2004 COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

FAIRFAX COUNTY POLICE OFFICERS RETIREMENT SYSTEM

A PENSION TRUST FUND OF FAIRFAX COUNTY, VIRGINIA

TABLE OF CONTENTS

Introductory Section	**Page**
Letter of Transmittal	3
Board of Trustees	6
Administrative Organization	7
Organizational Chart	8
Summary of Plan Provisions	9
Financial Section	
Independent Auditors' Report	11
Management's Discussion and Analysis	12
Financial Statements	
Statements of Plan Net Assets	15
Statements of Changes in Plan Net Assets	16
Notes to Financial Statements	17
Required Supplementary Information	
Schedule of Funding Progress	21
Schedule of Employer Contributions	21
Notes to Required Supplementary Information	22
Investment Section	
Overview	23
Capital Markets and Economic Conditions	24
Asset Allocation By Category and Investment Manager	28
List of Largest Holdings for Active (Non-Pooled) Accounts	29
Actuarial Section	
Actuary's Certification Letter	31
Summary of Valuation Results	33
Summary of Actuarial Assumptions and Methods	43
Actuarial Assumptions and Methods	44
Analysis of Financial Experience	47
Schedule of Retirees and Beneficiaries Added To and Removed From Rolls	47
Solvency Test	47
Statistical Section	
Schedule of Additions by Source	49
Schedule of Deductions by Type	49
Schedule of Benefit Payments by Type	50
Schedule of Retired Members by Benefit Type	50
Schedule of Average Monthly Benefit Amounts	50

THIS PAGE INTENTIONALLY LEFT BLANK

FAIRFAX COUNTY
V I R G I N I A

BOARD OF TRUSTEES
POLICE OFFICERS RETIREMENT SYSTEM
10680 Main Street, Suite 280
Fairfax, Virginia 22030-3812

Telephone: (703) 279-8200 (800) 333-1633 FAX: (703) 273-3185

September 15, 2004

Dear Members of the Board of Trustees:

I am pleased to submit to you the annual report of the Fairfax County Police Officers Retirement System (System) for the fiscal year ended June 30, 2004. This annual report is provided as an aid to understanding the structure and evaluating the status of the System. The System's management is responsible for the accuracy of financial information contained herein.

The annual report for fiscal 2004 consists of five sections: (1) an Introductory Section that contains this transmittal letter along with the organization structure and review of plan provisions; (2) a Financial Section that contains the opinion of the independent auditors, management's discussion and analysis, the financial statements of the System and required supplementary information; (3) an Investment Section that contains investment results; (4) an Actuarial Section that includes the independent actuary's certification letter, a summary of the results of the actuarial valuation, and actuarial procedures and assumptions; and (5) a Statistical Section that contains information regarding the System membership.

History

The Fairfax County Police Officers Retirement System was created under authority granted by Chapter 303 of the Acts of Assembly (law of the Commonwealth of Virginia) on March 29, 1944 to provide defined benefit pension plan coverage for sworn full-time law enforcement officers of the Fairfax County Police Department. In 1981, Fairfax County enacted Article 7 of the Fairfax County Code, which adopted and continued Chapter 303 as amended. There were 1,303 active members and 699 retirees participating in the System as of June 30, 2004.

Benefit 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

Fiscal 2004 experienced a much-needed rebound in economic growth and worldwide equity markets after suffering three years of general market declines. Stimulative fiscal and monetary policies sent consumers on a buying spree which resulted in a surprising 8.2% increase in fiscal first-quarter Gross Domestic Product (GDP) growth. Investors responded by sending equity prices surging. The S&P 500 Index rose 19.1% during fiscal 2004, while the smaller-capitalization Russell 2000 Index advanced 33.4%. International equity returns also exceeded 30% for the fiscal-year period. Bonds were flat on the year as the Federal Reserve made clear that it was planning to return short-term interest rates to higher, more normalized levels. With the market rally, the Police Officers Retirement System fund returned 15.5% for 2004, after management fees. This return placed the fund in the 69th percentile of the Russell/Mellon public fund universe and the fund's three-year return placed it in the 43rd percentile. The returns for the total fund trailed the policy benchmark for the year.

After accounting for all cash flows, including contributions, expenses and benefit payments, the market value of the System's assets increased 14.7%, from $591 million on June 30, 2003 to $679 million on June 30, 2004.

Major Initiatives

In response to an application filed in 2002, the Internal Revenue Service issued a determination letter confirming that, subject to one technical wording change, the plan continues to qualify as an employee benefit plan under section 401(a) of the Internal Revenue Code. The necessary technical amendment was made within the required timeframe.

The System adopted and implemented a Deferred Retirement Option Plan (DROP). DROP provides an additional option to retirement eligible members and is a form of accruing a lump-sum benefit in lieu of continuing to earn service credit in the three years prior to actual retirement. The System website was enhanced to provide members the ability to obtain DROP estimates online, and individual counseling sessions were made available for eligible members.

Continuing the Retirement Agency's focus on providing excellent service to members, the benefits administration staff was restructured during fiscal 2004. The restructuring re-aligned the staff to create separate units focused on the different needs of active and retired members.

Following a review of the existing legacy computer systems and current and future data needs, a Request for Proposal was released to obtain bids on defined benefit administration software applications to replace and upgrade our existing systems. As the year closed, vendor responses were being reviewed.

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 accounting principles generally accepted in the United States of America.

Funded Status

An actuarial valuation of the System to determine funding requirements is performed annually. The System's funding policy provides for periodic employer contributions at actuarially determined rates which will remain relatively level over time as a percentage of payroll and will accumulate sufficient assets to meet the costs of benefit payments when due. The valuation of the System performed as of July 1, 2003 indicated that the ratio of assets accumulated by the System to total actuarial accrued liabilities for benefits decreased from 95.3% to 90.0%. The Actuarial Section contains further information on the results of the July 1, 2003 valuation.

