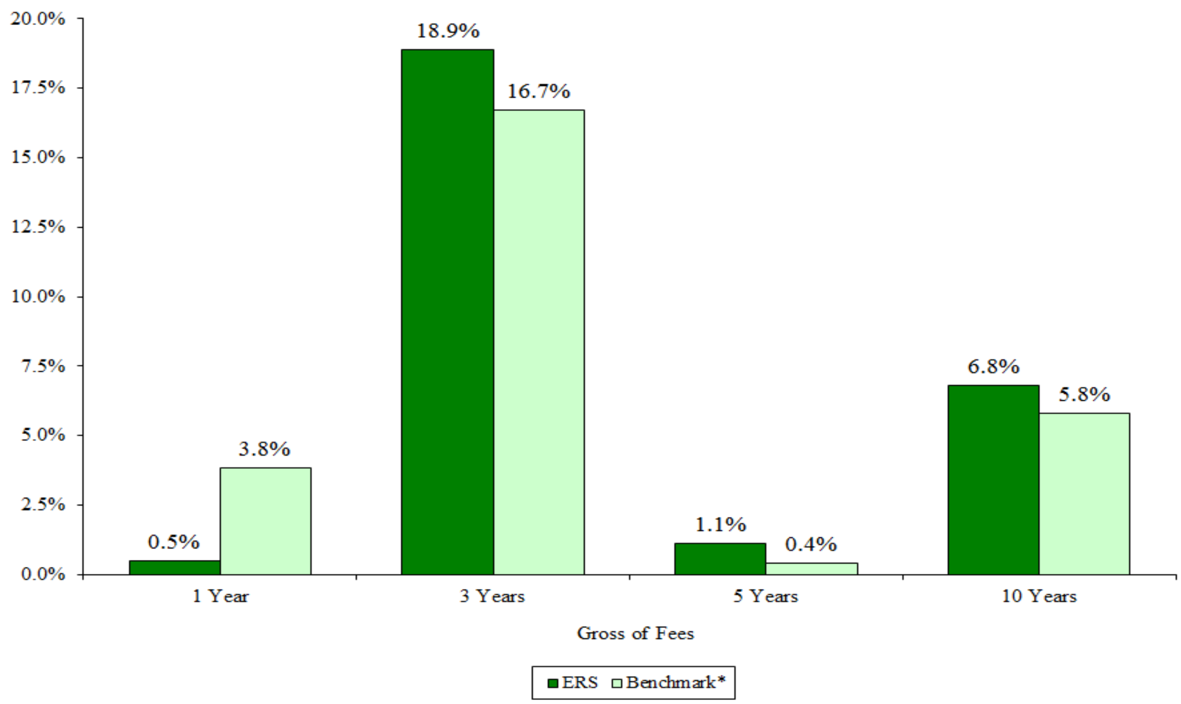
Investment Results

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

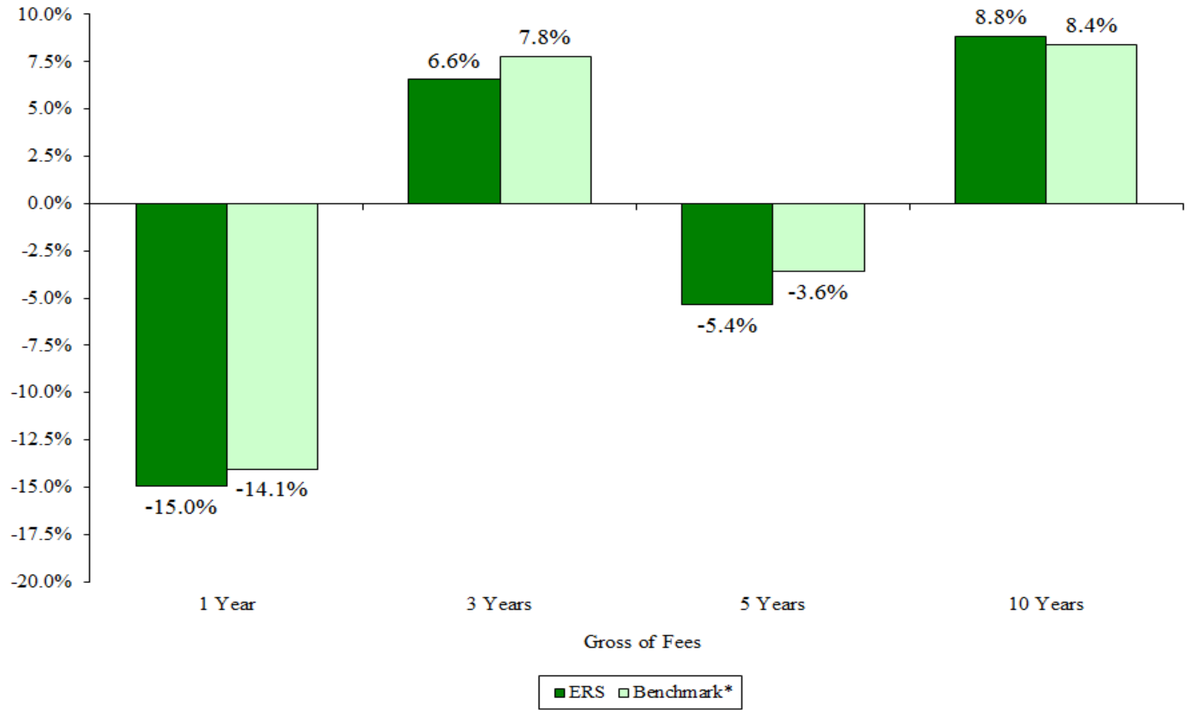
Domestic Equity:



*Benchmark: Russell 3000

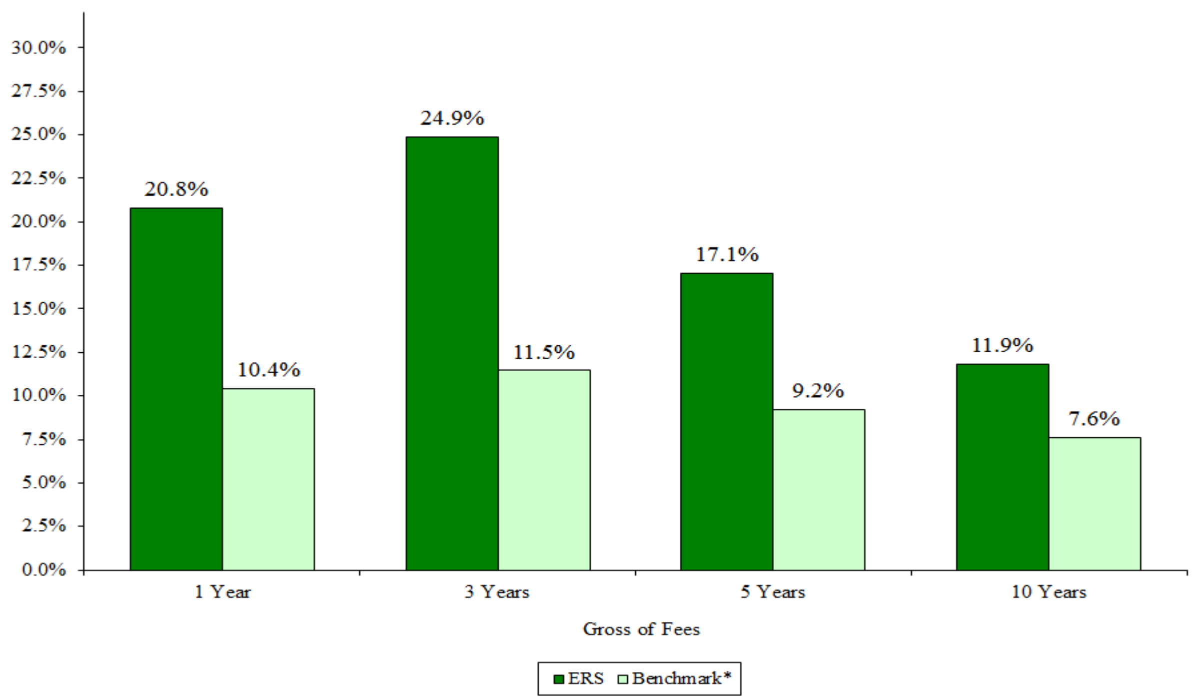
Investment Results

International Equity:



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

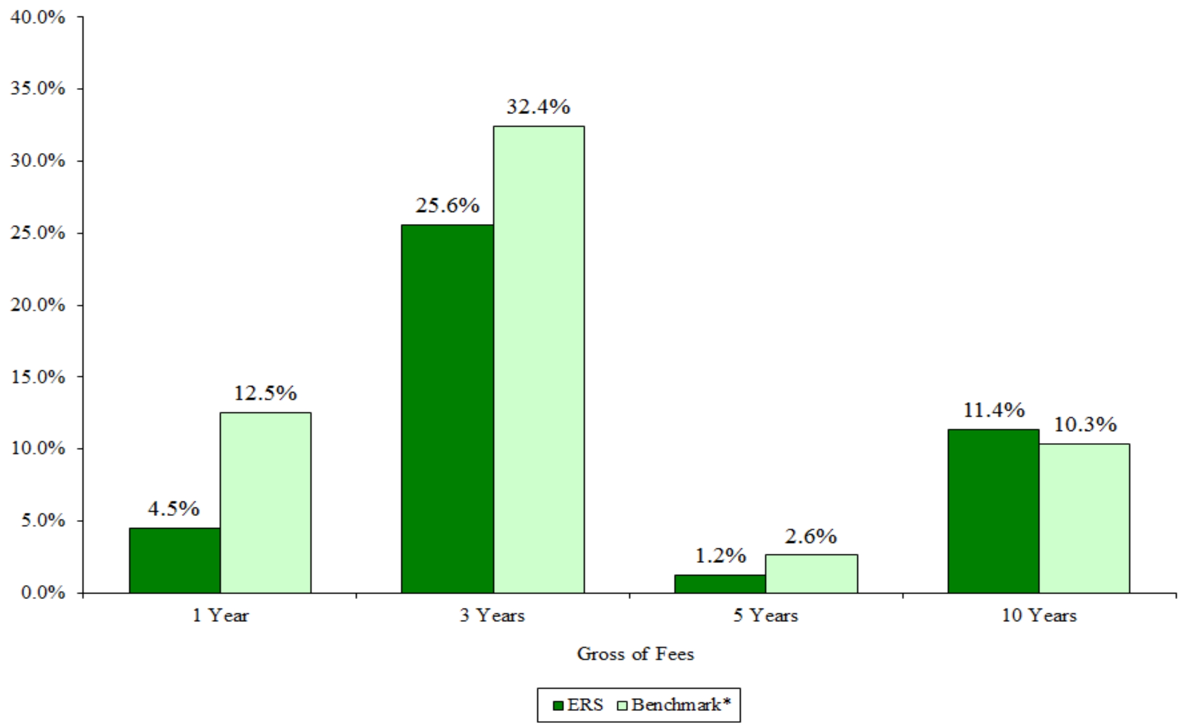
Fixed Income:



*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
144,007	Simon Property Group Inc	$12,404,625	$22,416,130	0.70%
21,671	Apple Inc	4,132,337	12,655,864	0.39%
84,297	Public Storage	9,231,599	12,173,330	0.38%
356,308	Prologis Inc	11,378,723	11,840,115	0.37%
135,787	Vornado Realty Trust	10,642,160	11,403,392	0.35%
162,039	Equity Residential	8,509,042	10,104,752	0.31%
106,675	Exxon Mobil Corp	8,055,698	9,128,180	0.28%
440,797	General Growth Properties Inc	6,890,317	7,974,018	0.25%
161,045	HCP Inc	6,161,266	7,110,137	0.22%
56,223	Visa Inc	4,718,060	6,950,849	0.22%
	Total	**$82,123,827**	**$111,756,767**	**3.47%**

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
16,036,148	U.S. Treas-CPI Inflation Index, 1.250%, 07/15/2020	$18,495,986	$18,619,411	0.58%
147,800,000	Mex Bonos Desarr Fix Rt, 8.500%, 05/31/2029	13,332,144	13,439,794	0.42%
7,030,000	United Kingdom Gilt, 4.500%, 03/07/2013	11,919,519	11,340,561	0.35%
9,242,726	U.S. Treas-CPI Inflation Index, 0.625%, 07/15/2021	10,234,107	10,294,086	0.32%
8,635,000	New S Wales Treasury Corp, 6.000%, 04/01/2016	8,586,569	9,660,847	0.30%
6,710,000	U.S. Treasury Bond, 4.250%, 11/15/2040	6,652,365	8,777,552	0.27%
6,978,435	U.S. Treas-CPI Inflation Index, 1.875%, 07/15/2015	7,688,189	7,589,048	0.24%
20,730,000	Poland Government Bond, 5.750%, 09/23/2022	6,968,858	6,478,707	0.20%
1,282,400,000	Hungary (Republic of), 5.500%, 02/12/2016	5,604,922	5,339,244	0.17%
5,281,400,000	Korea Treasury Bond, 5.750%, 09/10/2018	4,869,829	5,173,054	0.16%
	Total	**$94,352,488**	**$96,712,304**	**3.01%**

