Comprehensive Annual Financial Report 2011

Employees' RETIREMENT SYSTEM

For the Fiscal Year Ended June 30, 2011

A Pension Trust Fund of Fairfax County, Virginia

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County of Fairfax, Virginia

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

October 24, 2011

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, 2011.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).

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 2011, the economy continued its gradual recovery from deep recession. Despite continued high unemployment rates and the slow rate of recovery, the capital markets provided strong returns for the twelve month period despite a significant decline in the final two months. The System's portfolio achieved outstanding results, both in

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

absolute and relative terms. The rate of return on investments was 24.1% (23.6%, after fees and expenses), well ahead of the long term target return of 7.5%. This return also was well above the median public fund return of 21.3% and placed in the 17th percentile of the BNYMellon universe of public funds.

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

Internal and Budgetary Controls

The System's management is responsible for maintaining internal accounting controls to provide reasonable assurance that transactions are properly authorized and recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles.

Investment Policies and Strategies

The Board of Trustees has 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, 2010, indicated that the ratio of assets accumulated by the System to total actuarial accrued liabilities for benefits showed a decline from 73.6% to 69.9%. The actuarial section contains further information on the results of the July 1, 2010, valuation.

Based on the July 1, 2010, actuarial valuation, the employer contribution rate for 2012 following the adopted corridor-based funding policy was 16.70%, an increase of 2.00% over the 2010 rate of 14.70%. This increase in the rate is required to amortize the increase in unfunded liability from FY 2010 actuarial experience. During establishment of the FY 2012 County budget, the Board of Supervisors adopted a contribution rate of 17.20% to increase the rate of amortization of the unfunded liability.

Major Initiatives

During FY 2011, our plan actuary conducted a five-year actuarial experience study. This study analyzed our actual experience compared to the financial and demographic assumptions that underlie the calculation of plan liabilities and determine ongoing funding requirements. As a result of the study, the actuary and the Board confirmed that the assumption of a 7.5% rate of investment return continued to be sound. Both the assumed rate of inflation and rate of retiree cost-of-living increases were lowered. The most significant revision to the demographic assumptions was the adoption of a new mortality table. The new assumptions will be used in completing the actuarial valuation of July 1, 2011, which will be the basis of the FY 2013 employer contribution rate.

Plan modifications adopted during the year included the elimination of the sunset provision for the Deferred Retirement Option Program, a reduction in the social security offset to service-connected disability benefits, the redefinition of the financial threshold for consideration of any future additional "ad hoc" retiree cost-of-living increases and minor modifications to plan language to clarify terms required to maintain IRS qualified status.

We improved our records storage and retrieval capabilities by converting all participant-level paper files to electronic format, making them available real time along with the Pension Gold administration system.

On the staffing front, we completed a nationwide search for an Investment Officer, culminating in adding a key professional to staff early in fiscal year 2012.

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, 2010. 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, 2010

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

President

Executive Director

Board of Trustees

Administrative Organization

Administrative Staff

Robert L. Mears
Executive Director

Laurnz A. Swartz
Chief Investment Officer

John P. Sahm
Retirement Administrator

Professional Services

Actuary
CHEIRON
Actuaries
McLean, VA

Auditor
KPMG LLP
Certified Public Accountants
Washington, DC

Investment Managers

Artio Global Investors
New York, NY

BlackRock
San Francisco, CA

BNY Mellon Cash Investment Strategies
Pittsburgh, PA

Brandywine Global Investment Management, LLC
Philadelphia, PA

Bridgewater Associates, Inc.
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

First Quadrant L.P.
Pasadena, CA

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

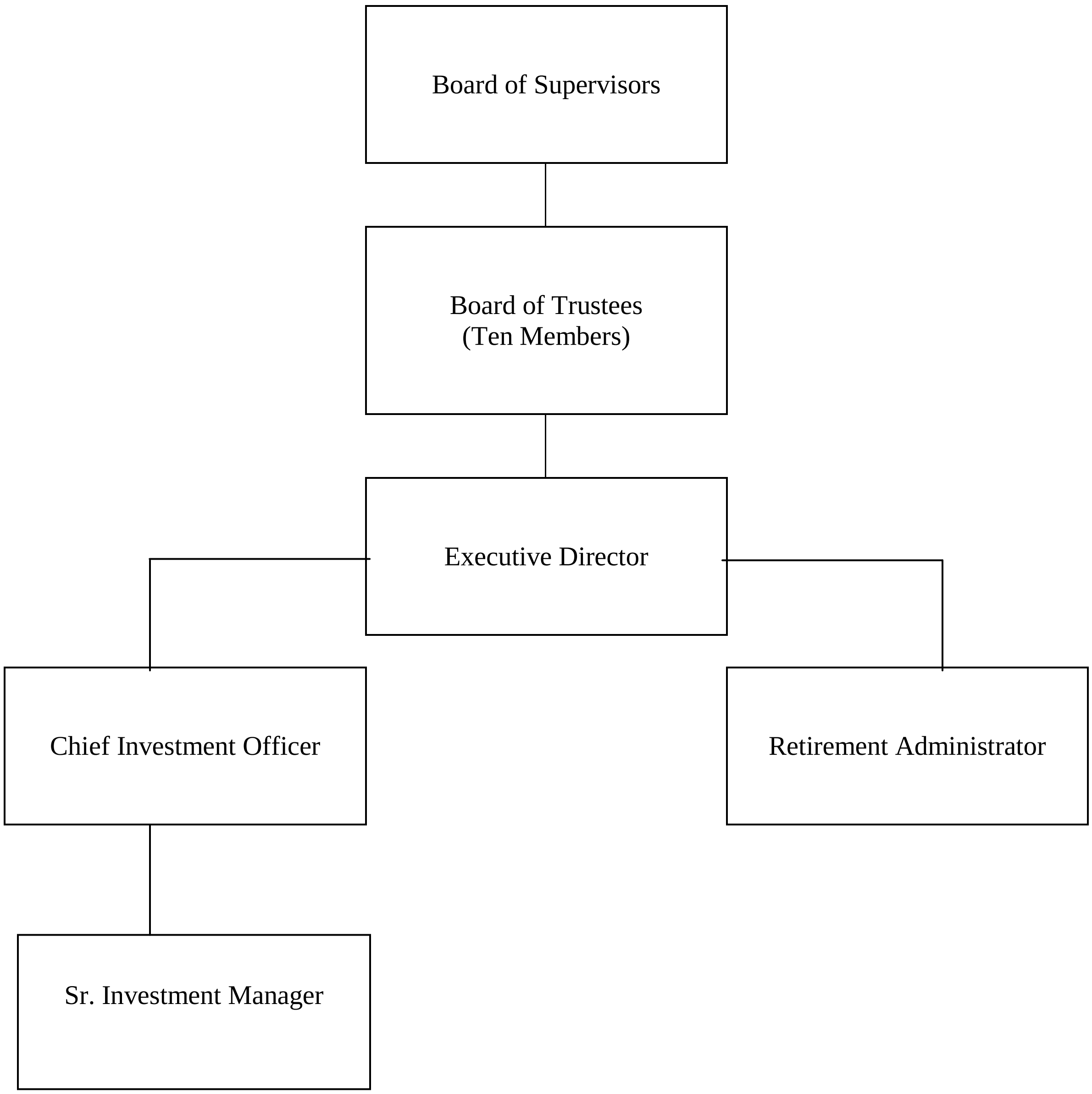
Stark Investments
St. Francis, WI

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 2011 was14.70%.

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 Previsions
(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
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report

The Board of Supervisors
County of Fairfax, Virginia:

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

We have audited the Statement of Plan Net Assets of the Fairfax County Employees' Retirement System (the System), a pension trust fund of the County of Fairfax, Virginia as of June 30, 2011, and the related Statements of Changes in Plan Net Assets for the year then ended. These basic financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the Plan Net Assets of the System as of June 30, 2011, and the Changes in Plan Net Assets for the year then ended in conformity with U.S. generally accepted accounting principles.

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

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

KPMG

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

KPMG LLP

October 21, 2011

Management's Discussion and Analysis

This section presents management's discussion and analysis of the Fairfax County Employees' Retirement System's ("System" or "plan") financial performance and provides an overview of the financial activities for the fiscal year ended June 30, 2011. 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, 2011. 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

Summary of Plan Net Assets. For fiscal year 2011 the assets of the Employees' Retirement System increased 20.9% resulting in a total net asset value of $2.98 billion, reflecting an increase of $515.8 million over fiscal year 2010. The growth in assets was primarily due to investment gains of $577.5 and $127.6 million in contributions offset by benefit payment deductions of $187.7 million and administrative expenses of $1.6 million.

The actuarial value of the assets as of the last valuation on June 30, 2010, was $2.64 billion while actuarial liabilities as of the same period were $3.77 billion. This resulted in a funding ratio of 69.9%.

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

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

Fiscal Year	Ending Balances (billions)	Net Change in Dollars (millions)	Net Change in Percent
2010	$2.47	$430.0	21.1
2011	$2.98	$515.8	20.9

Contacting the System's Financial Management

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

Summary Statement of Plan Net Assets

Assets	**2011**	**2010**	**Difference**
Total cash and investments	$3,285,837,731	$2,737,386,927	$548,450,804
Total receivables	144,684,398	97,083,489	47,600,909
Total assets	3,430,522,129	2,834,470,416	596,051,713
Total liabilities	445,658,485	365,390,326	80,268,159
Net assets held in trust	**$2,984,863,644**	**$2,469,080,090**	**$515,783,554**

Summary of Additions and Deductions

Additions	**2011**	**2010**	**Difference**
Contributions			
Employer	$96,607,535	$64,069,102	$32,538,433
Plan Members	31,041,076	31,733,516	(692,440)
Total investment income	577,459,169	506,165,571	71,293,598
Total Additions	705,107,780	601,968,189	103,139,591
Deductions			
Benefit payments	183,800,128	166,271,110	17,529,018
Refunds of contributions	3,884,082	4,075,162	(191,080)
Administrative expenses	1,640,016	1,593,223	46,793
Total deductions	189,324,226	171,939,495	17,384,731
Net increase/(decrease)	**$515,783,554**	**$430,028,694**	**$85,754,860**

Statement of Plan Net Assets

as of June 30, 2011

Assets		
Cash and short-term investments		
Equity in County's pooled cash and temporary investments	$2,729,074	
Cash collateral received for securities on loan	241,795,516	
Short-term investments	287,631,300	
Total cash and short-term investments		$532,155,890
Receivables		
Accounts receivable	7,427,874	
Accrued interest and dividends	9,741,838	
Securities sold	127,514,686	
Total receivables		144,684,398
Investments, at fair value		
Common and preferred stock	940,164,042	
Fixed income		
Asset-backed securities	207,255,048	
Corporate and other bonds	354,537,528	
U.S. Government obligations	107,113,659	
Pooled and mutual funds	1,144,611,564	
Total investments		2,753,681,841
Total assets		3,430,522,129
Liabilities		
Purchase of investments	198,841,769	
Cash collateral received for securities on loan	241,795,516	
Accounts payable and accrued expenses	5,021,200	
Total liabilities		445,658,485
Net assets held in trust for pension benefits		**$2,984,863,644**

See accompanying notes to financial statements.