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 to ensure compliance with its stated objectives and policy. Staff and the external investment consultant retained by the Board also monitor the performance of the System and its investment managers. Rate of return information is included in the Investment Section.

Securities of the System except for the mutual funds and the county's pooled cash and temporary investments are held by Mellon Global Securities Services as agent, in the System's name. 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.

Other Information

Independent Audit and Actuarial Certifications

The independent auditors' report and certifications from the actuary are included in this report.

Acknowledgements

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

Respectfully submitted,

Laurnz A. Swartz
Executive Director

BOARD OF TRUSTEES

ADMINISTRATIVE ORGANIZATION

Administrative Staff

Laurnz A. Swartz
Executive Director

Jeffrey A. Willison
Investment Manager

Philip R. Langham
Retirement Administrator

Professional Services

Actuary

CHEIRON
Actuaries
McLean, VA

Auditor

KPMG LLP
Certified Public Accountants
Washington, DC

Investment Managers

Capital Guardian Trust Company
Los Angeles, CA

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

Dodge & Cox Investment Managers
San Francisco, CA

JANUS Capital Corporation
Denver, CO

Oak Associates, LTD.
Akron, OH

Peregrine Capital Management
Minneapolis, MN

PIMCO
Newport Beach, CA

Standish Mellon Asset Management
Pittsburgh, PA

Systematic Financial Management
Teaneck, NJ

Robert E. Torray & Co., Inc.
Bethesda, MD

Trust Company of the West
Los Angeles, CA

Veredus Asset Management
Louisville, KY

Attorney

W. McCauley Arnold
McCandlish & Lillard
Fairfax, VA

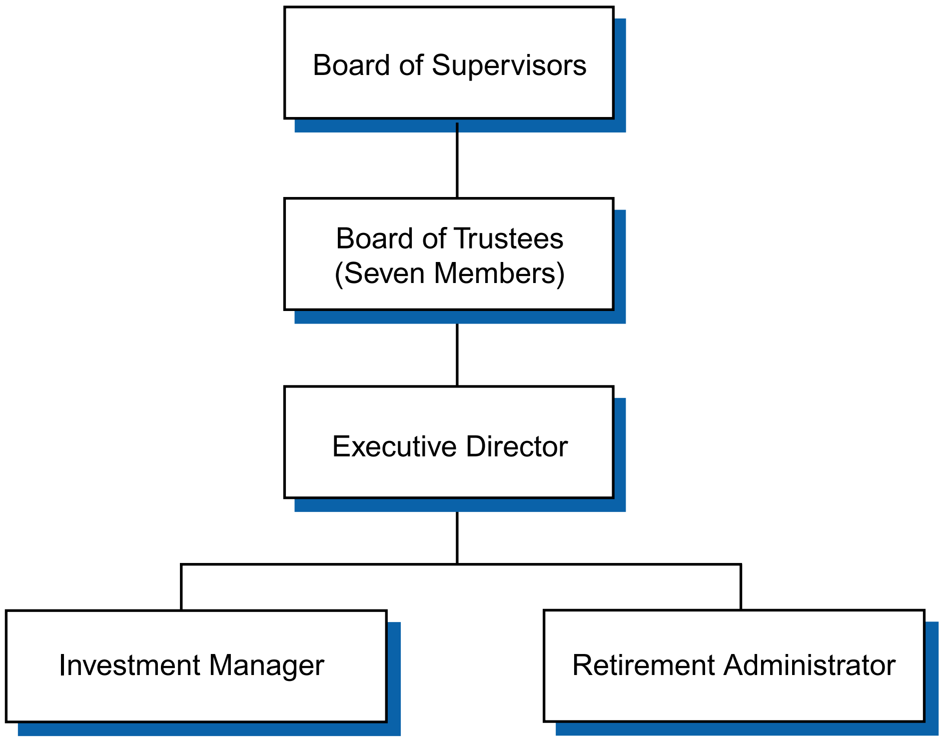
Custodial Bank

Mellon Global Securities Services
Pittsburgh, PA

Investment Consultant

Mercer Investment Consulting, Inc.
Atlanta, GA

ORGANIZATIONAL CHART



SUMMARY OF PLAN PROVISIONS

Membership in the Fairfax County Police Officers Retirement System includes full-time sworn law enforcement officers in the Fairfax County Police Department.

The general provisions of the Police Officers Retirement System are as follows:

Contribution Rate: 12% of base salary (including roll call and holiday pay). Police Officers do not contribute to Social Security, except Police Officers hired after April 1, 1986 contribute to Medicare.

Benefit: 2.8% of average final compensation (highest consecutive three years) times creditable service up to a maximum of 84%. The total benefit is then increased by 3%.

Normal Retirement: is either age 55 or at least 25 years of creditable service (20 years if sworn in before July 1, 1981).

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

Early Retirement: is 20 years of creditable service if sworn in on or after July 1,1981.

Deferred Vested Retirement: is available for vested members (vesting is at 5 years of creditable service) who leave their contributions in the System when they terminate. These members are entitled to their normal retirement benefit based on service with the Police Department at age 55.

Service-Connected Disability Retirement: is available for members, regardless of their length of service, who become disabled as a result of a job-related illness or injury. Benefits for total disability are $66^2/_3$% of average final compensation if sworn in on or after July 1, 1981. If sworn in before July 1, 1981, the total disability benefit is based on $66^2/_3$% of the salary the member would have received if he or she had not been disabled. Any member who is still disabled when they reach their normal retirement date will have their benefit reduced to 60% of the salary he or she would have received if he or she had not been disabled.

Non-Service Connected Disability Retirement: is available for vested members who become disabled due to an injury or illness that is not job-related. Normal retirement benefits are paid (minimum is 10% of the member's salary).