Schedule of Brokerage Commissions
Year Ended June 30, 2012

Broker Name	Base Volume	Total Shares	Base Commission	Commission Percentage
Macquarie Securities Limited, Hong Kong	$ 4,722,963	5,513,366	$ 8,625	0.18%
Barclays Capital, London	4,922,840	363,125	7,115	0.14%
Citigroup Gbl Mkts/Salomon, New York	9,399,736	3,025,350	13,384	0.14%
Nomura Secs Intl Inc, New York	8,625,940	1,213,804	11,583	0.13%
Stifel Nicolaus	14,688,657	734,517	19,344	0.13%
Merrill Lynch Pierce Fenner, Wilmington	13,122,121	9,549,183	16,679	0.13%
UBS Warburg AsiaLtd, Hong Kong	10,731,159	6,328,359	13,165	0.12%
KeyBanc Capital Markets Inc, New York	4,790,935	201,887	5,862	0.12%
Merrill Lynch Intl London Equities	9,714,117	1,215,250	11,822	0.12%
Goldman Sachs & Co, NY	126,221,075	3,141,423	151,038	0.12%
JPMorgan Secs Ltd, London	7,792,152	812,330	9,096	0.12%
Raymond James & Assoc Inc, St Petersburg	5,329,421	188,898	6,139	0.12%
National Finl Svcs Corp, New York	6,113,864	216,795	6,977	0.11%
Liquidnet Inc, Brooklyn	15,894,422	622,652	18,122	0.11%
Baird, Robert W & Co Inc, Milwaukee	6,955,964	250,980	7,790	0.11%
Abel Noser Corp, New York	7,440,070	228,592	8,001	0.11%
Macquarie Securities (USA) Inc, Jersey City	6,280,881	191,482	6,606	0.11%
Green Street Advisors, Jersey City	17,402,119	514,559	17,452	0.10%
BNY Convergex, New York	8,310,473	375,982	8,240	0.10%
RBC Capital Markets Llc, New York	10,946,420	498,112	10,718	0.10%
Barclays Capital Inc/ Le, New Jersey	12,813,970	374,756	12,372	0.10%
Citigroup Gbl Mkts Inc, New York	28,283,573	963,605	26,880	0.10%
Wells Fargo Securities Llc, Charlotte	10,502,463	446,093	9,544	0.09%
Barclays Capital Le, Jersey City	15,040,122	598,301	13,452	0.09%
Morgan Stanley & Co Inc, NY	47,706,350	4,084,202	41,800	0.09%
JPMorgan Securities Inc, Brooklyn	6,312,862	255,914	5,350	0.08%
Keefe Bruyette and Woods, Jersey City	12,444,241	312,633	10,345	0.08%
UBS Equities, London	7,910,141	545,818	6,537	0.08%
Deutsche Bk Secs Inc, NY	52,882,439	2,436,810	40,507	0.08%
JPMorgan Clearing Corp, New York	64,772,179	2,289,599	48,900	0.08%
Credit Suisse (Europe), London	10,601,595	608,208	7,213	0.07%
Frank Russell Sec Inc, New York	44,741,642	1,512,700	30,235	0.07%
ISI Group Inc, NY	4,151,087	78,974	2,764	0.07%
Credit Suisse, New York	82,470,917	5,131,581	53,620	0.07%
Sanford C Bernstein & Co Inc, London	6,943,378	830,520	4,413	0.06%
BNY Convergex/LJR, Houston	21,659,598	528,455	13,646	0.06%
Knight Equity Markets LP, Jersey City	35,649,671	834,360	21,881	0.06%
Merrill Lynch Pierce Fenner Smith Inc, NY	75,592,383	2,131,761	45,768	0.06%
Jefferies & Co Inc, New York	34,662,804	831,947	20,729	0.06%
Cantor Fitzgerald & Co Inc, New York	9,985,249	218,238	5,856	0.06%
Goldman Sachs Execution & Clearing, NY	31,569,110	1,121,740	17,992	0.06%
Bernstein Sanford C & Co, New York	34,319,804	674,868	19,445	0.06%
UBS Securities Llc, Stamford	62,167,508	1,703,379	34,207	0.06%
Bloomberg Tradebook Llc, New York	26,809,649	1,053,505	14,565	0.05%
Cap Instl Svcs Inc-Equities, Dallas	18,916,214	398,225	9,920	0.05%
Instinet Corp, NY	11,561,578	230,000	6,009	0.05%
Weeden & Co, New York	32,443,435	652,196	16,284	0.05%
Rosenblatt Securities Llc, Jersey City	17,694,230	333,500	8,847	0.05%
Guzman & Company, Coral Gables	5,605,673	97,000	2,803	0.05%
Investment Technology Group, New York	25,664,725	616,830	6,607	0.03%
Other Brokers	128,958,321	32,681,727	178,470	0.14%
Total	**$1,280,242,238**	**99,764,091**	**$1,094,718**	**0.09%**

Investment Summary
(Based on Capital Allocation)

	As of June 30, 2011		As of June 30, 2012	
	Market Value	**% Market Value**	**Market Value**	**% Market Value**
Domestic Equities	$517,046,371	17.3%	$516,875,985	16.3%
International Equities	272,678,029	9.1%	253,359,375	8.0%
Fixed Income	1,289,162,991	43.2%	1,491,282,424	46.9%
Alternative Investments	434,105,892	14.6%	426,169,512	13.4%
Absolute Return	330,611,547	11.1%	331,193,872	10.4%
Short-term	138,851,789	4.7%	159,638,907	5.0%
Total	**$2,982,456,619**	**100.0%**	**$3,178,520,075**	**100.0%**

Schedule of Direct Investment Management Fees

Year Ended June 30, 2012

Asset Class Manager	Investment Style	Total Assets	Fees
Domestic Equities			
DePrince, Race & Zollo	Large Cap Value	$99,413,722	$ 385,693
Enhanced Inv. Technologies (INTECH)	Large Cap Growth	110,799,186	502,882
Pzena Investment Management	Large Cap Value	93,127,765	476,468
Sands Capital Management	Large Cap Growth	53,039,698	358,652
Columbia Wanger Asset Management	Small/Mid Cap Core	160,495,614	936,715
International Equities			
LSV Asset Management	Developed Markets Value	64,286,887	447,879
Artio Investment Management	Developed Markets	64,790,695	401,182
Marathon Asset Management	Developed Markets	36,151,759	323,066
Fixed Income			
Brandywine Asset Management	Global Bonds	147,475,079	530,132
DoubleLine Capital	Mortgage-Backed Securities	190,985,912	1,221,629
DoubleLine Capital	Special Mortage Credit	33,327,600	563,243
Post Advisory	High Yield Bonds	81,693,610	272,091
MacKay Shields	High Yield Bonds	81,656,992	252,440
Shenkman Capital Management	High Yield Bonds	79,349,576	374,701
Alternative Investments			
Cohen & Steers Capital Management	U.S. Real Estate Inv. Trusts	186,197,415	785,983
Cohen & Steers Capital Management	Int'l Real Estate Securities	67,127,716	401,080
Pacific Investment Management Co. (PIMCO)	Collateralized Commodity Futures	172,844,381	614,281
Absolute Return			
BGI GlobalAlpha Fund	Global Bonds	92,641,342	864,677
Dearborn Partners	Long/Short Duration Mgt.	36,672,356	165,759
Short-term			
The Clifton Group	Policy Implementation Overlay	50,885,047	313,884
BNY Mellon Cash Investment Strategies	Plan Level Cash Accounts	101,014,242	373,931
Total		**$ 2,003,976,594**	**$ 10,566,368**

CHEIRON Classic Values, Innovative Advice

March 9, 2012

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, 2011. The results of the valuation are contained in this report.

Funding Objective

The funding objective of the System is to establish contribution rates which, over time, will remain level as a percent of payroll. In order to achieve a more stable contribution rate the Employer 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 Employer.

Assumptions

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

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

Reliance on Others

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

Supporting Schedules

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

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

March 9, 2012
Fairfax County Employees' Retirement System
Page 2

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

Compliance with Code of Virginia §51.1-800

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

Although there is no formal procedure for making this comparison, we compared the least valuable rate under the 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.

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

Certification

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

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

Sincerely,
Cheiron

Fiona E. Liston

Christian Benjaminson

Fiona E. Liston, FSA
Principal Consulting Actuary

Christian E. Benjaminson, FSA
Principal Consulting Actuary

Summary of Valuation Results (unaudited)

Overview

This report presents the results of the July 1, 2011 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 Employer for Fiscal Year 2013; and
- Provide specific information and documentation required by the Governmental Accounting Standards Board (GASB).