Statement of Changes in Plan Net Assets

For the Year Ended June 30, 2011

Additions		
Contributions		
Employer	$96,607,535	
Plan members	31,041,076	
Total contributions		$127,648,611
Investment income from investment activities		
Net appreciation /(depreciation) in fair value of investments	514,597,278	
Interest	56,032,430	
Dividends	18,713,275	
Total investment income	589,342,983	
Investment activity expense		
Management fees	(11,498,400)	
Custodial fees	(192,000)	
Consulting fees	(66,080)	
Allocated administration expense	(721,992)	
Total investment expense	(12,478,472)	
Net income/(loss) from investment activities		576,864,511
Securities lending activities		
Securities lending income	821,112	
Securities lending expenses		
Borrower rebates	(7,480)	
Management fees	(218,974)	
Total securities lending activities expense	(226,454)	
Net income/(loss) from securities lending activities		594,658
Total net investment income/(loss)		577,459,169
Total additions		705,107,780
Deductions		
Annuity benefits	172,362,105	
Disability benefits	7,409,221	
Survivor benefits	4,028,802	
Refunds of employee contributions	3,884,082	
Administrative expense	1,640,016	
Total deductions		189,324,226
Net increase/(decrease)		515,783,554
Net assets held in trust for pension benefits		
Beginning of fiscal year		2,469,080,090
End of fiscal year		**$2,984,863,644**

See accompanying notes to financial statements.

Notes to the Financial Statements
For the year ended June 30, 2011

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

A. Summary of Significant Accounting Policies

Basis of Accounting. The System's financial statements have been prepared under the accrual basis of accounting in accordance with accounting principles applicable to governmental units in the United States of America. Member and employer contributions to the System are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due in accordance with the terms of the System. The cost of administering the System is paid by the System.

Method Used to Value Investments. Short-term investments are reported at cost, which approximates fair value. All other investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Asset-backed securities are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. Because of the inherent uncertainty in valuing these securities, the fair value may differ from the values that would have been used had a ready market for such securities existed. Accordingly, the realized value received upon the sale of the assets may differ from the fair value. The System records investment purchases and sales as of the trade date. These transactions are not finalized until the settlement date, which occurs approximately three business days after the trade date. The amounts of trade receivables and payables are shown as receivables and payables on the Statement of Plan Net Assets. Cash received as collateral on securities lending transactions and investments made with such cash are reported as assets along with a related liability for collateral received.

Equity in County's pooled cash and temporary investments. The System maintains cash with the County, which invests cash and allocates interest earned, net of a management fee, on a daily basis to the System based on the System's average daily balance of equity in pooled cash. As of June 30, 2011, the bank balance of the County's public deposits was either insured by the Federal Deposit Insurance Corporation or through the State Treasury Board pursuant to the provisions of the Security for Public Deposit Act.

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

Membership. At July 1, 2010, the date of the latest actuarial valuation, membership in the System consisted of:

Retirees and beneficiaries receiving benefits	6,218
Terminated plan members entitled to but not yet receiving benefits	1,384
DROP participants	472
Active plan member	14,169
Total	**22,243**

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, 2011, was 14.22% of annual covered payroll. The decision was made to commit additional funding and a rate of 14.70% was adopted for fiscal year 2011.

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, 2010, showed the System's funded status at 69.9%, a decline from the July 1, 2009, funded percentage of 73.6%. 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)**
7/1/2010	$2,636,051,959	$3,771,059,523	$1,135,007,564	69.90%	$629,248,592	180.4%

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

Actuarial Methods and Assumptions.

Valuation date	July 1, 2010
Actuarial cost method	Entry Age
Amortization method	Level percent open
Remaining amortization period	15 years
Asset valuation method	3-year smoothed
Actuarial assumptions:	
Investment rate of return *	7.5%
Projected salary increases *	4.0% - 6.5%
* Includes inflation at	4.0%
Cost of living adjustments	3.0%

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

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

The actuarial valuation performed as of July 1, 2010, in accordance with the GASB methodology resulted in a contribution rate of 21.34% for fiscal 2012, an increase of 2.71% over the fiscal 2011 rate of 18.63%. 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 16.70% for fiscal year 2012. The decision was made to commit additional funding for fiscal year 2012 and a rate of 17.20% was adopted, an increase of 2.50% over the fiscal year 2011 adopted rate of 14.70%.

C. Investments

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

The System has adopted the Employees' Retirement System Investment Policy Statement to provide a well-managed investment program to meet the long-term needs of the System. Investment decisions for these assets are made by the Board of Trustees or investment managers selected by the Board. The overall investment policies do not address specific levels of credit risk, interest rate risk or foreign currency risk. The Board of Trustees believes that risks can be managed, but not eliminated, by establishing constraints on the investment portfolio and by properly monitoring the investment markets, the System's asset allocation and the investment managers hired by the System. Each individual investment portfolio is managed by an investment management firm selected by the Board. Each investment manager has a specific benchmark and investment guidelines appropriate for the type of mandate they are managing and that fit within the total risk tolerance of the fund. The interest rate risk for the fixed income accounts is controlled by limiting the credit quality of the securities held and the duration of the portfolio against the duration of the benchmark. While the System is not subject to the provisions of the Employment Retirement Income Security Act (ERISA), the Board wishes to comply with the spirit of ERISA to the extent that it does not conflict with the Code of Virginia. The investment policy states that the securities of any one issuer shall not exceed 10.0% at market value. At June 30, 2011, the System did not have investments (other than U.S. Government and U.S. Government guaranteed obligations) in any one organization that represented 5 percent or more of net assets available for benefits. All investments, except for the pooled and mutual funds, short-term investment fund and a short-term collateral investment pool are held by an unaffiliated custodian. There is no custodial credit risk since the custodian's records establish the System's interest in the securities.

The System's investment quality ratings at June 30, 2011, were as follows:

Type of Investment	Fair Value	Ratings	Percent of Fixed
U. S. Government Obligations	$107,113,659	AAA	16.0%
Corporate & Other Bonds	26,564,132	AAA	4.0%
	14,437,744	AA	2.2%
	48,428,001	A	7.2%
	17,343,011	BBB	2.6%
	59,448,455	BB	8.9%
	110,422,104	B	16.5%
	25,970,107	CCC	3.9%
	695,900	CC	0.1%
	51,228,074	Unrated	7.7%
Asset-backed Securities	100,583,845	AAA	15.0%
	3,492,626	AA	0.5%
	5,369,066	A	0.8%
	6,401,648	BBB	1.0%
	3,131,205	BB	0.5%
	14,271,195	B	2.1%
	27,304,640	CCC	4.1%
	8,597,661	CC	1.3%
	16,648,183	D	2.4%
	21,454,979	Unrated	3.2%
Total Fixed Income	**$668,906,235**	A	100.0%
Short-term Investments	**287,631,300**	Unrated	

As of June 30, 2011, the fixed income portfolio, excluding pooled funds, exhibited an overall credit quality rating of "A", and approximately 39.8% of the total fixed income portfolio was invested in below-investment-grade securities.

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

The System's investments' sensitivity to interest rates at June 30, 2011, follows:

Investment Type	Fair Value	Option - Adjusted Durations (yrs)	Percentage of Fixed
U.S. Government Obligations	$107,113,659	5.2	16.00%
Corporate and Other Bonds	354,537,528	4.6	53.00%
Asset-backed	207,255,048	5.7	31.00%
Total Fixed Income	**$668,906,235**	5.0	100.00%
Short-term Investments	**$287,631,300**	0.1	

As of June 30, 2011, duration of the System's overall fixed income portfolio excluding pooled funds was 5.0 years compared with the 5.2 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, 2011, 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	$2,770,374	$56,280,795	$13,996,143	$73,047,312
British Pound Sterling	2,686,108	37,955,318	12,719,514	53,360,940
Japanese Yen	1,701,705	36,163,378	53,492	37,918,575
Australian Dollar	1,462,192	19,217,997	14,831,732	35,511,921
Hong Kong Dollar	611,404	20,617,877	---	21,229,281
Canadian Dollar	2,007,952	11,546,401	6,650,493	20,204,846
Swiss Franc	74,331	9,539,117	---	9,613,448
Singapore Dollar	81,568	8,175,601	---	8,257,169
South Koran Won	6,848	1,556,568	6,146,893	7,710,309
Other Currencies	391,927	16,513,245	39,440,095	56,345,267
Total International	**$11,794,409**	**$217,566,297**	**$93,838,362**	**$323,199,068**

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 2011, 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, 2011, the System held futures with net exposure of $540,322,742. 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 102.0 percent and international securities of 105.0 percent of fair value. The custodian receives cash or securities as collateral from the borrower. All securities loans can be terminated on demand by either the System or the borrower. Cash collateral is invested in the lending agents' collective collateral investment pool, which at June 30, 2011, had a weighted-average maturity of 8 days. The relationship between the maturities of the investment pool and the System's loan is affected by the maturities of securities loans made by other plan entities that invest cash collateral in the investment pool.

The following represents the balances relating to the securities lending transactions at June 30, 2011.

Securities Lent	**Underlying Securities**	**Cash Collateral Investment Value**	**Securities Collateral Investment Value**
Lent for cash collateral			
US Government securities	$32,221,453	$32,882,464	---
Corporate and other bonds	56,885,047	58,604,418	---
Common and Preferred stock	145,864,222	150,308,634	---
Lent of securities collateral	---	---	---
Corporate and other bonds	7,084,836	---	$7,229,132
Common and Preferred stock	33,281,916	---	36,588,908
Total	**$275,337,474**	**$241,795,516**	**$43,818,040**

The System did not impose any restrictions during fiscal 2011on the amounts of loans the lending agent made on its behalf. At year end, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts the borrowers owed the System. The custodian provides full indemnification to the System for any losses that might occur in the program due to the failure of a broker/dealer to return a borrowed security or failure to pay the System income earned on the securities while on loan.

D. Income Taxes

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

Required Supplementary Information

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

Date	Actuarial Value of Assets (in thousands) (a)	Actuarial Accrued Liability (in thousands) (b)	Unfunded Liability (in thousands) (b-a)	Funded Ratio (in thousands) (a/b)	Covered Payroll (in thousands) (c)	Unfunded % of Covered Payroll (in thousands) ((b-a)/c)
7/1/2001	$1,807,813	$1,857,802	49,989	97.3%	$476,327	10.5%
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%

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
2002	31,083,805	100%
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%

Additional Supplementary Information

Schedule of Administrative Expenses as of June 30, 2011

Personnel services		
Salaries and wages	$836,805	
Fringe benefits	285,621	
Total personnel services		$1,122,426
Professional services		
Actuarial	50,547	
Audit	25,429	
Legal	14,937	
Total professional services		90,913
Communications		
Phone charges	10,426	
Printing, binding and copying	13,997	
Postage	31,339	
Total communications		55,762
Supplies		
Office supplies	7,091	
Dues and subscriptions	1,717	
Total supplies		8,808
Other services and charges		
Board and staff travel and development	11,566	
Insurance	28,353	
Building rent	104,493	
Computer Systems	208,148	
Other operating	9,547	
Total other services and charges		362,107
Total Administrative Expenses		**$1,640,016**

Capital Markets and Economic Conditions

Fiscal Year 2011 Economic Environment

During fiscal year 2011 global equity markets continued the recovery process that began in March of 2009 and continued through fiscal year 2010. Market sentiment and macroeconomic events played key roles as drivers of global markets throughout the fiscal year. Support from governments and central banks continued for much of the fiscal year until the last quarter which saw a relenting of quantitative easing by the Federal Reserve and fiscal austerity measures across Europe being implemented in an attempt to rein in public debt. During the first ten months of 2011, "risk on" was the watchword, as investors flocked to riskier assets which included domestic and international stocks, commodities, private equities, and real estate. Consumption was restrained by two persistent and difficult areas: the weak housing markets in most of the country and the nation's stubborn unemployment and under-employment troubles. The large amounts of fiscal stimulus took shape in the forms of abundant government spending, public sector assumption of certain private debts, and various forms of tax relief. The accommodative monetary policy was most prominently evidenced in the Fed's zero–interest-rate policy and second round of quantitative easing (QE2).