SUMMARY OF PLAN PROVISIONS
(Continued)

Death Benefits: ***Before Retirement* —** An automatic monthly benefit is payable to the member's spouse and children. This benefit equals $1,666.77 for the spouse (until remarriage before age 60) or surviving handicapped child (if there is no spouse), plus each eligible child receives $666.70 up to a total family benefit of $3,333.53 (these benefits are indexed to inflation). If the death occurred in the line of duty, the spouse or surviving handicapped child (if there is no spouse) may elect to receive 66⅔% of the member's regular salary at the time of death in lieu of the automatic benefits. If no automatic benefit is payable, contributions will be refunded to the member's beneficiary.

***After Retirement* —** For those retiring on a regular service or service-connected disability retirement, an automatic monthly benefit is payable to the member's spouse and children. This benefit equals $1,666.77 for the spouse (until remarriage before age 60) or surviving handicapped child (if there is no spouse), plus each eligible child receives $666.70 up to a total family benefit of $3,333.53 (these benefits are indexed to inflation). In addition, members who retire on a regular service retirement may elect a Joint and Contingent Spouse and Handicapped Child option which provides 100%, 66⅔%, or 50% of the retiree's reduced benefit to the spouse or eligible handicapped child for life. 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 predeceases the member, the annuity is restored to what it would have been if this option had not been elected. If no automatic benefit is payable, contributions not yet paid out in benefits will be refunded to the member's beneficiary.

Cost of Living Benefit: 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.

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

The Board of Supervisors
County of Fairfax, Virginia

The Board of Trustees
of the Fairfax County Police Officers Retirement System:

We have audited the statements of plan net assets of the Fairfax County Police Officers Retirement System (the System), a pension trust fund of the County of Fairfax, Virginia, as of June 30, 2004 and 2003, and the related statements of changes in plan net assets for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 as of June 30, 2004 and 2003, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 12 through 14 and the required supplementary information on pages 21 and 22 are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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.

Our audits were 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

September 24, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's discussion and analysis of the Fairfax County Police Officers Retirement System's ("System" or "plan") financial performance and provides an overview of the financial activities for the fiscal years ended June 30, 2004 and 2003. The information in this section should be reviewed in conjunction with the letter of transmittal provided in the Introductory Section of this report.

Overview of Financial Statements and Accompanying Information

Basic Financial Statements. The System presents Statements of Plan Net Assets as of June 30, 2004 and 2003 and Statements of Changes in Plan Net Assets for the years then ended. These statements reflect the resources available for the payment of benefits as of year-end and the sources and uses of those funds during the year.

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

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

Financial Analysis

Summary of Plan Net Assets. As indicated in the following Summary Statement of Plan Net Assets, the net assets held in the System increased $87.3 million or 14.7% during fiscal 2004 and increased $18.6 million or 3.2% during fiscal 2003. These changes are primarily due to increases in fair value of investments during fiscal 2004 and 2003.

Return on Investments. The System's return on investments net of investment management fees for fiscal 2004 and 2003 were 15.5% and 4.3%, respectively. The System's domestic equities had a 20.0% return in fiscal 2004 and a 1.4% total return in fiscal 2003. The international equity portfolio returned 28.9% during fiscal 2004 and (5.8)% during fiscal 2003. On the fixed income side, the System returned 1.3% for fiscal 2004 and 9.6% for fiscal 2003. The System's REIT portfolio returned 30.3% for fiscal 2004 and 2.9% for fiscal 2003. Additional investment market commentary is provided in the Investment Section of this document.

Additions. Total additions increased $70.4 million from fiscal 2003 to 2004 and $52.4 million from fiscal 2002 to 2003 primarily due to increases in investment returns. Employer contributions increased $1.8 million or 13.6% from fiscal 2003 to 2004 and decreased $2.2 million or 14.3% from fiscal 2002 to 2003. The 2004 employer contribution rate of 17.96% of covered payroll was an increase from the fiscal 2003 rate of 17.62%. The 2003 decrease is attributable to the decrease in the employer contribution rate from 21.79% of covered payroll during fiscal 2002 to 17.62% of covered payroll during fiscal 2003. Plan member contributions increased during both 2004 and 2003 as a result of the increase in covered payroll. The 2003 decrease was partially offset by the increase in covered payroll. The System experienced net investment gains during both fiscal 2004 and 2003. Net appreciation in the fair value

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

of investments was $70.1 million during fiscal 2004 and $6.3 million during fiscal 2003. Interest and dividend income was $24.3 million during fiscal 2004 and $19.5 million during fiscal 2003. Investment activity expense increased $839 thousand or 31.5% from fiscal 2003 to fiscal 2004 and $290 thousand or 12.2% from fiscal 2002 to 2003, due to investment management fees computed on the increasing investment values. Net securities lending income increased $62 thousand from fiscal 2003 to fiscal 2004 and decreased $73 thousand compared with the same period a year earlier. This was primarily due to a lessening in demand for securities by borrowers, particularly in international markets.

Deductions. Benefit payments increased 7.3% during fiscal 2004 and 7.4% during 2003. The number of retirees and beneficiaries collecting benefits and the amount of the average benefit increased in both years and were responsible for the increase in the expense. Retirees received cost of living increases of 3.6% as of July, 2003 and 2.67% as of July, 2002. Refunds and other expenses declined 17.3% from fiscal 2003 to 2004 and declined 7.7% from fiscal 2002 to 2003. The amount of refunds varies from year to year based on changes in employee turnover rates and decisions of former employees.

The actuarial valuation performed as of July 1, 2003 showed the System's funded status at 91.5%, a decrease of 4.2 percentage points from the July 1, 2002 funded percentage of 95.7%.