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

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

General Comments

The employer's annual contribution to this System is determined by using a corridor funding method. Under this funding approach, the Employer'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 0.20% 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 1.06% and the UAL rate has increased by 1.49%, the specific changes are summarized in the table on the next page:

Changes Since 2001	Impact on Normal Cost Rate	Impact on UAL Rate
2002 ad-hoc COLA	N/A	+ 0.13%
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%
2010 Assumption Changes	+ 0.96%	+ 0.02%
Total Increase	**+ 1.06%**	**+ 1.49%**

The basic corridor funding contribution is currently 8.60% of payroll. The normal cost rate and actuarial accrued liability will continue to be measured using the entry age funding method. If the funded status falls outside the corridor, a credit (if above 120%) or charge (if below 90%) will be established based on a 15-year amortization equal to the amount necessary to re-enter the corridor. Once the funded status is within the corridor, the contribution rate will return to the normal cost rate plus expense rate, and any remaining amortization for benefit or assumption changes.

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

The Employer’s contribution rate for FY 2013 will increase from 16.70% to 18.49% 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.

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

Trends

The rebound in the financial markets continued during the fiscal year ending in 2011, causing an actuarial gain on the asset side of the System. The actual return on a market value basis was approximately 23.68%. On an actuarial value basis, the assets returned 10.25% compared with an assumed rate of return of 7.5%. The gain recognized for funding purposes was $71.7 million.

The measurement of liabilities produced a loss this year in the amount of $79.4 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 3.6% for active participants who were in both the July 1, 2010 and July 1, 2011 valuations. This was greater than the expected salary growth based on the actuarial assumption (per the most recent experience study), which worked out to average 1.8%. This resulted in a loss of $17.5 million.

- The valuation assumed a 1% cost-of-living adjustment in 2011 for benefits in pay status (per the most recent experience study). The actual CPI-based COLA was 3.0% last year, creating a liability loss of $35.2 million.

- The 2011 valuation is the first to incorporate actual sick leave hours into both eligibility and projected benefits for active participants. The accrual of sick leave from 2010 to 2011 produced a loss of $5.7 million as we do not currently include an assumption regarding sick leave accrual.

- An annual component of liability loss is the delayed recognition of new hires throughout the year. This does not contribute to an increase in the System's unfunded liability because both the member and the employer make contributions from the date of hire. However, when we look only at the liability side, they are a component of the annual liability loss, and this year they contributed $4.0 million to that number.

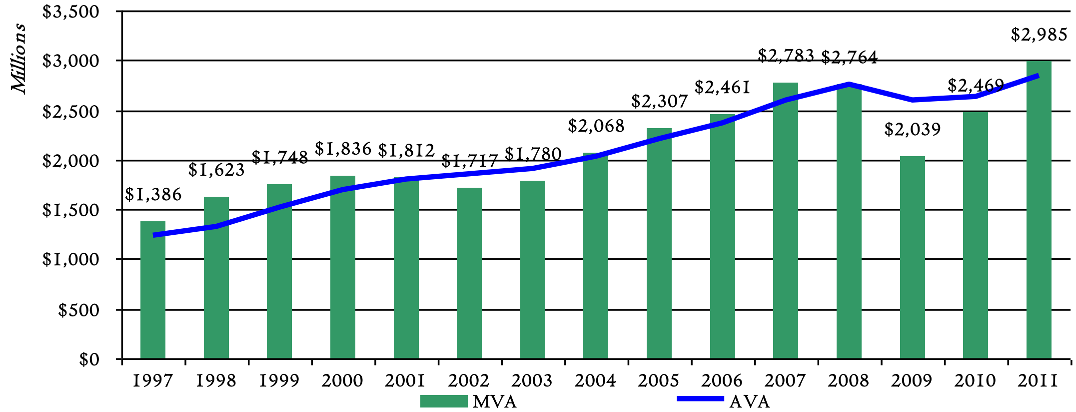
- There was a $17.0 million liability loss component that is made up of various other causes such as members terminating, dying or becoming disabled in a way contrary to the assumption.

- In addition to the liability loss, the System's liabilities also increased by $1.6 million due to changes in the actuarial assumptions used, as recommended by an experience study performed in 2011.

The combination of plan changes and liability and investment experience over the last year led to the System's funding ratio (actuarial value of assets over actuarial accrued liability) increasing from 69.9% at July 1, 2010 to 70.7% at July 1, 2011. For purposes of measuring whether the System remains within the funding corridor, an adjusted funding ratio is used. In this ratio, there is an additional asset recognized in the amount of the unfunded actuarial liability (UAL) payments being made by the County to pay for benefit increases and assumption changes. On this basis, the System's actuarial funded ratio increased from 72.0% at July 1, 2010 to 72.5% at July 1, 2011.

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

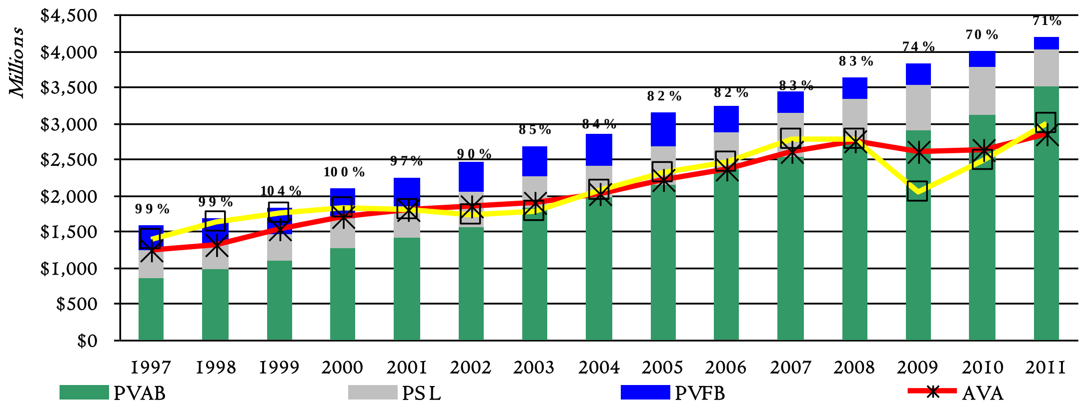
Growth in Assets



There was a substantial increase in the market value of assets (MVA) over last year due to a return of 23.7%. The actuarial value of assets (AVA) increased as well, but not as significantly because a portion of this year's investment gain is being held for future recognition. Due to the significant market increases this year and last, the System has $143 million in unrecognized gains that will be phased in over the next few years.

Over the period July 1, 1997 to June 30, 2011 the System's assets returned approximately 7.8% per year measured at actuarial value, compared to a valuation assumption of 7.5% per year.

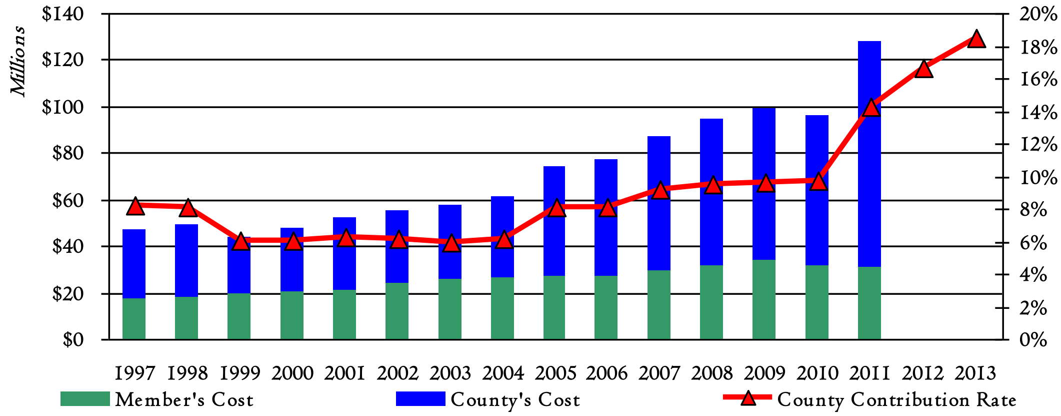
Assets and Liabilities



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

Since 2007, the System's funded status has declined from 83% to 71% as a result of investment gains and losses, liability losses, and the underfunding inherent in the corridor method once it falls below 90%.