With governments globally set to support financial markets and low returns to be earned by "risk-free" assets, investors felt emboldened to bid up "risky" assets. The broad domestic equity market, as measured by the S&P 500 Index, continued its strong recovery from fiscal year 2009, producing a +30.7% return for fiscal year 2011. The domestic bond market, as measured by the Barclays Aggregate Bond Index, returned +3.9% in fiscal year 2011, representing a drop from the previous two years of +6.1% in 2009 and +9.5% in 2010. The global equity market, as measured by the MSCI All Country World Index (net), returned +30.1% in fiscal year 2011 compared to +11.8% in fiscal year 2010. Commodities soared over 25% while various indices of the real estate and private equity asset classes gained approximately 15% and 20%, respectively.

A pronounced retracement occurred during the May-June period to end the fiscal year. Investors demonstrated concern over troubles in the U.S. that echoed similar difficulties in Japan, England and many of the peripheral Eurozone countries such as Greece, Portugal, and Italy. The combination of slowing economic growth, rising oil and food prices, bulging fiscal deficits, and excessive levels of government debt contributed to multiple fears. These included fears of sovereign government defaults, a double-dip recession, and economic problems spiraling out of control. "Risk off" then became the watchword as investors began a retreat from risky assets for the safety of cash. Further compounding investor sentiment was an inability of Congress to reach a deal on the U.S. debt ceiling, which remained unresolved as of June 30, 2011.

Equity Markets

U.S. Equities continued the momentum from a solid fiscal year 2010 to post higher returns across the board in fiscal year 2011, with each category producing returns above 25%. Similar to 2010, Large-cap stocks underperformed in 2011 relative to Small-cap stocks with the S&P 500 Index up 30.7% versus the Russell 2000 Index up 37.4%. However, unlike 2010, growth stocks outperformed value stocks considerably in 2011, with the Russell 1000 Growth Index up 35.0% versus the Russell 1000 Value Index return of 28.9% and the Russell 2000 Growth Index up 43.5% versus the Russell 2000 Value Index gain of 31.4%.

International developed market equities as measured by the MSCI EAFE (net) Index, a broad index of the international developed market equities, returned +30.4% for the year ended June 30,

2011. Emerging markets equities, as measured by the MSCI EM Index returned +27.8%. The JPM EMBI Global Diversified Index, a key barometer for emerging market debt, returned +11.7% for the year. The Citigroup World Government Bond Index also posted strong returns at +10.5%.

Real Estate Markets

Publicly-traded Real Estate Investment Trusts (REITs) returned +34.1% for the fiscal year ended June 2011 compared to +53.9% in 2010. Privately-held real estate investment partnerships, as measured by the largely commercial property NCREIF Index, rebounded to earn +16.0% in fiscal 2011 compared to -9.6% in 2010.

Fixed Income Markets

For the fiscal year, U.S. Fixed Income returns were positive but performance lagged compared to fiscal year 2010 partly due to strong equity markets. The Barclays Aggregate Bond Index returned +3.9%, while High-Yield bonds were the best performers returning +15.6% for the one-year period ended June 30, 2011. U.S. Treasury bonds finished the fiscal year on a strong note with a gain of +2.3% as macro-economic concerns caused investors to seek safety in U.S. Treasuries.

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.

On a market value basis, the total net assets held in trust increased from $2,467.8 million at June 30, 2010 to $2,982.5 million at June 30, 2011. For fiscal 2011, investments provided a return of 24.1%, gross of fees (23.6%, net of fees). The System's annualized rates of return, gross of fees, were 6.1% (5.7%, net of fees) over the last three years and 6.8%, (6.4%), over the last five years. These System returns ranked in the 17th percentile of The Bank of New York Mellon universe of public plans in 2011, in the 13th percentile for the latest 3-year period, and in the 5th percentile of public plans for the last 5 years.

During the past twelve months, the FrontPoint SJC Direct Lending Fund was added to the manager lineup of the System to take advantage of the lack of bank lending to small and mid size businesses.

Investments by Category and Investment Manager

June 30, 2011

Asset Class Manager	Investment Style	Total Assets	% of Total Net Assets
Domestic Equities			
DePrince, Race & Zollo	Large Cap Value	$101,254,053	3.4%
Enhanced Inv. Technologies (INTECH)	Large Cap Growth	106,035,455	3.6%
Pzena Investment Management	Large Cap Value	98,573,475	3.3%
Sands Capital Management	Large Cap Growth	48,405,863	1.6%
Columbia Wanger Asset Management	Small/Mid Cap Core	162,777,525	5.5%
International Equities			
LSV Asset Management	Developed Markets Value	76,261,012	2.6%
Artio Investment Management	Developed Markets	79,698,813	2.7%
Marathon Asset Management*	Developed Markets	40,218,385	1.3%
BGI Emerging Markets ETF	Emerging Markets Index	30,203,970	1.0%
TCW Worldwide Opportunity Fund*	Emerging Markets	46,295,849	1.6%
Fixed Income			
Bridgewater Associates	Enhanced TIPS Index	298,967,706	10.0%
Bridgewater Associates	Enhanced Multi-Asset Real Return	323,665,487	10.9%
Brandywine Asset Management	Global Bonds	135,074,670	4.5%
JPMorgan*	Fixed Income Opportunity Fund	21,594,984	0.7%
DoubleLine Capital	Mortgage-Backed Securities	160,563,478	5.4%
DoubleLine Capital	Special Mortage Credit	31,063,171	1.0%
Gramercy Distressed Opportunity Fund*	Distressed Opportunity	14,275,762	0.5%
Gramercy Argentina Debt*	Distressed Opportunity	12,495,832	0.4%
JPMorgan Global Maritime Fund*	Distressed Opportunity	43,784	0.0%
Pacific Investment Management Co. (PIMCO)*	Distressed Senior Credit	45,006,708	1.5%
FrontPoint Partners	Direct Lending	20,939,812	0.7%
Post Advisory	High Yield Bonds	76,203,425	2.6%
MacKay Shields	High Yield Bonds	75,111,753	2.5%
Shenkman Capital Management	High Yield Bonds	74,156,419	2.5%
Alternative Investments			
Cohen & Steers Capital Management	US Real Estate Inv. Trusts	170,580,919	5.7%
Cohen & Steers Capital Management	Int'l Real Estate Securities	73,050,276	2.4%
Pacific Investment Management Co. (PIMCO)	Collateralized Commodity Futures	190,474,697	6.4%
Absolute Return			
BGI GlobalAlpha Fund*	Global Bonds	76,745,486	2.6%
BGI Global Ascent Fund*	Global Macro Absolute Return Fund	56,844,687	1.9%
Deephaven Capital Management*	Multi-Strategy Absolute Return Fund	1,376,729	0.0%
Deerfield Capital Management	Long/Short Duration Mgt.	36,598,432	1.2%
First Quadrant Partners*	Global Macro Absolute Return Fund	41,337,451	1.4%
FrontPoint Partners*	Multi-Strategy Absolute Return Fund	47,147,639	1.6%
Pacific Investment Management Co. (PIMCO)*	Global Credit	70,561,123	2.4%
Short-term			
The Clifton Group	Policy Implementation Overlay	57,673,574	1.9%
BNY Mellon Cash Investment Strategies	Plan Level Cash Accounts	78,449,141	2.6%
Cash Held at County Treasurer	Operating Cash Account	2,729,074	0.1%
Total Investments		**$2,982,456,619**	**100.0%**

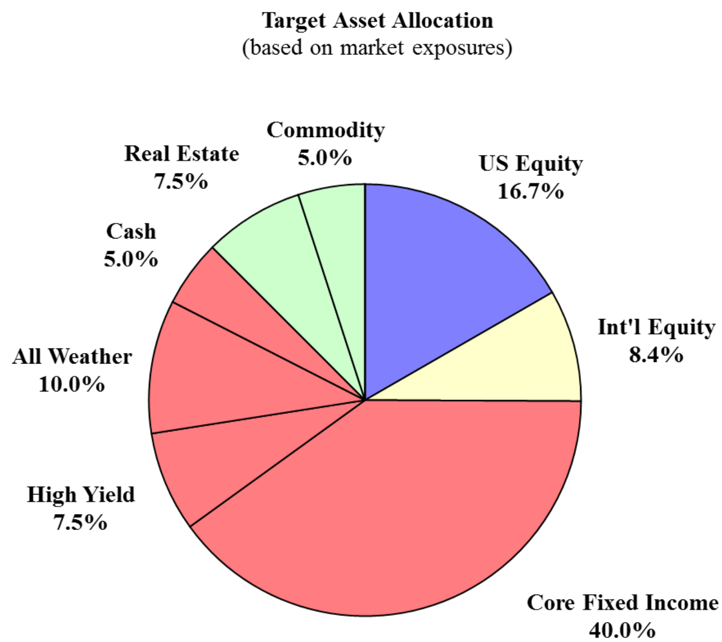
* Pooled fund

Employees' Retirement System – Allocation of Market Exposures

Target Asset Allocation

The asset structure shown below represents the Trustees' assessment of their optimal asset allocation as of June 30, 2011. 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, 2011.



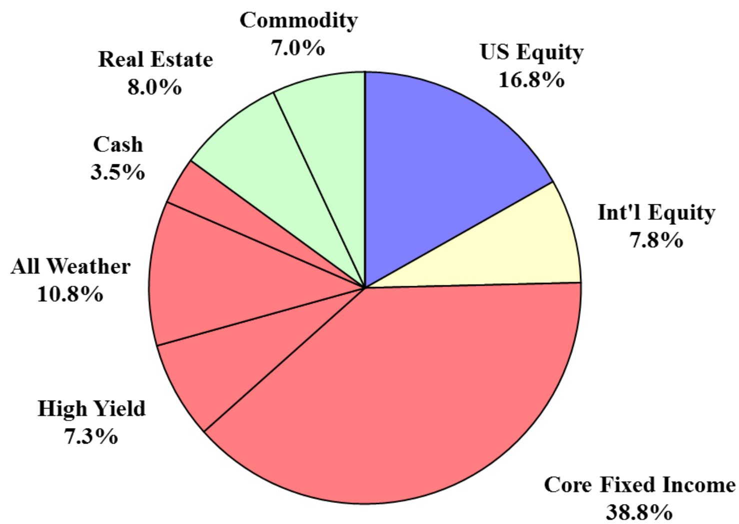
*Asset Allocation includes cash securitization and absolute return strategies overlays.

Actual Asset Allocation as of June 30, 2011

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

The pie chart below details the actual asset allocation as of June 30, 2011.