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/retbrd/.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Summary Statement of Plan Net Assets

	2004	2003	Difference	2002	Difference
Assets					
Total cash and investments	$747,760,511	$641,893,571	$105,866,940	$635,553,946	$6,339,625
Total receivables	8,260,297	8,474,548	(214,251)	14,815,576	(6,341,028)
Total Assets	756,020,808	650,368,119	105,652,689	650,369,522	(1,403)
Liabilities	76,873,236	58,477,391	18,398,845	77,052,867	(18,575,476)
Net Assets	$679,147,572	$591,890,728	$ 87,253,844	$573,316,655	$18,574,073

Summary of Additions and Deductions

	2004	2003	Difference	2002	Difference
Additions					
Contributions					
Employer	$ 14,682,201	$12,923,806	$ 1,758,395	$ 15,077,920	$ (2,154,114)
Plan members	9,689,253	8,941,529	747,724	8,335,903	605,626
Net investment income (loss)	91,176,999	23,248,712	67,928,287	(30,661,679)	53,910,391
Total Additions	115,548,453	45,114,047	70,434,406	(7,247,856)	52,361,903
Deductions					
Benefit payments	27,682,363	25,803,466	1,878,897	24,024,119	1,779,347
Refunds and other	609,246	736,508	(127,262)	798,265	(61,757)
Total Deductions	28,291,609	26,539,974	1,751,635	24,822,384	1,717,590
Net Change	$ 87,256,844	$18,574,073	$68,682,771	$ (32,070,240)	$50,644,313

STATEMENTS OF PLAN NET ASSETS

as of June 30, 2004 and 2003

Assets	2004	2003
Cash and short-term investments		
Equity in County's pooled cash and temporary investments	$ 1,146,297	$ 268,508
Cash collateral received for securities on loan	67,354,471	54,309,204
Short-term investments	38,601,058	27,138,679
Total cash and short-term investments	107,101,826	81,716,391
Receivables		
Contributions	766,634	489,173
Accrued interest and dividends	2,855,513	2,520,099
Securities sold	4,638,150	5,465,276
Total receivables	8,260,297	8,474,548
Investments, at fair value		
U.S. Government obligations	28,771,595	28,457,742
Asset-backed securities	115,466,236	99,601,879
Corporate bonds	53,853,605	46,692,132
Common and preferred stock	355,319,085	311,017,698
Pooled and mutual funds	87,248,164	74,407,729
Total investments	640,658,685	560,177,180
Total assets	756,020,808	650,368,119
Liabilities		
Cash collateral received for securities on loan	67,354,471	54,309,204
Purchase of investments	8,589,096	3,274,097
Accounts payable and accrued expenses	929,669	894,090
Total liabilities	76,873,236	58,477,391
Net assets held in trust for pension benefits	**$679,147,572**	**$591,890,728**

(A schedule of funding progress is presented on page 21.)

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN PLAN NET ASSETS

For the Years Ended June 30, 2004 and 2003

Additions	**2004**	**2003**
Contributions		
Employer	$ 14,682,201	$ 12,923,806
Plan members	9,689,253	8,941,529
Total contributions	24,371,454	21,865,335
Investment income from investment activities		
Net appreciation in fair value of investments	70,181,195	6,302,740
Interest	17,517,439	13,063,079
Dividends	6,799,577	6,427,567
Total investment income	94,498,211	25,793,386
Investment activity expense		
Management fees	3,131,592	2,391,187
Custodial fees	122,935	119,622
Consulting fees	123,192	54,192
Allocated administration expense	127,038	100,885
Total investment expense	3,504,757	2,665,886
Net income from investment activities	90,993,454	23,127,500
From securities lending activities		
Securities lending income	729,316	580,746
Securities lending expenses		
Borrower rebates	466,666	408,801
Management fees	79,105	50,733
Total securities lending activities expenses	545,771	459,534
Net income from securities lending activities	183,545	121,212
Total net investment income	91,176,999	23,248,712
Total additions	115,548,453	45,114,047
Deductions		
Annuity benefits	24,982,292	23,352,203
Disability benefits	1,270,442	1,149,662
Survivor benefits	1,429,629	1,301,601
Refunds	350,894	525,574
Administrative expense	258,352	210,934
Total deductions	28,291,609	26,539,974
Net increase	87,256,844	18,574,073
Net assets held in trust for pension benefits		
Beginning of fiscal year	591,890,728	573,316,655
End of fiscal year	**$679,147,572**	**$591,890,728**

See accompanying notes to financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2004 and 2003

The Fairfax County Police Officers Retirement System ("System" or "plan") is a legally separate single-employer defined benefit pension plan established under the Code of Virginia to provide defined pension benefits to certain Fairfax County Virginia ("County") police and park police officers. As such, the System is considered part of the County reporting entity and its financial statements are included in the County's basic financial statements as a pension trust fund.

A. Summary of Significant Accounting Policies

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

Method Used to Value Investments. Short-term investments are reported at cost, which approximates fair value. All other investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Asset-backed securities are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. 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 Statements of Plan Net Assets. Cash received as collateral on securities lending transactions and investments made with such cash are reported as assets along with a related liability for collateral received.