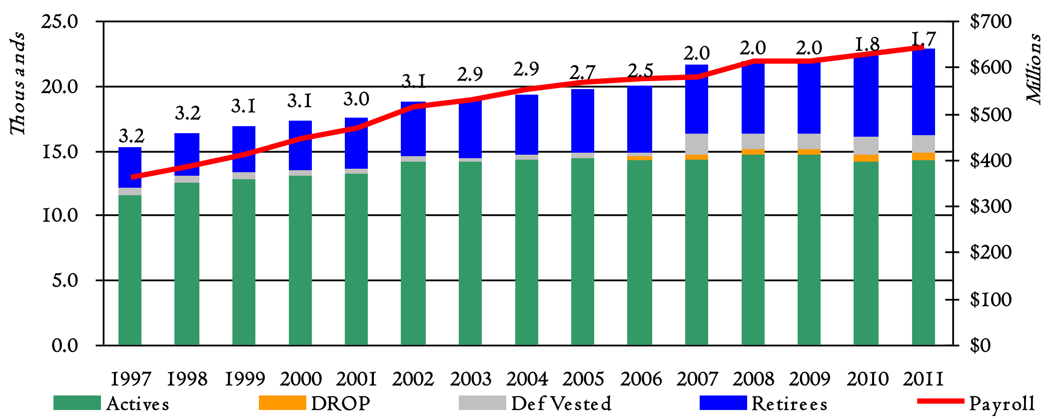
Contribution Rates



The stacked bars in this graph show the contributions made by both the County and the members (left hand scale). The 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 2011 value is the rate prepared by the 2009 valuation and implemented for the period July 1, 2010 to June 30, 2011.

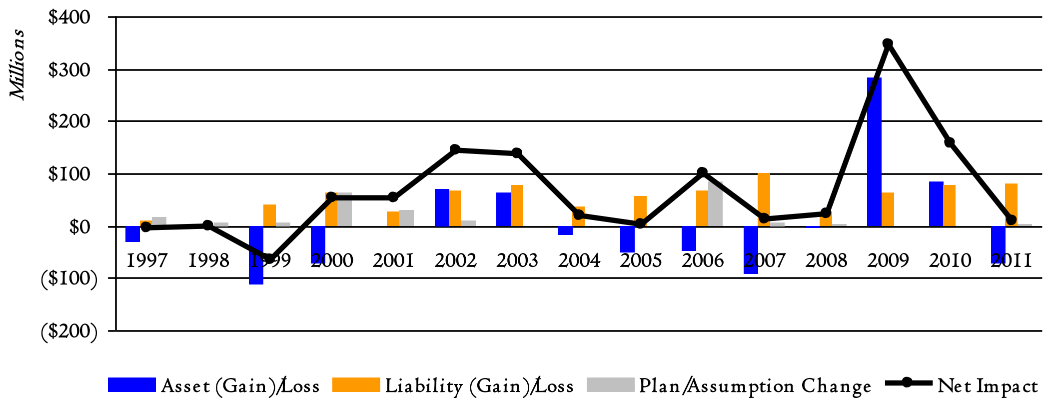
Participant Trends



As with many funds in this country, there has been a steady growth in the number of retired members as the System has matured. The active-to-inactive ratio has decreased from 3.2 actives to each inactive in 1997 to 1.7 actives for each inactive today. While this would be an alarming trend in a pay-as-you-go system, the pool of invested assets has been established in anticipation of this development.

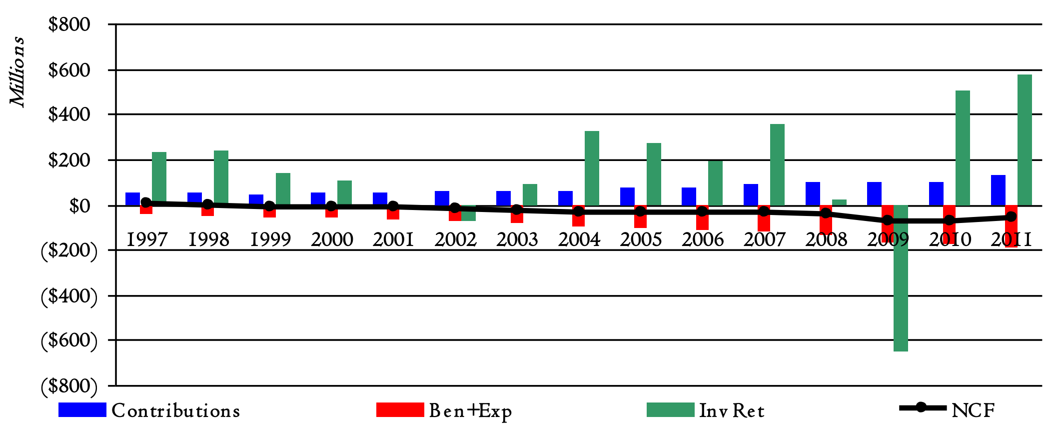
Starting in 2006, the chart also shows the number of DROP participants. Neither employer nor member contributions are made on their behalf, which leads to a slightly lower growth in effective covered payroll for this System.

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



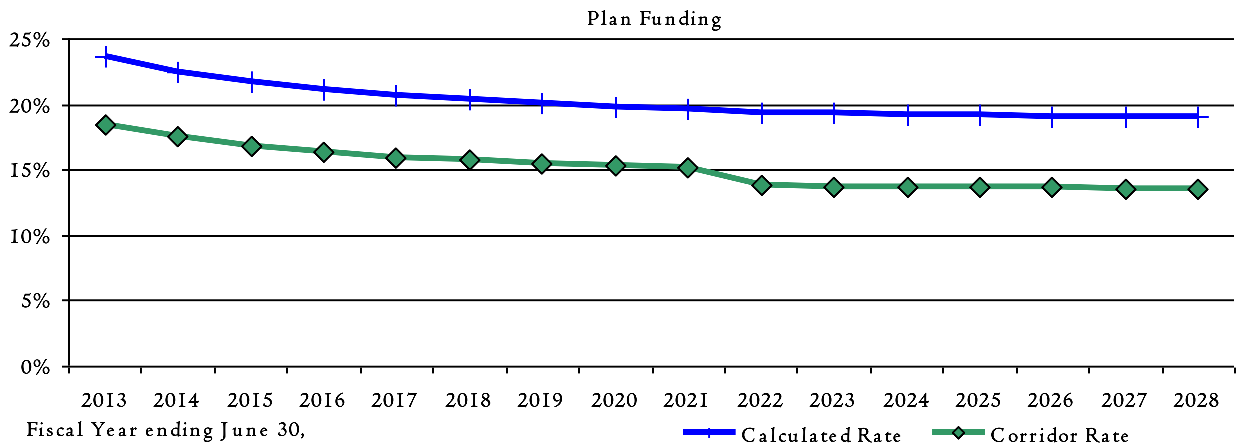
The graph shows the annual cash flows into and out of the System. The graph shows the magnitude the investment returns on the market value (green bars) compared to the contributions (blue bars). The net cash flow (line) is comparing the contributions to benefits and expenses (red bar). Negative cash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