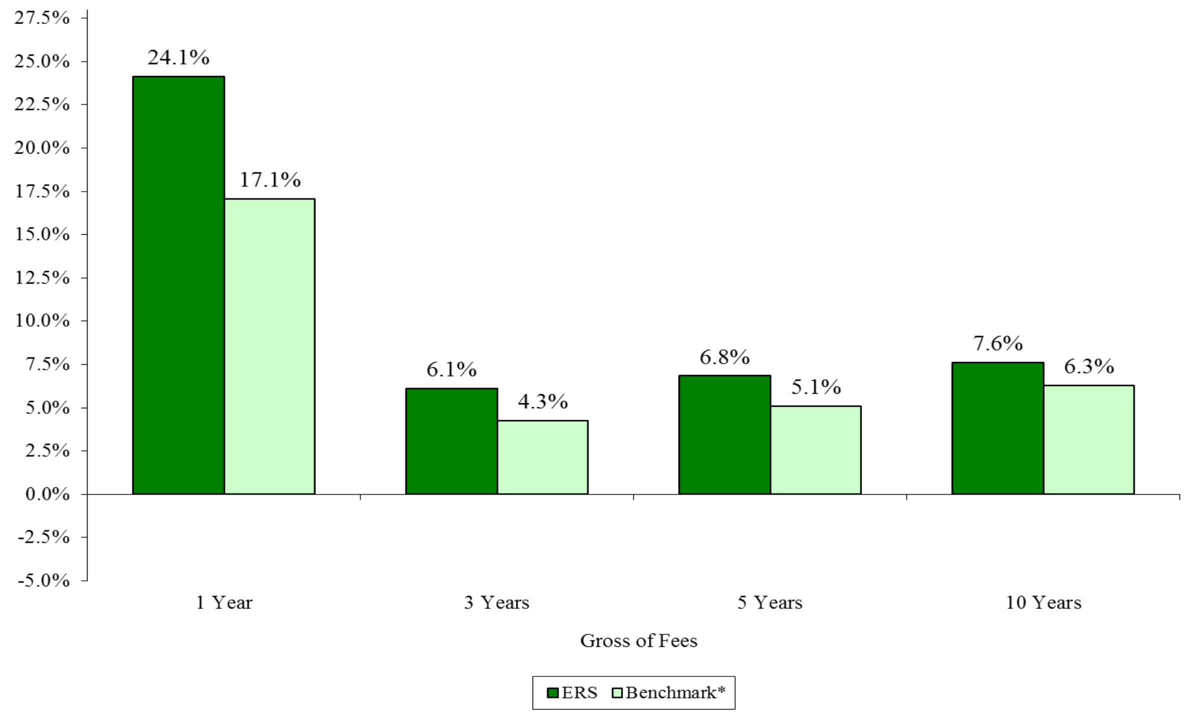
Actual Asset Allocation
(based on market exposure)



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

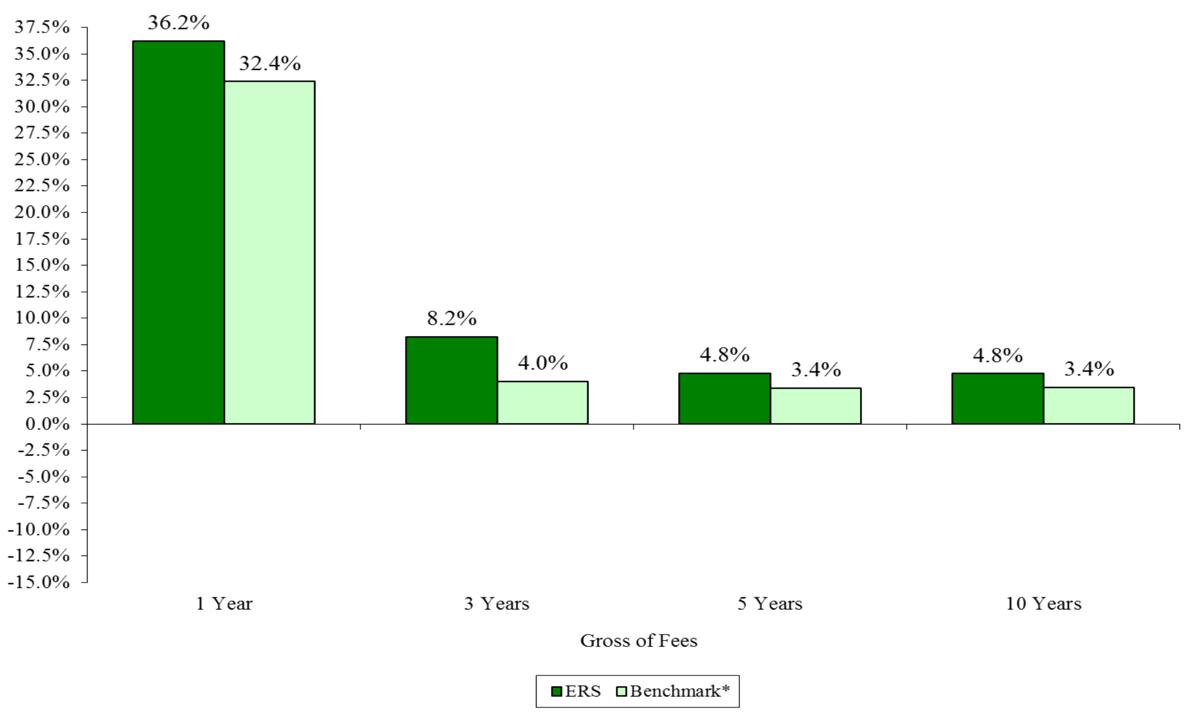
Investment Results

Total Fund:



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

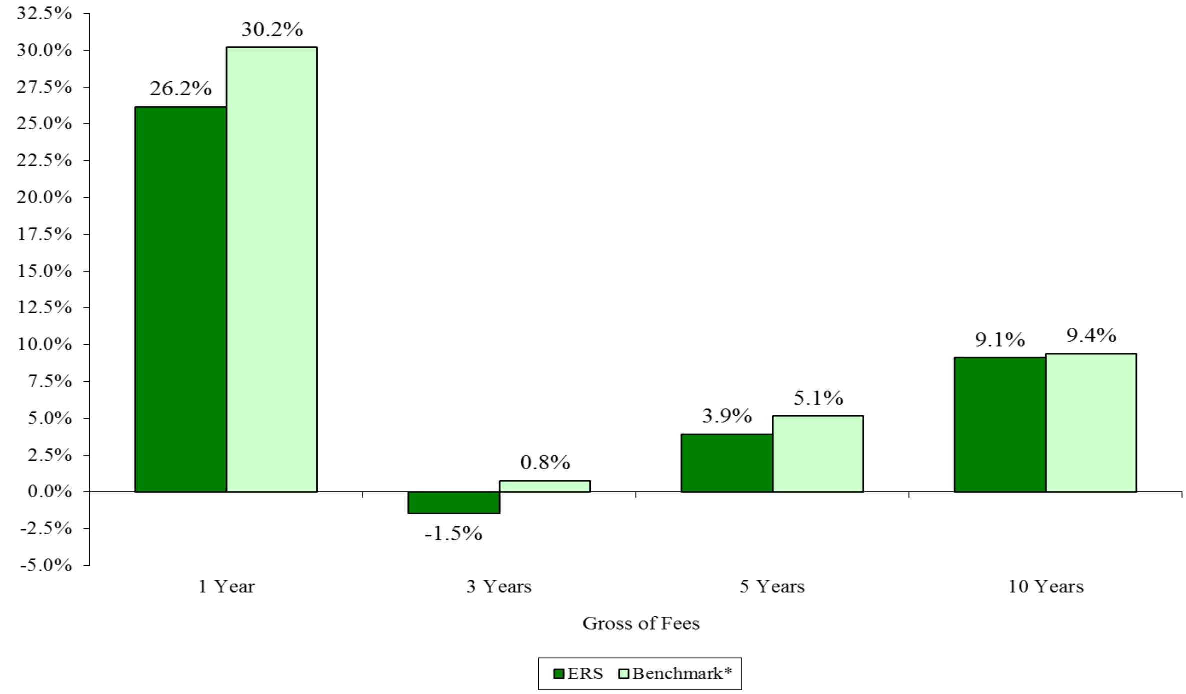
Domestic Equity:



*Benchmark: Russell 3000

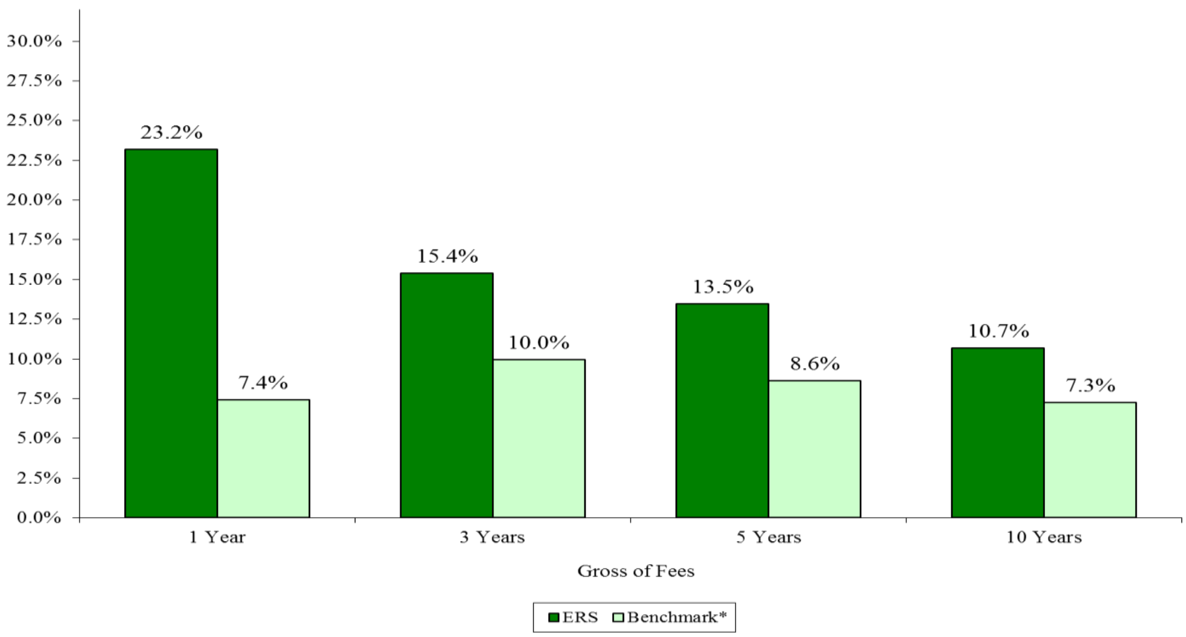
Investment Results

International Equity:



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

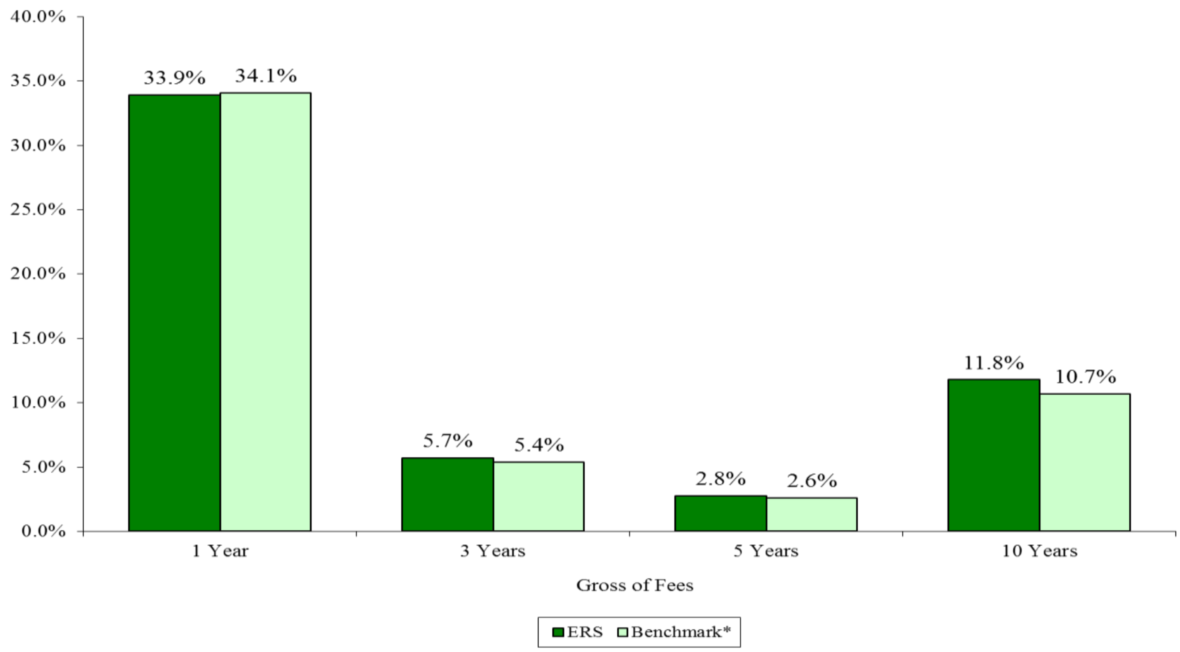
Fixed Income:



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

Investment Results

Real Estate:



*Benchmark: NAREIT Equity Share Price Index

Schedule of Ten Largest Equity & Fixed Income Holdings

Ten Largest Equity Holdings

No. Shares	Description	Cost	Fair Value	% of Total Portfolio
146,132	Simon Property Group Inc	$10,798,735	$16,984,922	0.57%
116,797	Vornado Realty Trust	8,424,973	10,883,144	0.36%
171,646	Equity Residential	7,049,842	10,298,760	0.35%
268,709	Prologis Inc	8,297,873	9,630,531	0.32%
69,453	Boston Properties Inc	5,160,230	7,373,130	0.25%
429,501	Host Hotel & Resorts Inc	6,390,722	7,280,042	0.24%
19,971	Apple Inc	2,530,481	6,703,666	0.22%
73,800	Exxon Mobil Corp	5,151,967	6,005,844	0.20%
127,600	FMC Technologies Inc	2,922,665	5,715,204	0.19%
218,629	UDR Inc	4,361,243	5,367,342	0.18%
	Total	**$61,088,731**	**$86,242,585**	**2.88%**

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
20,686,531	U.S. Treas-CPI Inflation Index, 3.000%, 07/15/2012	$21,664,922	$21,585,154	0.72%
15,524,373	U.S. Treas-CPI Inflation Index, 1.250%, 07/15/2020	16,304,288	16,421,837	0.55%
7,160,000	Treasury Gilt, 3.750%, 07/15/2020	12,049,180	11,675,724	0.39%
11,580,000	U.S. Treasury Bond, 4.250%, 11/15/2040	11,458,402	11,319,450	0.38%
8,635,000	New S Wales Treasury Corp, 6.000%, 04/01/2016	8,586,569	9,514,574	0.32%
8,120,864	U.S. Treas-CPI Inflation Index, 1.875%, 07/15/2015	8,883,468	8,954,552	0.30%
10,840,000	FNMA, 0.000%, 10/09/2019	7,356,458	7,588,325	0.25%
6,320,000	U.S. Treasury Bond, 4.500%, 05/15/2038	7,001,982	6,487,859	0.22%
6,036,662	U.S. Treas-CPI Inflation Index, 0.500%, 04/15/2015	6,285,328	6,296,057	0.21%
5,467,871	U.S. Treas-CPI Inflation Index, 2.500%, 07/15/2016	6,215,077	6,257,322	0.21%
	Total	**$105,805,674**	**$106,100,854**	**3.55%**

Schedule of Brokerage Commissions

Year Ended June 30, 2011

Broker Name	Base Volume	Total Shares	Base Commission	Commission Percentage
JP Morgan Secs Asia Pacific, Hong Kong	$ 4,261,622	4,112,846	$ 7,816	0.18%
Macquarie Securities Limited Hong Kong	8,498,702	6,704,487	14,961	0.18%
RBC Capital Markets Corp, Minneapolis	5,115,194	403,332	8,438	0.16%
Citigroup Gbl Mkts/Salomon, New York	9,648,560	4,219,409	14,329	0.15%
Nomura Secs Intl Inc, New York	10,600,866	2,297,637	15,523	0.15%
Barclays Capital, London	4,132,251	262,527	5,703	0.14%
Merrill Lynch Pierce Fenner, Wilmington	11,714,448	6,408,522	16,129	0.14%
Wells Fargo Securities LLC, Charlotte	8,617,711	400,162	11,846	0.14%
National Finl Svcs Corp, New York	8,642,510	404,421	11,508	0.14%
JP Morgan Sec, Sydney	3,663,518	1,682,697	4,859	0.13%
Goldman Sachs & Co, NY	36,362,520	4,351,316	46,335	0.13%
Pershing LLC, Jersey City	9,149,748	740,064	11,448	0.13%
Liquidnet Inc, Brooklyn	19,892,987	903,735	24,869	0.13%
Abel Noser Corp, New York	6,253,419	231,875	7,772	0.12%
UBS Warburg Asia Ltd, Hong Kong	14,095,692	7,125,218	16,871	0.12%
Stifel Nicolaus	16,016,961	641,970	19,124	0.12%
Green Street Advisors, Jersey City	5,405,968	225,612	6,436	0.12%
Macquarie Securities (USA Inc, Jersey City	4,714,417	164,275	5,395	0.11%
Baird, Robert W & Co Inc, Milwaukee	7,250,299	272,987	8,267	0.11%
JP Morgan Secs Ltd, London	8,833,100	703,753	10,052	0.11%
KeyBanc Capital Markets Inc, New York	4,792,240	165,604	5,424	0.11%
BNY Convergex, New York	6,787,591	251,192	7,529	0.11%
Barclays Capital Inc/Le, New Jersey	6,868,161	249,637	7,557	0.11%
Merrill Lynch Intl London Equities	9,729,050	1,981,651	10,452	0.11%
Morgan Stanley & Co Inc, NY	43,206,326	3,848,221	45,969	0.11%
Kas Bank Nv, Amsterdam	4,161,077	343,284	4,407	0.11%
Citigroup Gbl Mkts Inc, New York	28,729,982	1,271,233	28,731	0.10%
Raymond James & Assoc Inc, St Petersburg	8,469,369	269,144	8,428	0.10%
ISI Group Inc, NY	3,671,432	91,050	3,522	0.10%
Deutsche Bk Secs Inc, NY	49,995,577	3,364,122	45,219	0.09%
Keefe Bruyette and Woods, Jersey City	12,870,731	318,224	11,494	0.09%
Credit Suisse (Europe), London	12,411,997	1,401,230	11,042	0.09%
JP Morgan Clearing Corp, New York	70,315,324	2,829,043	58,121	0.08%
Barclays Capital Le, Jersey City	12,559,087	470,421	10,235	0.08%
Frank Russell Securities Inc, Brooklyn	25,834,822	1,017,858	20,531	0.08%
JP Morgan Securities Inc, Brooklyn	7,805,974	243,775	6,148	0.08%
UBS Equities, London	11,438,896	1,019,199	8,733	0.08%
Credit Suisse, New York	112,742,584	8,341,586	84,748	0.08%
UBS Securities LLC, Stamford	67,742,054	2,029,477	49,444	0.07%
Cowen and Company LLC, New York	8,176,962	188,200	5,814	0.07%
Merrill Lynch Pierce Fenner Smith Inc NY	52,568,256	1,645,807	34,889	0.07%
Knight Equity Markets LP, Jersey City	17,445,731	412,400	11,374	0.07%
BNY Convergex/LJR Houston	26,708,433	681,751	16,139	0.06%
Bernstein Sanford C & Co, New York	11,962,833	243,487	6,950	0.06%
Jefferies & Co Inc, New York	41,928,170	1,370,455	24,281	0.06%
Cap Instl Svcs Inc – Equities, Dallas	23,012,450	631,093	12,854	0.06%
Instinet Corp, NY	14,845,784	384,650	7,774	0.05%
Weeden & Co, New York	22,128,951	491,900	11,292	0.05%
Rosenblatt Securities LLC, Jersey City	8,737,360	179,600	4,369	0.05%
Goldman Sachs Execution & Clearing, NY	4,673,246	125,179	2,075	0.04%
Other Brokers	147,111,647	27,082,581	201,564	0.14%
Total	**$1,082,122,590**	**105,199,899**	**$1,034,790**	**0.10%**

Investment Summary
(Based on Capital Allocation)

	As of June 30, 2010		As of June 30, 2011	
	Market Value	**% Market Value**	**Market Value**	**% Market Value**
Domestic Equities	$381,650,910	15.5%	$517,046,371	17.3%
International Equities	217,154,093	8.8%	272,678,029	9.1%
Fixed Income	1,103,539,102	44.7%	1,289,162,991	43.2%
Alternative Investments	320,864,316	13.0%	434,105,892	14.6%
Absolute Return	321,383,345	13.0%	330,611,547	11.1%
Short-term	123,169,566	5.0%	138,851,789	4.7%
Total	**$2,467,761,332**	**100.0%**	**$2,982,456,619**	**100.0%**

Schedule of Direct Investment Management Fees

Year Ended June 30, 2011

Asset Class Manager	Investment Style	Total Assets	Fees
Domestic Equities			
DePrince, Race & Zollo	Large Cap Value	$101,254,053	$ 379,220
Enhanced Inv. Technologies (INTECH)	Large Cap Growth	106,035,455	473,513
Pzena Investment Management	Large Cap Value	98,573,475	469,517
Sands Capital Management	Large Cap Growth	48,405,863	326,736
Columbia Wanger Asset Management	Small/Mid Cap Core	162,777,525	862,072
International Equities			
LSV Asset Management	Developed Markets Value	76,261,012	470,249
Artio Investment Management	Developed Markets	79,698,813	413,577
Marathon Asset Management	Developed Markets	40,218,385	334,245
Fixed Income			
Brandywine Asset Management	Global Bonds	135,074,670	507,065
DoubleLine Capital	Mortgage-Backed Securities	160,563,478	1,580,199
DoubleLine Capital	Special Mortage Credit	31,063,171	267,490
Gramercy Argentina Debt	Distressed Opportunity	12,495,832	823,708
Post Advisory	High Yield Bonds	76,203,425	186,597
MacKay Shields	High Yield Bonds	75,111,753	326,799
Shenkman Capital Management	High Yield Bonds	74,156,419	356,415
Trust Company of the West*	Mortgage-Backed Securities		12,102
Alternative Investments			
Cohen & Steers Capital Management	US Real Estate Inv. Trusts	170,580,919	668,323
Cohen & Steers Capital Management	Int'l Real Estate Securities	73,050,276	489,676
Pacific Investment Management Co. (PIMCO)	Collateralized Commodity Futures	190,474,697	663,232
Absolute Return			
BGI GlobalAlpha Fund	Global Bonds	76,745,486	1,042,034
Deerfield Capital Management	Long/Short Duration Mgt.	36,598,432	334,906
Short-term			
The Clifton Group	Policy Implementation Overlay	57,673,574	299,070
BNY Mellon Cash Investment Strategies	Plan Level Cash Accounts	78,449,141	211,655
Total		**$ 1,961,509,637**	**$ 11,498,400**

* Terminated during FY10

CHEIRON Classic Values, Innovative Advice

February 24, 2011

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, 2010. The results of the valuation are contained in this report.