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, 2004 and 2003 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 and Contribution Information

Membership. At July 1, 2003, the date of the latest actuarial valuation, membership in the System consisted of:

Retirees and beneficiaries receiving benefits	682
Terminated plan members entitled to but not yet receiving benefits	14
Active plan members	1,213
Total	**1,909**

Plan Description. The System is a single-employer defined benefit pension plan. The plan covers County police officers who are not covered by other plans of the County or the Virginia Retirement System and former park police officers who elected to transfer to the System effective January 22, 1983. Benefit provisions are established and may be amended by County ordinance. All benefits vest at five years of service. To be eligible for normal retirement, an individual must meet the following criteria: (a) if employed before July 1, 1981; attained the age of 55 or completed 20 years of service, or (b) if employed on or after July 1, 1981; attained the age of 55 or completed 25 years of service. The

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

normal retirement benefit is calculated using average final compensation (i.e., the highest consecutive three years) and years (or partial years) of service at date of termination. The plan provides that unused sick leave credit may be used in the calculation of average final compensation by projecting the final salary during the unused sick leave period. Members eligible for normal retirement have the option of participating in a deferred retirement option program (DROP). Participating members continue working up to an additional three years after eligibility for normal retirement. In lieu of continuing to earn service credit, DROP members accrue a lump sum benefit payable at retirement. To be eligible for early retirement, the employee must have 20 years of service (does not apply if hired before July 1, 1981). Benefits are determined based on the normal retirement benefit calculated using average final compensation and service at early retirement actuarially reduced.

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

Contributions. The contribution requirements of the System members are established and may be amended by County ordinances. Member contributions are based on 12 percent of compensation. The County is required to contribute at an actuarially determined rate; the rates for the years ended June 30, 2004 and 2003 were 17.96 percent and 17.62 percent of annual covered payroll, respectively.

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

C. Investments

The authority to establish the System is set forth in chapter 303 of the Acts of Assembly (law of the Commonwealth of Virginia). Section 26-45.1 of the *Code of Virginia* (Code) authorizes fiduciaries of the System to purchase investments (including common and preferred stocks and corporate bonds) that meet the standard of judgment and care set forth in section 26-45.1 of the Code.

The System does not have investments (other than U.S. Government and U.S. Government guaranteed obligations) in any one organization that represent 5 percent or more of net assets available for benefits. All investments, except for the mutual funds, short-term investment fund, and a short-term collateral investment pool, are held by an unaffiliated custodian in the name of the System. Investment decisions for these assets are made by the Board of Trustees or investment managers selected by the Board.

Derivative Financial Instruments. As of June 30, 2004 and 2003, the System was not a party to derivative financial instruments that are not reported at fair value on the financial statements.

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 percent and international securities for collateral of 105 percent. The custodian receives cash or securities as collateral. All securities loans can be terminated on demand by either the System or the borrower. Cash collateral is invested in the lending agent's collective collateral investment pool, which at June 30, 2004 had a weighted-average maturity and duration of 40 days and at June 30, 2003 had a weighted-average maturity and duration of 18 days. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of securities loans made by other plan entities that invest cash collateral in the investment pool.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

The System did not impose any restrictions during fiscal 2004 or 2003 on the amounts of loans the lending agent made on its behalf. 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 for income earned on the securities while on loan. Securities on loan for securities collateral are classified in the following schedule of investments according to the category of the collateral received. Securities on loan at each year-end for cash collateral are unclassified as the cash collateral is invested in a collective collateral investment pool. At each 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.

As of June 30, 2004 and 2003, the market value of securities on loan were $74,077,282 and $55,263,240, respectively. Cash received as collateral and the related liabilities of $67,354,471 as of June 30, 2004 and $54,309,204 as of June 30, 2003 are shown on the Statements of Plan Net Assets. Securities received as collateral are not reported as assets since the System does not have the ability to pledge or sell the collateral absent borrower default.

Categorization. The System's investments are categorized to give an indication of the level of risk assumed by the System at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty or its trust department or agent, but not in the System's name. All of the System's investments meet the criteria of category 1, except investments in mutual funds, a short-term investment fund, a short-term collateral investment pool and those securities on loan for which the cash collateral is invested in the collateral investment pool. These investments by their nature are not required to be categorized.

A schedule of investments as of June 30, 2004 and 2003 follows:

Category 1 Investments *(Held by System's agent in System's name)*	**2004**	**2003**
Short-term investments		
Commercial paper	$ 15,158,063	$ -
Repurchase agreements	12,136,759	8,618,194
Corporate bonds	4,505,214	6,002,781
Asset-backed securities	2,160,553	6,948,560
U.S. Government bonds	1,177,080	-
Time deposits	-	1,000,000
Subtotal	35,137,669	22,569,535
U.S. Government Obligations		
Not on securities loan	2,191,142	988,017
On securities loan for other collateral	4,649,330	54,239
Asset-backed securities	105,579,508	97,940,054
Corporate and other bonds	45,075,876	40,294,779
Common and preferred stock		
Not on securities loan	327,673,881	294,419,578
On securities loan for other collateral	2,134,423	4,518,378
Total Category 1 Investments	**$522,441,829**	**$460,784,580**

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Not Subject to Classification

Mutual funds	$ 87,248,164	$ 74,407,729
Short-term investment fund	2,276,221	1,432,928
Cash collateral for securities on loan	67,354,471	54,309,204
Investments held by broker-dealers under securities loans with cash collateral		
Short-term investments	1,187,168	3,136,216
U.S. Government obligations	21,931,123	27,415,486
Asset-backed securities	9,886,728	1,661,825
Corporate and other bonds	8,777,729	6,397,353
Common and preferred stock	25,510,781	12,079,742
Total Uncategorized Investments	**224,172,385**	**180,840,483**
Total Investments	**$746,614,214**	**$641,625,063**

Reconciliation to Investments on Statement of Plan Net Assets

Total above	$746,614,214	$641,625,063
Less: short-term investments		
Cash collateral for securities on loan	(67,354,471)	(54,309,204)
Short-term investments not on loan for cash collateral	(35,137,669)	(22,569,535)
Short-term investments on loan for cash collateral	(1,187,168)	(3,136,216)
Short-term investment fund	(2,276,221)	(1,432,928)
Investments on Statement of Plan Net Assets	**$640,658,685**	**$560,177,180**