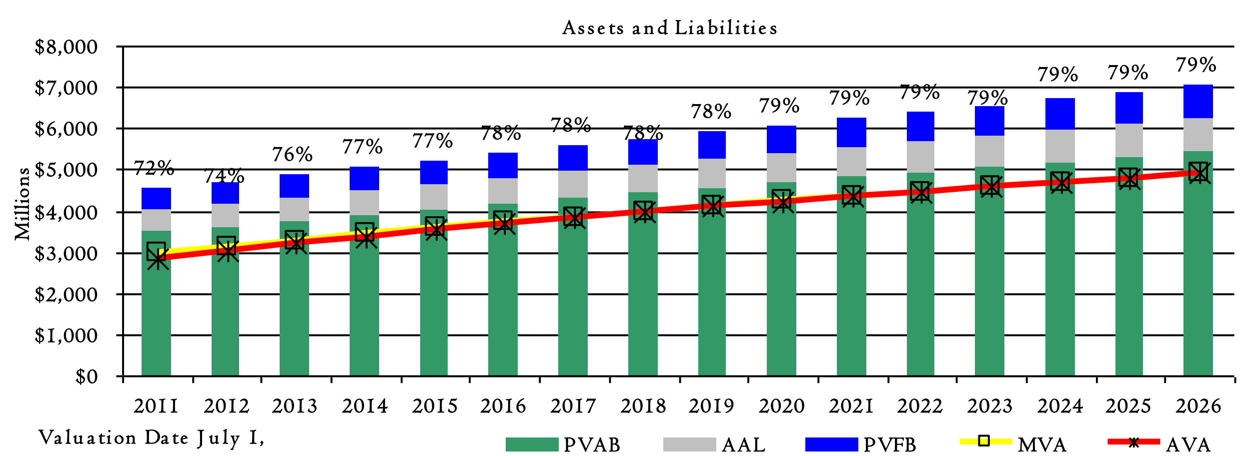
Base-line Projections

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 contribution rates declining, but the System does not re-enter the corridor (if all other actuarial assumptions are met as well as the 7.5% interest rate). The contribution rate decreases as the stored investment gains are fully phased-in and as plan change bases become fully amortized and drop out. The blue line shows the actuarially calculated rate if the corridor were not in place. Under this scenario, the corridor rate declines from 18.5% to 13.75% of payroll.



The "Assets and Liabilities" graph shows the projected funding status over the next 15 years. Note that the 2011 funded level differs from that shown in the historical graphs because the ratio used here reflects the corridor method. The corridor funded ratio will gradually increase in the short term as unrecognized investment gains and losses are incorporated in the actuarial value of assets. After that, the corridor method basically marks time and keeps the System around 79% funded.

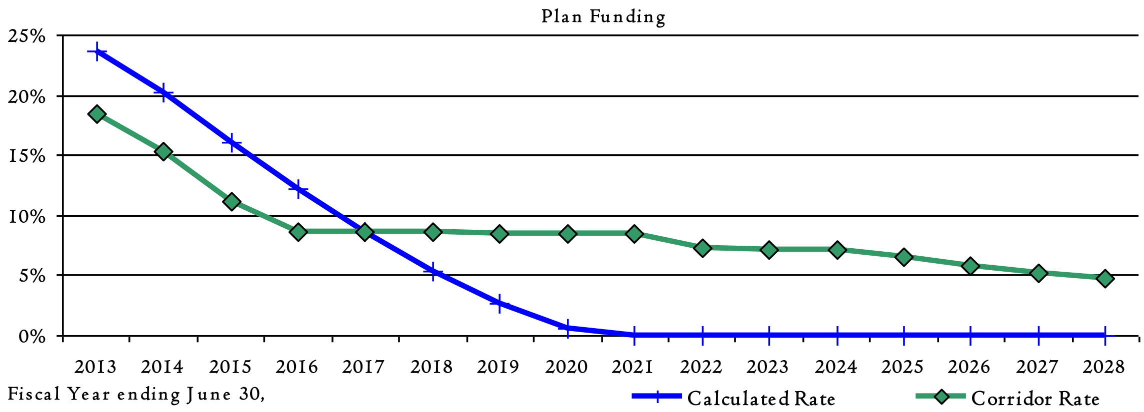


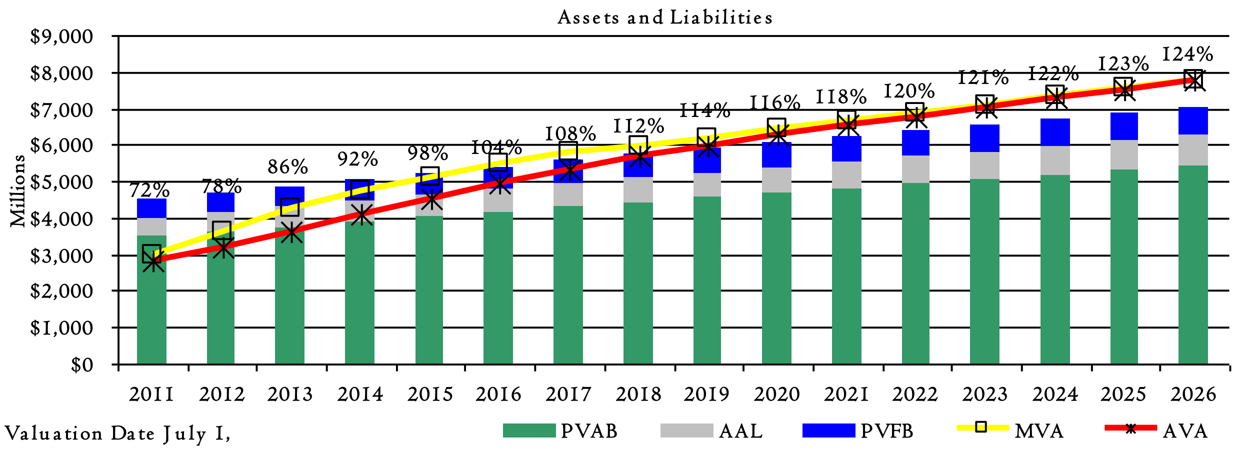
The future funding status of this System will be influenced by the investment earnings. The prior projection assumed the System would earn 7.5% each and every year, which is extremely unlikely.

In the projections that follow we show the risk to the System under volatile markets. Since 1980 the System has averaged 10.41% return per year, therefore, for this analysis we have created the following three scenarios that produce the same average return.