Funding Objective

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

Assumptions

The actuarial assumptions used in performing the July 1, 2010 valuation were recommended by the actuary and adopted by the Board of Trustees based on our most recent review of the System's experience for the five year period ending June 30, 2005. The assumptions reflect our understanding of the likely future experience of the System and the assumptions as a whole represent our best estimate for the future experience of the System. The results of this report are dependent upon future experience conforming to these assumptions. To the extent that future experience deviates from these assumptions, the true cost of the System could vary from our results.

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

Reliance on Others

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

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

CHEIRON Classic Values, Innovative Advice

February 24, 2011
Fairfax County Employees' Retirement System
Page 2

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

We are responsible for the 2004 through 2010 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.

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

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

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

Sincerely,
Cheiron

Fiona E. Liston

Fiona E. Liston, FSA
Principal Consulting Actuary

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

Summary of Valuation Results

Overview

This report presents the results of the July 1, 2010 actuarial valuation of the Fairfax County Employees' Retirement System. The primary purposes of performing the annual actuarial valuation are to:

- Measure and disclose, as of the valuation date, the financial condition of the Plan;
- Indicate trends in the financial progress of the Plan;
- Determine the contribution rate to be paid by the County for Fiscal Year 2012;
- Provide specific information and documentation required by the Governmental Accounting Standards Board (GASB).

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

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

General Comments

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

The employer contribution rate will change when benefits are increased or modified or assumptions are changed. The new rate will reflect the change in normal cost rate and the change in actuarial liability amortized over 15 years. Since the inception of the corridor funding method the normal cost rate has increased by 0.10% and the UAL rate has increased by 1.47%, the specific changes are summarized in the table below:

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

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

The valuation as of July 1, 2010 shows that the actuarial funded ratio of this System (including a credit for the amortization piece of prior benefit increases and assumption changes) remains out of the corridor.

The County's contribution rate for FY 2012 will increase from 14.22% to 16.70% of payroll, on the basis of this valuation's results.

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

Trends

There was a rebound in the financial markets during the fiscal year ending in 2010; however, due to the large decline in the financial markets during the fiscal year ending in 2009, the System still experienced an actuarial loss on assets. The actual return on a market value basis was approximately 25.30%. On an actuarial value basis, the assets returned 4.25% compared with an assumed rate of return of 7.5%. The loss recognized for funding purposes was $83.4 million.

The measurement of liabilities produced a loss this year in the amount of $74.8 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 4.9% for active participants who were in both the July 1, 2009 and July 1, 2010 valuations. This was less than the expected salary growth based on the actuarial assumption, which worked out to average 5.0%. This resulted in a gain of $11.7 million.

- The valuation assumes a 3% cost-of-living adjustment each year for benefits in pay status. The actual CPI-based COLA was 2.3% last year, creating a liability gain of $10.9 million.

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

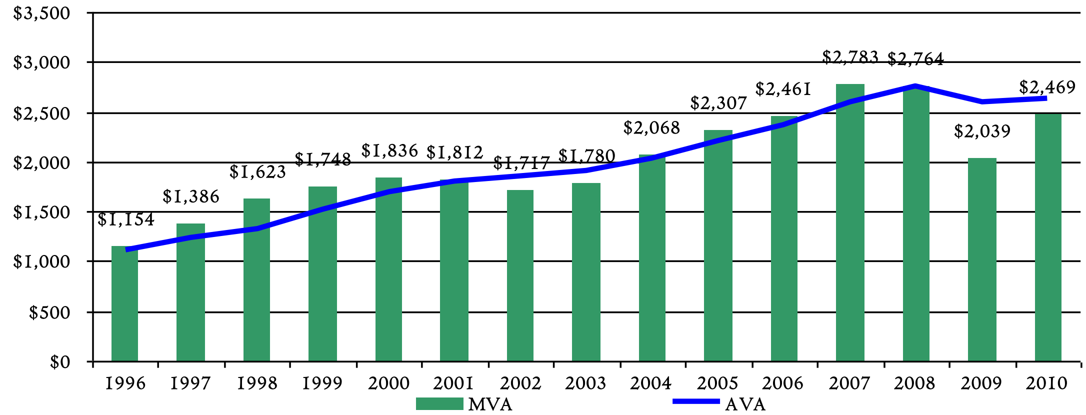
- There was a $93.4 million liability loss component that is made up of various other causes such as members terminating, dying or becoming disabled in a way contrary to the assumption and also data changes from previous years. This loss is broken down even further as follows: retirements & DROP experience attributed to $41.9 million, retirements from Suspense $9.0 million, lack of turnover $30.6 million and mortality (not dying) $11.9 million. The demographic assumptions are currently being reviewed as part of the System's 5-year experience study.

The combination of plan changes, liability and investment experience over the last year led to the System's funding ratio (actuarial value of assets over actuarial accrued liability) decreasing from 73.6% at

July 1, 2009 to 69.9% at July 1, 2010. For purposes of measuring whether the System remains within the funding corridor, an adjusted funding ratio is used. In this ratio there is an additional asset recognized in the amount of the unfunded actuarial liability (UAL) payments being made by the County to pay for benefit increases and assumption changes. On this basis, the System's actuarial funded ratio decreased from 76.0% at July 1, 2009 to 72.0% at July 1, 2010.

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

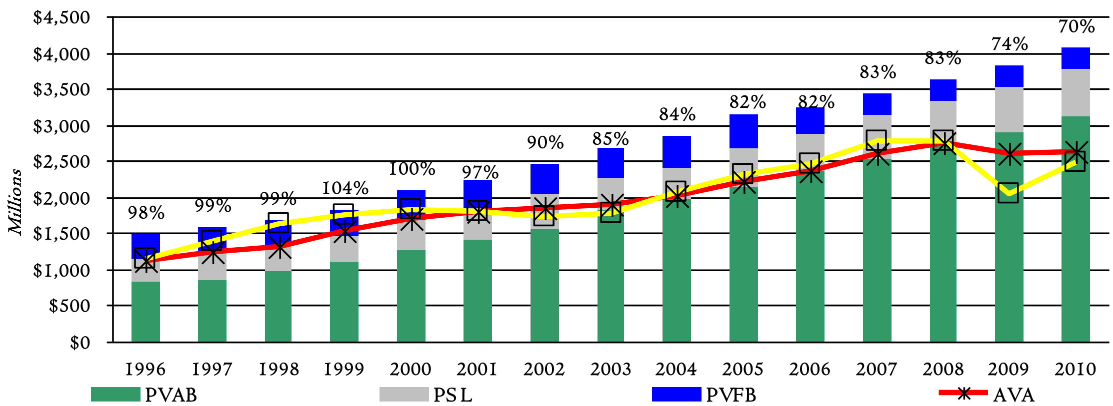
Growth in Assets



There was a substantial increase in the market value of assets (MVA) over last year due to a return of 25.3%. 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 size of the prior year loss there remains $167 million unrecognized losses that will be phased in over the next few years.

Over the period July 1, 1996 to June 30, 2010 the System's assets returned approximately 8.1% per year measured at actuarial value, compared to a valuation assumption of 7.5% per year.

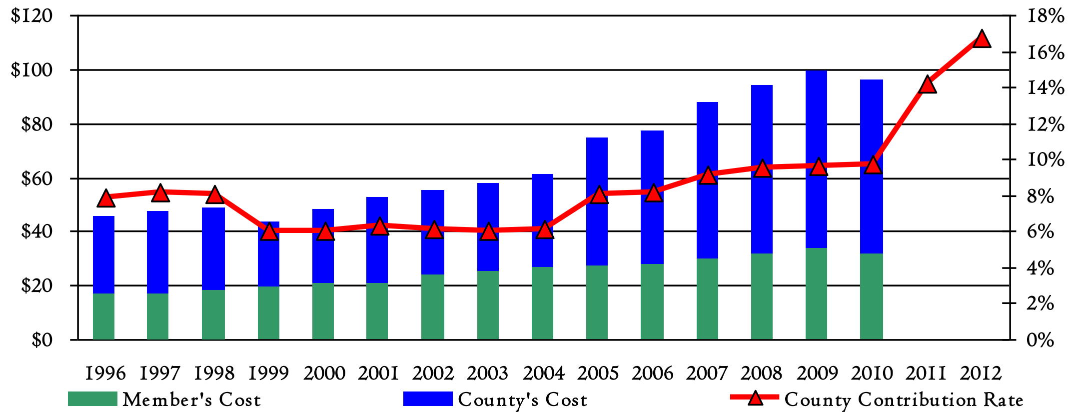
Assets and Liabilities



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 70% as a result of investment losses recognized so far in the smoothing process.

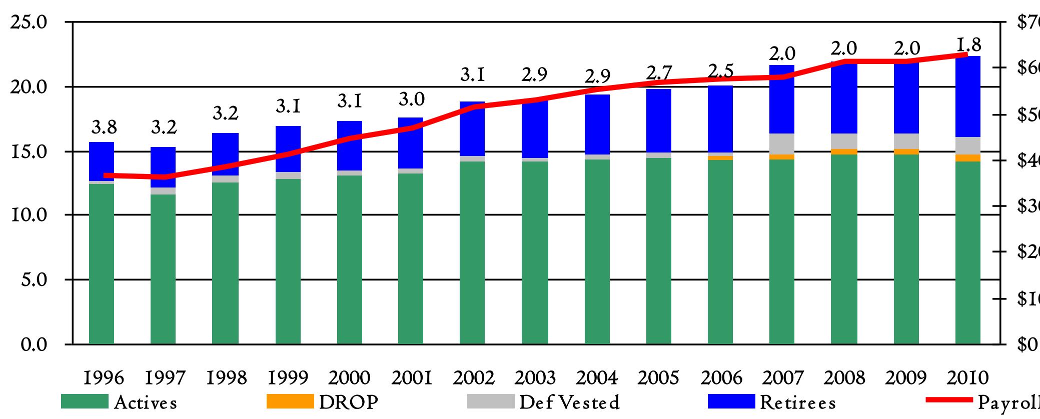
Contribution Rates



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

The member contribution rate is set by the County Ordinance. The County contribution rate is set by the actuarial process, as constrained by the corridor method. Note, there is a lag in the rate shown. For example, the 2010 value is the rate prepared by the 2008 valuation and implemented for the period July 1, 2009 to June 30, 2010.

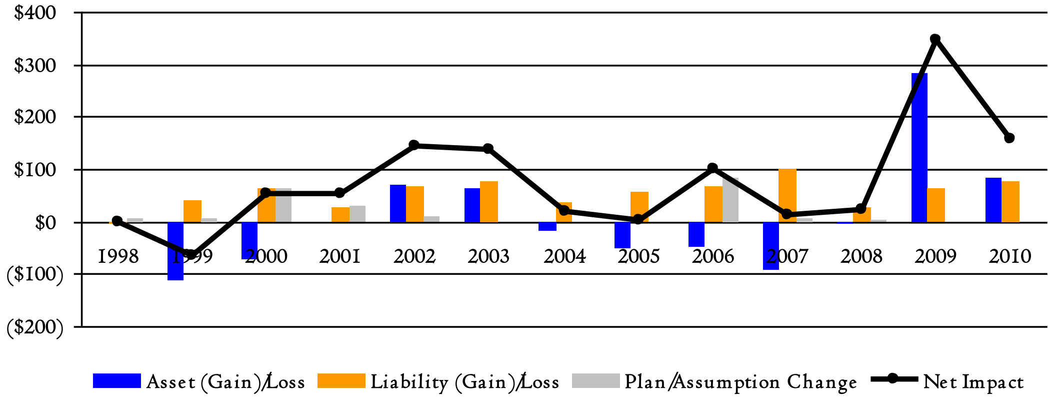
Participant Trends



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 3.8 actives to each inactive in 1996 to 1.8 actives for each inactive today. While this would be an alarming trend in a pay-as-you-go system, the pool of invested assets has been established in anticipation of this development.