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

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

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability - AAL Entry Age (b)	Unfunded AAL- UAAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/1998	$434,259,212	$442,727,265	$8,468,053	98.09%	$51,955,916	16.30%
7/1/1999	503,649,251	487,951,047	(15,698,204)	103.22%	55,081,103	(28.50%)
7/1/2000	568,941,559	586,938,958	17,997,399	96.93%	64,946,049	27.71%
7/1/2001	611,514,245	617,510,212	5,995,967	99.03%	66,755,263	8.98%
7/1/2002	628,383,173	656,615,241	28,232,068	95.70%	69,196,512	40.80%
7/1/2003	644,404,891	703,977,098	59,572,207	91.54%	71,401,221	83.43%

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
1999	$10,685,734	100%
2000	11,950,073	100%
2001	17,149,427	100%
2002	15,077,920	100%
2003	14,918,405	87%
2004	17,356,995	85%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	July 1, 2003
Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	Weighted average of 14.5 years
Asset valuation method	3-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases*	4.0% - 10.0%
**Includes inflation at*	4.0%
Cost-of-living adjustments	3.0%

The actuarial assumptions used have been recommended by the actuary and adopted by the System's Board of Trustees based on the most recent review of the System's experience, completed in 2001.

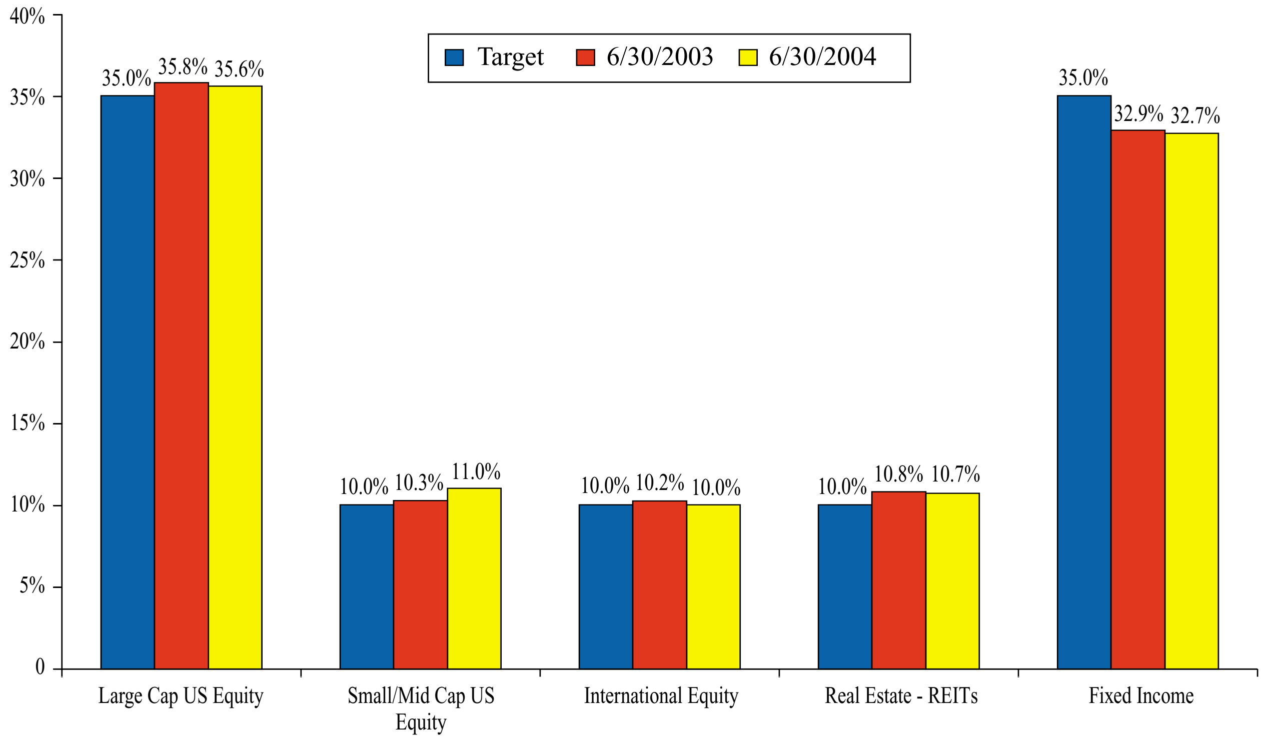
The rate of employer contributions to the plan is composed of the normal cost, amortization of the unfunded actuarial accrued liability and an allowance for administrative expenses. The normal cost is a level percent of payroll cost which, along with the member contributions, will pay for projected benefits 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 employer normal 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 expenses is based upon the plan's actual administrative expenses.

Some effect of investment losses from fiscal 2001 and 2002 are impacting the employer contribution rate developed during the July 1, 2004 valuation. The impact of these losses resulted in the computation of a contribution rate of 24.53% for fiscal 2005, per the GASB methodology, an increase of 3.7% over the GASB computed rate of 20.83% for fiscal 2004. 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 benefit changes or if the actuarial funding ratio falls outside a corridor of 90% and 120%. Use of the corridor method results in an adopted rate of 17.96% for fiscal 2005, an increase of 0.34% over the fiscal 2004 adopted rate of 17.62%.

OVERVIEW

The Board of Trustees has established an investment policy for the System to identify investment objectives, guidelines and performance standards for the assets of the System. The objectives are formulated in response to the anticipated needs of the System, the risk tolerance of the System and the desire of the Board of Trustees to define and fulfill their fiduciary responsibility over System assets.

With the assistance of the investment consultant, the Board has established its asset class strategic target allocations which it believes will achieve the return requirements of the fund at an appropriate level of risk and maintain a comfortable risk tolerance. Further, a disciplined rebalancing policy was adopted to ensure that market movements do not cause asset class weightings to unintentionally stray too far from the target percentages. The actual asset allocation at market is reviewed monthly and if asset class weightings fall outside the "no rebalancing range", transfers between asset classes are initiated to rebalance the asset allocations to within the target ranges. The following graph shows the target and actual asset allocations as of June 30, 2004 and 2003.