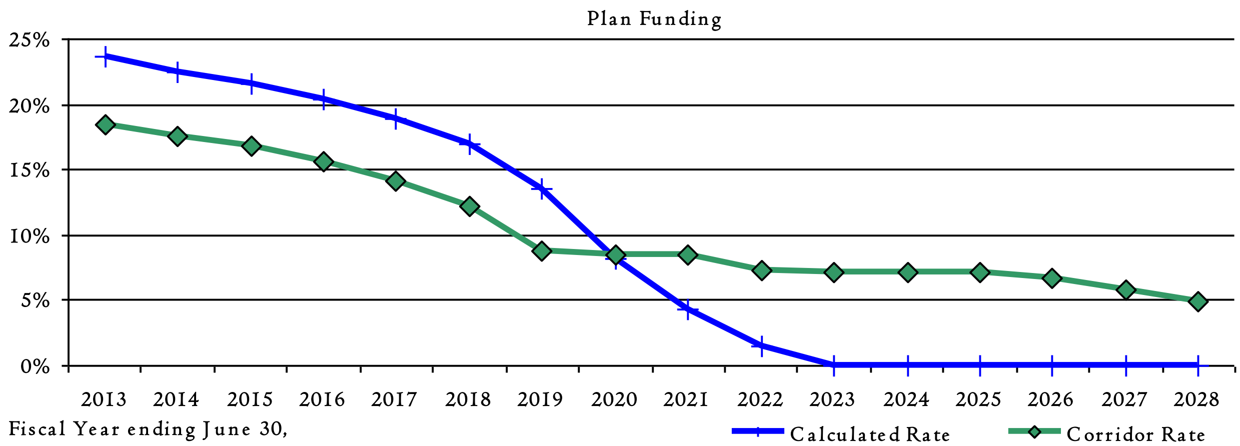
Fiscal Year Ending June 30,	Favorable Returns Early	Poor Returns Early	Random Returns
2011	24.55%	7.05%	24.57%
2012	20.05%	9.05%	4.85%
2013	14.05%	11.05%	2.80%
2014	12.05%	12.05%	12.55%
2015	11.05%	14.05%	4.95%
2016	9.05%	20.05%	11.44%
2017	7.05%	24.55%	16.89%
2018	7.50%	7.50%	22.67%
2019	7.50%	7.50%	6.24%
2020	7.50%	7.50%	7.20 %
2021	7.50%	7.50%	6.22%
2022	7.50%	7.50%	16.95%
2023	7.50%	7.50%	7.49%
2024	7.50%	7.50%	-4.17%
2025	7.50%	7.50%	19.21%
Average	**10.41%**	**10.41%**	**10.39%**

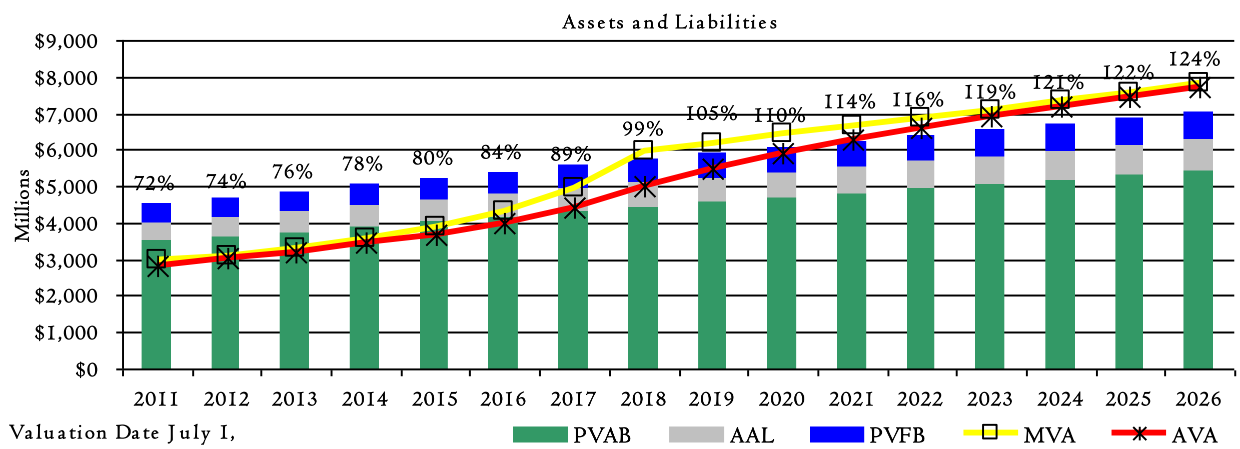
Alternative Projection -- with favorable returns early in the projection:
Under this scenario, the corridor contribution rate would decrease each year as the System experiences investment gains in the first five years. The System reaches 92% funded by 2014 (and re-enters the corridor) and then continuously increases to 124% funded by 2026.





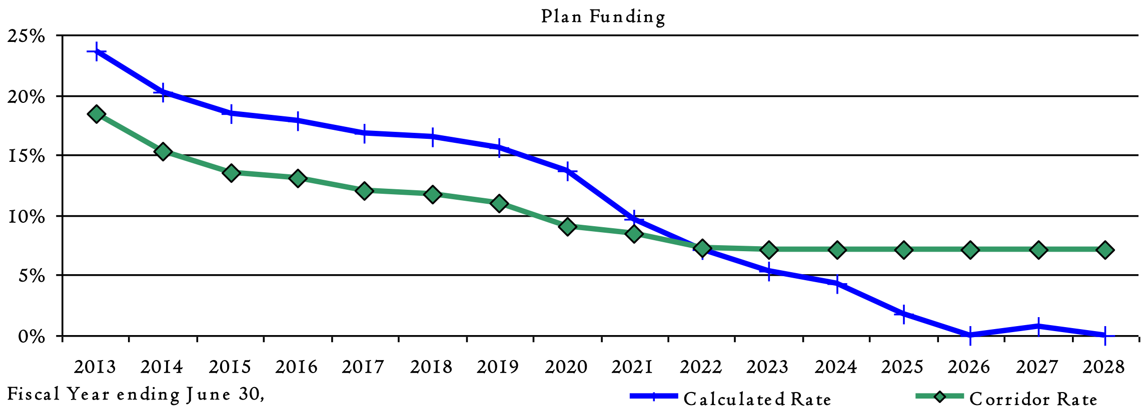
Alternative Projection -- with poor returns early in the projection:
Under this scenario, the corridor contribution rate still declines given the current amount of stored gains. The County would re-enter the corridor in 2018 and reach full funding in 2019.

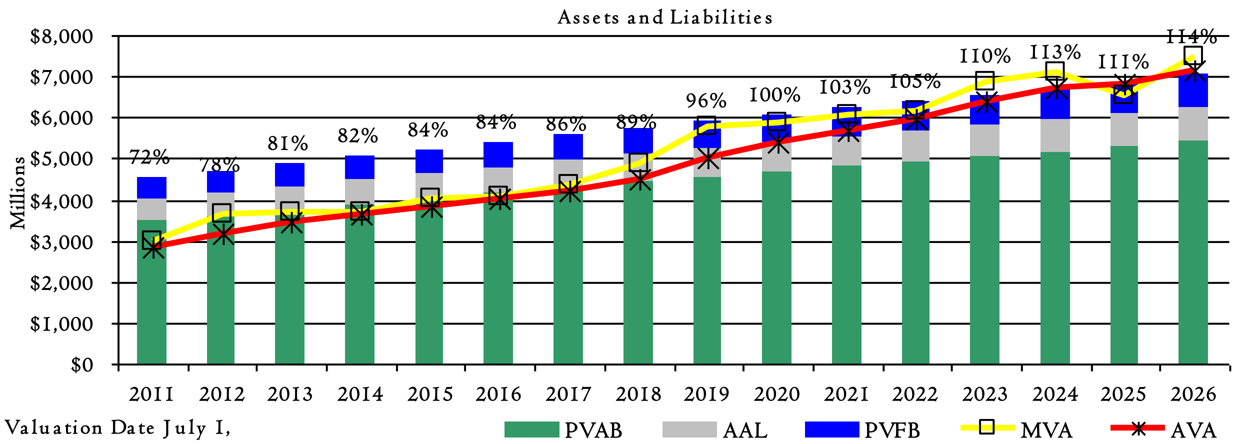




Alternative Projection -- with random returns

Under this scenario, the corridor contribution rate declines each year until FY2022 when the County re-enters the corridor. This scenario shows the System at 96% funded by 2019 and 114% funded at the end of the period.