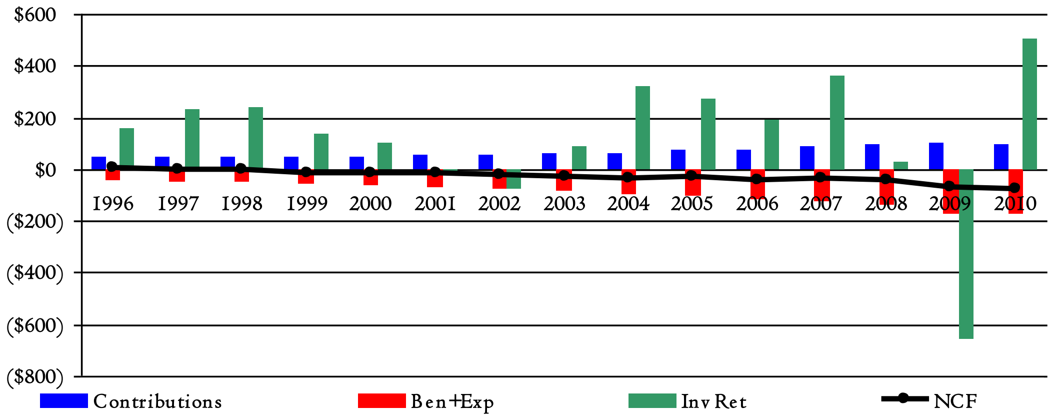
Starting in 2006, the chart also shows the number of DROP participants. Neither employer nor member contributions are made on their behalf, which leads to a slightly lower growth in effective covered payroll for this System.

Gains and Losses



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

Cash Flow



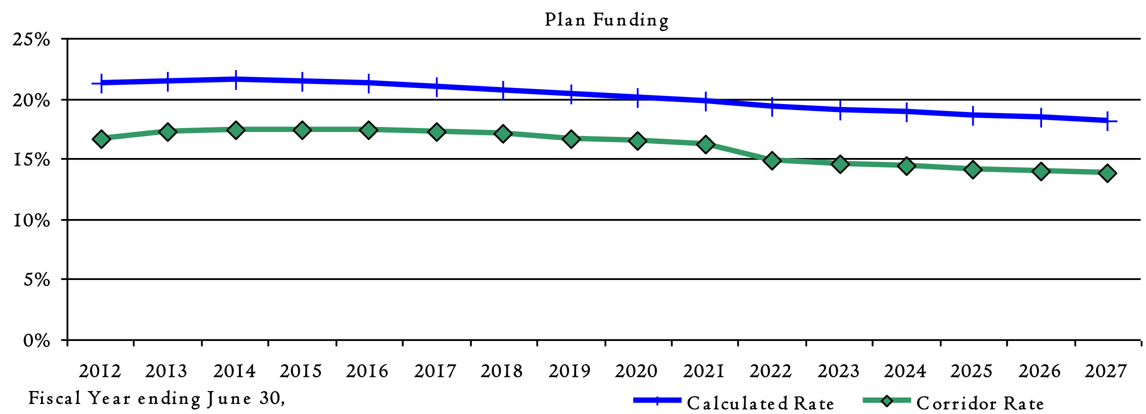
The graph shows the annual cash flows into and out of the System. The graph shows the magnitude the investment returns on the market value (green bars) compared to the contributions (blue bars). The net cash flow (line) is comparing the contributions to benefits and expenses (red bar). Negative cash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

Future Outlook

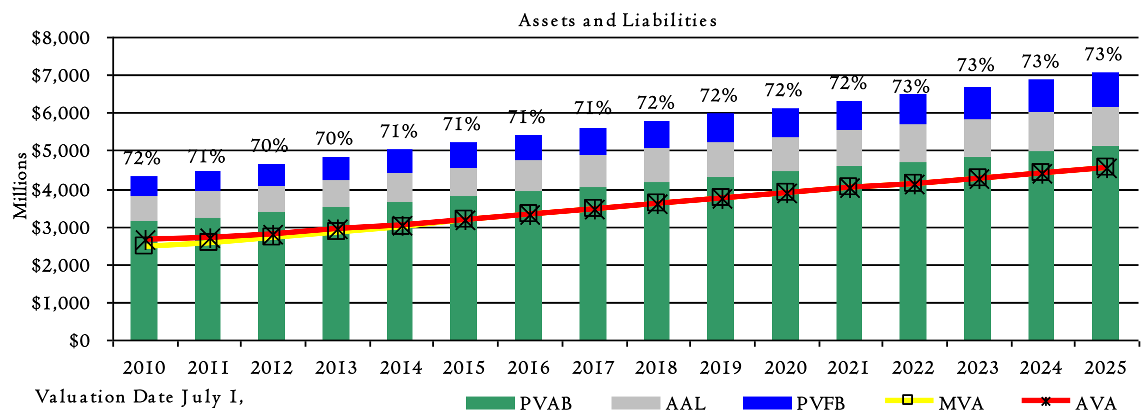
Base Line Projections

The two graphs below show the expected progress of the Plan over the next 15 years assuming the System's assets earn 7.5% on their *market value.*

The graph entitled "Plan Funding" shows the System not re-entering the corridor (if all other actuarial assumptions are met as well as the 7.5% interest rate). The decrease in corridor contributions (green line) towards the end of the period show plan change bases becoming fully amortized and dropping out. The blue line shows the actuarially calculated rate if the corridor were not in place. Under this scenario the corridor rate approaches a high point of 17.5% of payroll.



The "Assets and Liabilities" graph shows the projected funding status over the next 15 years. Note that the 2010 funded level differs from that shown in the historical graphs because the ratio used here reflects the corridor method. The corridor funded ratio will continue to decline in the short term as unrecognized investment gains are incorporated in the actuarial value of assets. After this period the funding ratio increases slightly to 73% by the end of the period shown.



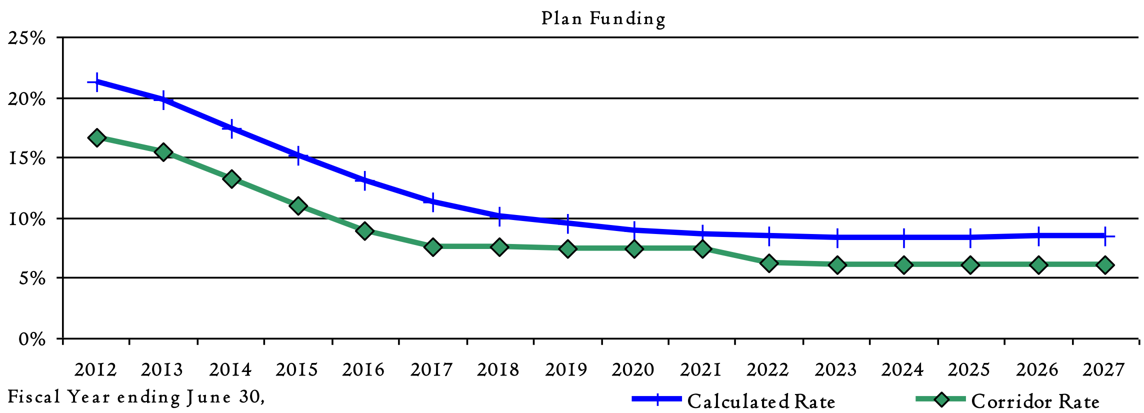
The future funding status of this System will be influenced by the investment earnings. The prior projection assumed the System would earn 7.5% each and every year, which is extremely unlikely.

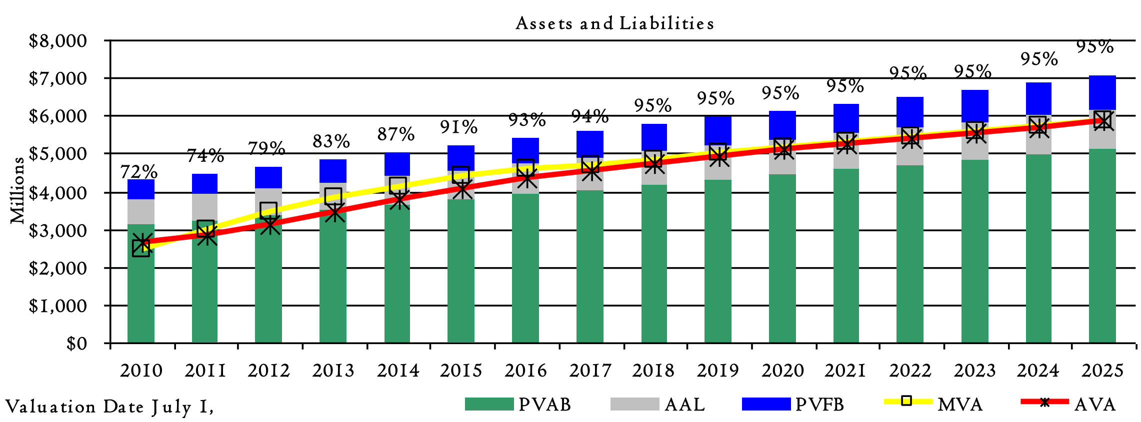
In the projections that follow we show the risk to the System under volatile markets. Since 1980 the System has averaged 9.99% return per year, therefore, for this analysis we have created the following three scenarios that produce the same average return.

Fiscal Year Ending June 30,	Favorable Returns Early	Poor Returns Early	Random Returns
2011	23.60%	6.10%	24.17%
2012	19.10%	8.10%	4.45%
2013	13.10%	10.10%	2.40%
2014	11.10%	11.10%	12.15%
2015	10.10%	13.10%	4.55%
2016	8.10%	19.10%	11.04%
2017	6.10%	23.60%	16.49%
2018	7.50%	7.50%	22.27%
2019	7.50%	7.50%	5.84%
2020	7.50%	7.50%	6.80%
2021	7.50%	7.50%	5.82%
2022	7.50%	7.50%	16.55%
2023	7.50%	7.50%	7.09%
2024	7.50%	7.50%	-4.57%
2025	7.50%	7.50%	18.81%
Average	**9.98%**	**9.98%**	**9.99%**

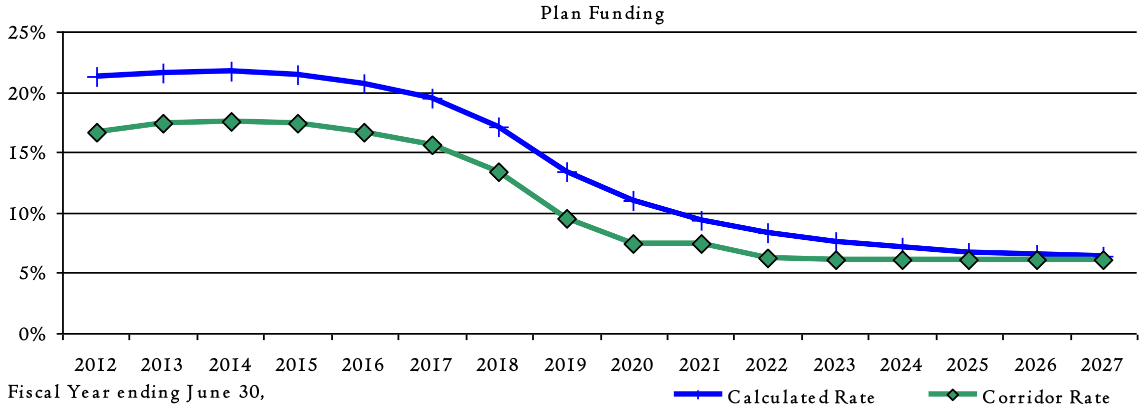
Alternative Projection -- with favorable returns early in the projection:

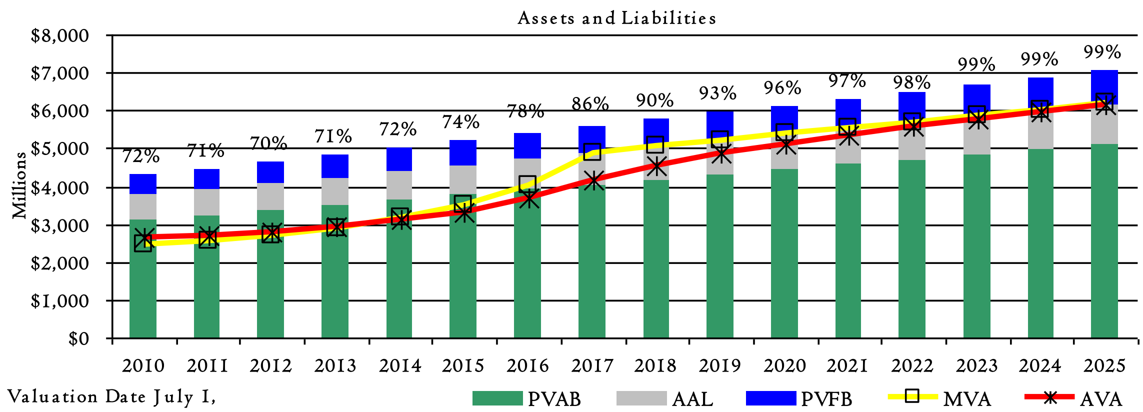
Under this scenario the corridor contribution rate would decrease each year as the first year return completely phased-in the prior losses. The System reaches 91% funded by 2015 (and re-enters the corridor) and then levels off at 95% funded by 2018.





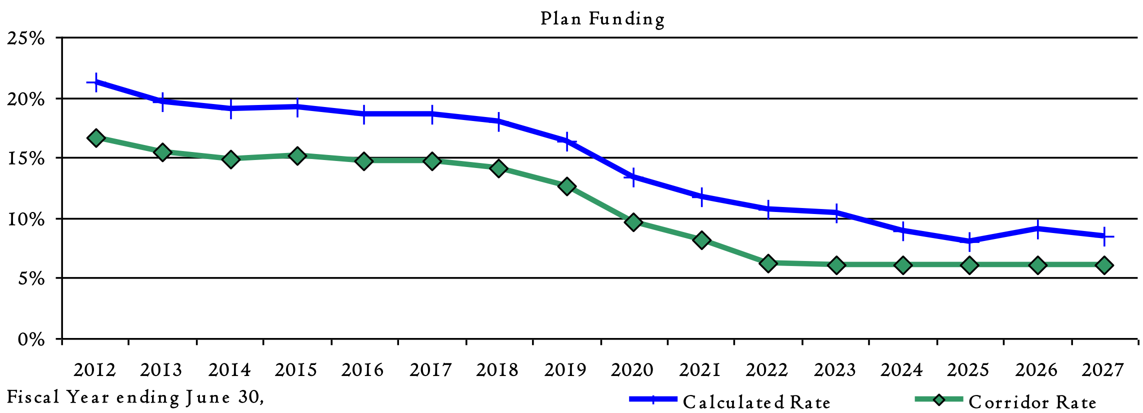
<u>Alternative Projection -- with poor returns early in the projection:</u>
Under this scenario the corridor contribution rate increase over the next two years due to the investment performance modeled in this scenario and the phase-in of prior asset losses. The rate would decline from FY 2014 due to the returns in excess of the actuarial assumption. The funding ratio would reach 90% by 2018.

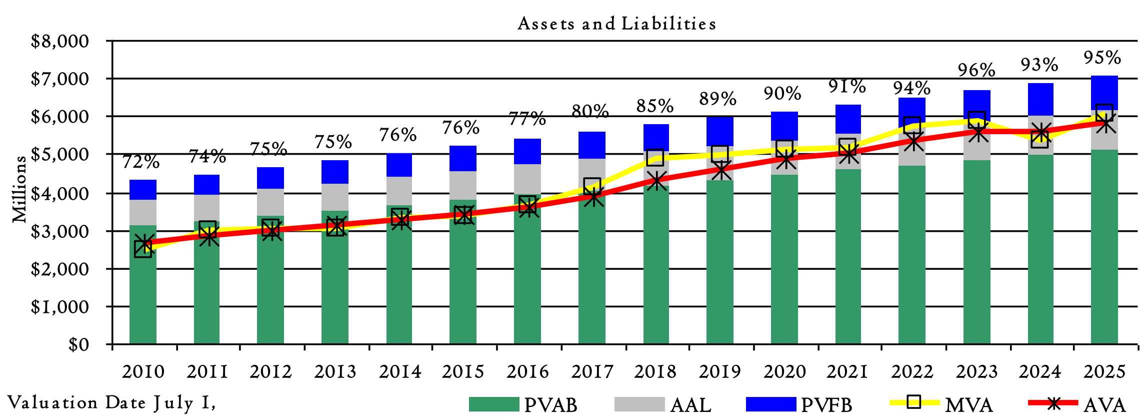




Alternative Projection (Random Returns):

Under this scenario the corridor contribution rate declines to 15% by FY2014 and hovers at that level until FY2017. At that point the contribution would start to decline as the funding ratio improves. This scenario shows the System at 95% funded at the end of the period.





Summary of Principal Plan Results Valuation as of:		7/1/2009		7/1/2010	% Chg
Participant Counts					
Actives (excluding DROP)		14,616		14,169	-3.1%
DROPs		418		472	12.9%
Terminated Vesteds		1,342		1,384	3.1%
In Pay Status		5,931		6,218	4.8%
Total		**22,307**		**22,243**	**-0.3%**
Annual Salaries of Active Members	$	628,481,359	$	629,248,592	0.1%
Annual Retirement Allowances for Retired Members and Beneficiaries (Base amount only – not supplements)	$	123,176,801	$	133,956,550	8.8%
Assets and Liabilities					
Actuarial Accrued Liability	$	3,535,873,545	$	3,771,059,523	6.7%
Assets for Valuation Purposes		2,603,283,631		2,626,051,959	1.3%
Unfunded Actuarial Liability	**$**	**932,589,914**	**$**	**1,135,007,564**	**21.7%**
Funding Ratio		73.6%		69.9%	
Present Value of Accrued Benefits	$	2,896,231,821	$	3,118,207,779	7.7%
Market Value of Assets		2,039,051,396		2,469,080,090	21.1%
Unfunded FASB Accrued Liability (not less than $0)	**$**	**857,180,425**	**$**	**649,127,689**	**-24.3%**
Accrued Benefit Funding Ratio		70.4%		79.2%	
Contributions as a Percentage of Payroll		**Fiscal Year 2011**		**Fiscal Year 2012**	
GASB Method:					
Normal Cost Contribution		5.95%		5.95%	
Unfunded Actuarial Liability Contribution		12.53%		15.24%	
Administrative Expense		0.15%		0.15%	
Total Contribution		**18.63%**		**21.34%**	
Corridor Method:					
Normal Cost Contribution		5.95%		5.95%	
Increase Due to Amortized Changes		1.47%		1.47%	
Amortization of Amount Outside Corridor		6.65%		9.13%	
Administrative Expense		0.15%		0.15%	
Corridor Method		**14.22%***		**16.70%**	

* The actual contribution rate being paid by the County in FY 2011 is 14.70%.

Summary of Actuarial Assumptions and Methods

Funding Method

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

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

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

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

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

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

Actuarial Value of Assets

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

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

Changes Since Last Valuation

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

Long Term Assumptions Used to Determine System Costs and Liabilities

Demographic Assumptions

Mortality

1994 Uninsured Pensioners Mortality Table
Annual Deaths Per 1,000 Members*

Age	Male Deaths	Female Deaths	Age	Male Deaths	Female Deaths
20	1	0	65	16	9
25	1	0	70	26	15
30	1	0	75	40	24
35	1	1	80	67	42
40	1	1	85	105	73
45	2	1	90	164	125
50	3	2	95	251	200
55	5	2	100	341	297
60	9	5	105	441	415

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

Annual Deaths per 1,000 Disabled Members

Age	Male	Female
45	43	24
50	48	28
55	53	33
60	58	38
65	64	44
70	73	51
75	89	63
80	107	80

Termination of Employment: (Prior to Normal Retirement Eligibility)

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

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

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

Disability

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

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

Retirement

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

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

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

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

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

Family Composition

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

Sick Leave Credit

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

Economic Assumptions

Investment Return:	7.5% compounded per annum.
Rate of General Wage Increase:	4.00% compounded per annum.
Rate of Increase in Cost-of-Living:	4.00% compounded per annum. (Benefit increases limited to 4% per year. Post-retirement cost-of-living increases are assumed to be 3% per year.)
Total Payroll Increase (For amortization):	4.00% compounded per annum.
Administrative Expenses:	0.15% of payroll.

Changes Since Last Valuation

There have been no changes since the last valuation.

Analysis of Financial Experience

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

Type of Activity	2005	2006	2007	2008	2009	2010
Investment Income	$52,403,068	$48,113,093	$93,321,633	$5,501,407	$(282,116,118)	$(83,485,934)
Combined Liability Experience	(48,719,014)	(66,263,080)	(99,929,651)	(26,428,258)	(62,427,360)	(74,720,305)
Gain (or Loss) During Year from Financial Experience	**$3,684,054**	**$(18,149,987)**	**$(6,608,018)**	**$(20,926,851)**	**$(344,543,478)**	**$(158,206,239)**
Non-Recurring Items	(82,052,042)	(4,777,614)	(2,056,768)	(1,446,483)	0	0
Composite Gain (or Loss) During Year	**$(78,367,988)**	**$(22,927,601)**	**$(8,664,786)**	**$(22,373,334)**	**$(344,543,478)**	**$(158,206,239)**

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
2005	410	$13,203,836	140	$2,578,496	4,889	$104,407,539	11.33%	$21,536
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

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)
2005	$260,335,634	$1,155,976,307	$1,260,106,417	$2,202,515,466	100%	100%	62%
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%

Statistical Section

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
2002	$24,217,436	$31,083,805	6.12%	($75,059,747)	($19,758,506)
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

Schedule of Deductions by Type

Fiscal Year	Benefit Payments	Refunds of Contributions	Administrative Expenses	Transfers	Total Deductions
2002	$70,703,829	$3,774,942	$807,528		$75,286,299
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

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
2002	$63,723,688	$2,553,198	$2,738,462	$1,688,480	$70,703,828
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

Schedule of Retired Members by Benefit Type

Fiscal Year	Service Annuity	Service-Connected Disability	Ordinary Disability	Survivor Benefit	Total
2002	3,459	174	366	165	4,164
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

Schedule of Average Monthly Benefit Amounts

Fiscal Year	Service Annuity	Service-Connected Disability	Ordinary Disability	Survivor Benefit	Average
2002	$1,629	$1,259	$680	$879	$1,500
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

Fairfax County Employees' Retirement System

A Fairfax County, Va., publication

Comprehensive Annual Financial Report

For the Fiscal Year ended June 30, 2011