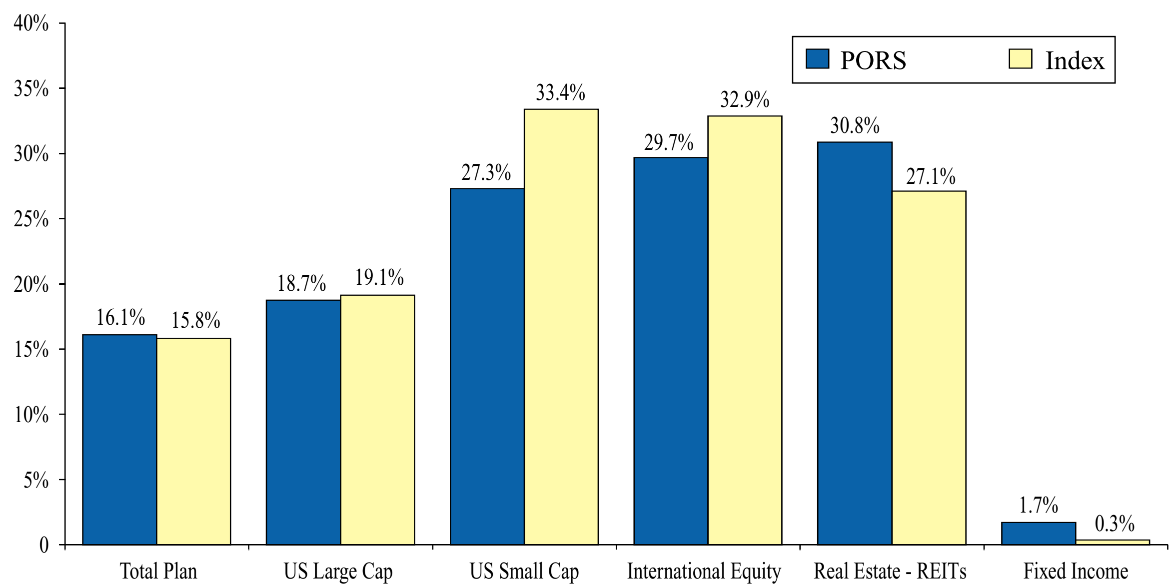
The Board of Trustees hires investment management firms and provides each firm with a mandate, and benchmark index or a blend of indices against which the performance of the account is measured. Each managed account has its own investment guidelines outlining the nature of the investments to be held in the account and detailing allowed and/or prohibited transactions. Investment managers are requested to submit a written statement describing their proposed investment strategy and tactics for achieving the investment goals and objectives that are required by their guidelines. Investment manager performance is monitored by staff monthly and reviewed by the Board of Trustees quarterly.

CAPITAL MARKETS AND ECONOMIC CONDITIONS

Financial and Economic Summary

Equity markets achieved very positive results in 2004, bouncing back from three years of post-bubble, bear-market swoon and tepid economic growth. Triggering these good results was a surprising jump in economic fundamentals to lead off the fiscal year. The prevailing view a year ago was that the economy was mired in a lingering recession (or at best a jobless recovery) and deflation was a significant threat. But the Administration stepped up to the plate and implemented the most expansionary macro-economic policies in history. The Jobs and Growth Tax Relief Reconciliation Act (JAGTRRA) reduced tax rates on stock dividends as well as long-term capital gains. It also provided most middle-income families with a $400 per-child tax credit. In addition, Federal spending went into overdrive. The Federal Reserve did its part to maintain a hyper-stimulative monetary policy by dropping its Fed Funds Rate to 1%, the lowest rate in 45 years. With money in their pockets, and incredibly low interest rates, consumers got the message and went on a spending spree, buying houses and automobiles, and pushing GDP growth up +8.2% in the first fiscal quarter of 2004. This economic boom continued over the remaining three quarters of 2004, with the resulting 5% GDP growth ranking as the strongest 12-month growth spurt in the past 20 years. During the second half of the fiscal year job growth and business capital spending finally began to pick up. Over 1.3 million jobs were created during the last six months of the fiscal year, while unemployment fell from 6.3% at June 30, 2003 to 5.6% at year-end 2004. Businesses, fueled by record corporate profits, began spending for capital equipment, non-defense goods and the rebuilding of inventories. By year-end's close in June, consumer confidence had hit a 2-year high, and skyrocketing housing prices had replaced some of the household wealth drained away by the stock market during the previous three years. By the end of the fiscal year, however, much of the improving economic fundamentals had been priced into the markets. By June, after four strong quarters of GDP growth, the Federal Reserve became convinced that the economic expansion was self-sustaining, and that the recovery was more broad-based. In Congressional testimony Chairman Alan Greenspan reported that inflation was now a greater threat than deflation, thus broadcasting that the Federal Reserve would begin moving short-term interest rates back up to a more normalized level, presumably between 2.0% and 2.75%. On the last day of the fiscal year, the Federal Open Market Committee, in a much-anticipated move, raised the Federal Funds Rate by 25 basis points to 1.25%.

One-Year Asset Class Returns



CAPITAL MARKETS AND ECONOMIC CONDITIONS

(Continued)

Equity Markets

Major equity markets posted robust rebounds in fiscal 2004 following three consecutive years of negative or flat equity returns. The powerful 8.2% GDP growth generated in the first fiscal quarter of 2004 sparked four consecutive quarters of upward stock prices in the US equity markets. The S&P 500 Index rose 19.1% in fiscal 2004. Small-capitalization stocks achieved their third-best fiscal year return in history as the Russell 2000 Index increased 33.4%. Although style leadership alternated back and forth over the last four quarters, value stocks finished the year with an advantage over growth stocks in all three capitalization segments. The Energy (+31.3%), Industrials (+29.0%) and Information Technology (+25.5%) sectors led the market's advance, while the Health Care (+5.6%) and Telecom Services (+7.0%) sectors were a drag on performance.