Summary of Principal Plan Results

Valuation as of:	**7/1/2010**	**7/1/2011**	**% Chg**
Participant Counts			
Actives (excluding DROP)	14,169	14,256	0.6%
DROPs	472	531	12.5%
Terminated Vesteds	1,384	1,427	3.1%
In Pay Status	6,218	6,568	5.6%
Total	22,243	22,782	2.4%
Annual Salaries of Active Members	$ 629,248,592	$ 642,073,198	2.0%
Annual Retirement Allowances for Retired Members and Beneficiaries (Base amount only – not supplements)	$ 133,956,550	$ 147,312,901	10.0%
Assets and Liabilities			
Actuarial Accrued Liability	$ 3,771,059,523	$ 4,018,924,133	6.6%
Assets for Valuation Purposes	2,636,051,959	2,841,466,151	7.8%
Unfunded Actuarial Liability	$ 1,135,007,564	$ 1,177,457,982	3.7%
Funding Ratio	69.9%	70.7%	
Present Value of Accrued Benefits	$ 3,118,207,779	$ 3,492,728,033	12.0%
Market Value of Assets	2,469,080,090	2,984,863,644	20.9%
Unfunded Accrued Liability (not less than $0)	$ 649,127,689	$ 507,864,389	
Accrued Benefit Funding Ratio	79.2%	85.5%	
Contributions as a Percentage of Payroll	**Fiscal Year 2012**	**Fiscal Year 2013**	
GASB Method:			
Normal Cost Contribution	5.95%	6.91%	
Unfunded Actuarial Liability Contribution	15.24%	16.53%	
Administrative Expense	0.15%	0.20%	
Total Contribution	21.34%	23.64%	
Corridor Method:			
Normal Cost Contribution	5.95%	6.91%	
Increase Due to Amortized Changes	1.47%	1.49%	
Amortization of Amount Outside Corridor	9.13%	9.89%	
Administrative Expense	0.15%	0.20%	
Corridor Method	16.70%*	18.49%	

* The actual contribution rate being paid by the County in FY 2012 is 17.20%.

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

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

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

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

Annual Deaths Per 1,000 Disabled Members
RP 2000 Mortality Projected to 2015 with Ages Set Forward 5 Years

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

Termination of Employment (Prior to Normal Retirement Eligibility)

Annual 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	Normal
50	500
51	400
52	300
53	300
54	300
55	350
56	350
57	350
58	400
59	400
60	500
61	550
62	450
63	450
64	600
65	400
66	300
67	200
68	200
69	200
70	200

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

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

Service	Merit/Seniority Increase
0	7.00%
5	2.00
10	1.80
15	1.70
20	1.20
25	1.00
30	1.00

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 three years younger than the male spouse.

Sick Leave Credit

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

Economic Assumptions

Investment Return:	7.50% compounded per annum.
Rate of General Wage Increase:	3.00% compounded per annum.*
Rate of Increase in Cost-of-Living:	3.00% compounded per annum.**
Total Payroll Increase (For amortization):	3.00% compounded per annum.
Administrative Expenses:	0.20% of payroll.

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

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

Changes Since Last Valuation

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

Analysis of Financial Experience

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

Type of Activity	2006	2007	2008	2009	2010	2011
Investment Income	$ 48,113,093	$93,321,633	$5,501,407	$(282,116,118)	$(83,485,934)	$71,698,746
Combined Liability Experience	(66,263,080)	(99,929,651)	(26,428,258)	(62,427,360)	(74,720,305)	(79,444,131)
Gain (or Loss) During Year from Financial Experience	**$ (18,149,987)**	**$(6,608,018)**	**$(20,926,851)**	**$(344,543,478)**	**$(158,206,239)**	**$(7,745,385)**
Non-Recurring Items	(4,777,614)	(2,056,768)	(1,446,483)	0	0	(1,602,061)
Composite Gain (or Loss) During Year	**$ (22,927,601)**	**$(8,664,786)**	**$(22,373,334)**	**$(344,543,478)**	**$(158,206,239)**	**$(9,347,446)**

Schedule of Retirees and Beneficiaries
Added To and Removed From Rolls

Year Ended June 30,	Added to Rolls No.	Added to Rolls Annual Allowance	Removed From Rolls No.	Removed From Rolls Annual Allowance	On Rolls @ Yr. End No.	On Rolls @ Yr. End Annual Allowance	% Increase Allowance	Average Allowance
2006	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
2010	450	14,483,584	163	2,748,741	6,218	156,867,413	8.09%	25,228
2011	518	18,345,093	168	2,885,600	6,568	172,326,906	9.86 %	26,237

Solvency Tests
Aggregate Accrued Liabilities For

Valuation Date July 1,	(1) Active Member Contributions	(2) Retirees, Vested Terms, Beneficiaries & DROP	(3) Active Members (Employer Financed Portion)	Reported Assets *	Portion of Accrued Liabilities by Reported Assets (1)	(2)	(3)
2006	$ 259,773,091	$ 1,351,131,274	$ 1,270,875,228	$ 2,363,844,055	100%	100%	59%
2007	285,104,636	1,537,540,475	1,316,541,589	2,596,657,633	100%	100%	59%
2008	298,907,993	1,662,930,379	1,367,062,619	2,752,873,842	100%	100%	58%
2009	312,357,412	1,813,482,907	1,410,033,226	2,603,283,631	100%	100%	34%
2010	329,166,585	1,985,373,546	1,456,519,392	2,636,051,959	100%	100%	22%
2011	339,170,151	2,177,027,867	1,502,726,115	2,841,466,151	100%	100%	22%

** Based on the Actuarial Value of Assets*

Statistical Section (unaudited)

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

Schedule of Additions by Source

Fiscal Year	Plan Member Contributions	Employer Contributions	Employer Contributions % of Covered Payroll	Net Investment Income (loss)	Total Additions
2003	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
2011	31,041,076	96,607,535	14.70%	577,459,169	705,107,780
2012	31,702,075	114,682,538	17.20%	246,376,212	392,760,825

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
2011	183,800,128	3,884,082	1,640,016		189,324,226
2012	199,503,336	3,781,497	1,687,040		204,971,873

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

Schedule of Benefit Payments by Type

Fiscal Year	Service Annuity	Service-Connected Disability	Ordinary Disability	Survivor Benefit	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
2011	172,362,105	3,176,876	4,232,345	4,028,802	183,800,128
2012	187,702,064	3,187,892	4,353,983	4,259,397	199,503,336

Schedule of Retired Members by Benefit Type

Fiscal Year	Service Annuity	Service-Connected Disability	Ordinary Disability	Survivor Benefit	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
2011	5,712	153	400	303	6,568
2012	6,030	152	396	310	6,888

Schedule of Average Monthly Benefit Amounts

Fiscal Year	Service Annuity	Service-Connected Disability	Ordinary Disability	Survivor Benefit	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
2011	2,339	1,761	896	1,225	2,186
2012	2,413	1,861	937	1,249	2,264

Fairfax County Employees' Retirement System

A Fairfax County, Va., publication

Comprehensive Annual Financial Report

For the Fiscal Year ended June 30, 2012