International stock markets, both developed and emerging, easily outpaced the broad US markets for the fiscal year. Riding the wave of improving US economic fundamentals and investors' increased appetite for risk, the MSCI EAFE Index rose 32.4% in US dollar terms in fiscal 2004 and the MSCI Emerging Markets Free Index earned 33.2%. The majority of the return for the year was captured during the first three quarters, due in large part to the broad-based depreciation of the US dollar against foreign currencies. Japan, experiencing the combined benefit of renewed economic vigor and financial reform, jumped 46.3% during the year. Emerging markets shrugged off bombings and terrorist threats to generate improving materials-based fundamentals and robust growth. Following three strong quarters of market returns, the fiscal fourth quarter ending June 30, 2004 was difficult for all asset classes including international developed equity, but was especially tough for emerging markets equity. This occurred for two reasons: the US dollar stopped its downward slide during the quarter and certain emerging market economic recoveries slowed significantly. As the market's expectations of a restrained Fed reversed course in April, international markets and commodities sold off abruptly as investors began to return to US-based investments. This benefited the US dollar. International emerging equity markets fell nearly 10% during the fourth quarter of the fiscal year on concerns that China's torrid pace would slow in the second half of calendar year 2004 and into 2005.

Bond Markets

Bonds took investors on a tumultuous ride during 2004. In July, bonds produced their worst monthly return in more than 20 years as the economy proved much stronger than expected. Evidence of the improving economy relieved deflationary fears, sending bond yields soaring from forty year lows. Long-term Treasury bonds lost upwards of 10% in July alone as yields rose sharply from 4.2% to 5.4%. The bond market rebounded, however, in the third quarter of the fiscal year as investors moved from complacency into a combination of disappointment and fear, pushing the 5-year Treasury yield down by 60 basis points as investors sought shelter in safety. The Lehman Aggregate Bond Index posted a 2.7% advance. By May, however, the bond market again turned bearish in anticipation of an imminent interest rate move upwards by the Federal Reserve based on the strong emerging jobs data for March and April. As a result, the yield curve rose across the board during the fourth quarter of the fiscal year and markets priced in an unrealistic 125 basis point rise in rates. The Lehman Aggregate Bond Index of investment grade bonds finished the year with a meager 0.3% gain for the year. Lower-quality, High Yield bonds generated the best fixed income returns, with the Lehman High Yield Index earning 10.33% for the year ended June 30, 2004. Due to the negative convexity of mortgages, they were quite volatile during the year, finishing with a 2.2% gain.

CAPITAL MARKETS AND ECONOMIC CONDITIONS

(Continued)

Rising global interest rates and a strengthening US dollar in the fourth quarter of the fiscal year hit non-US bonds harder than their domestic counterparts. Despite falling 3.3% in the fourth quarter, the S&P Citigroup World Government Bond Index generated a strong return for the fiscal year, posting a gain of 5.7% and outperforming its domestic counterpart by 5.4 percentage points.

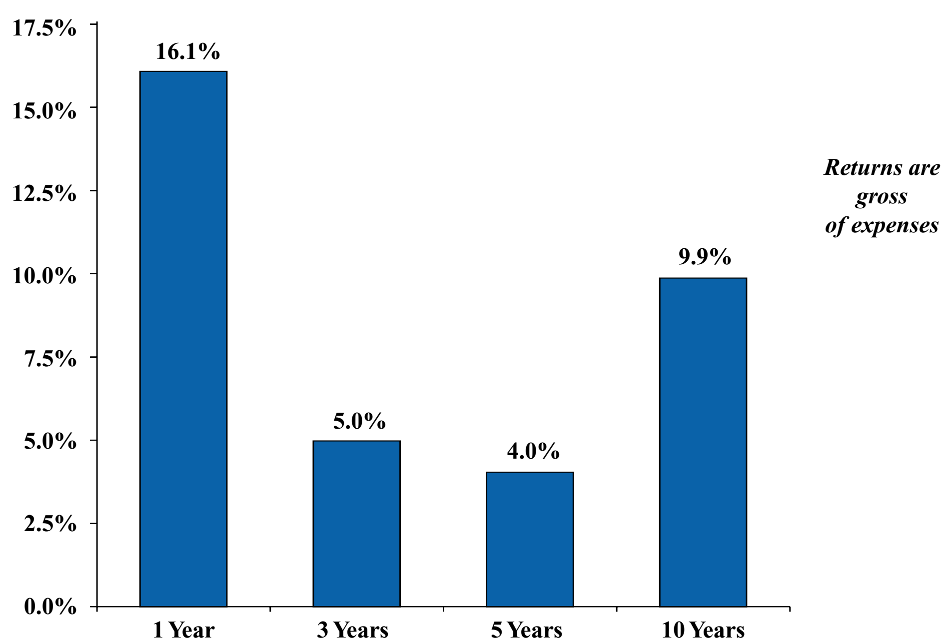
Real Estate

The public real estate market (REITs) had another stellar year, as evidenced by the 27.1% return of the NAREIT Equity REIT Index. In an environment of 2% - 4% coupon yields, investors hungered after the 5% - 6% payouts offered by REITs. This marks the fifth-consecutive year that the REIT market has outperformed the S&P 500 Index. The private real estate market had a more moderate performance, returning 10.2% while still feeling the effects of low office occupancy rates and the gradual recovery of leisure travelers following 9/11.

System

The Police Officers 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.

Compound Annual Return on Investment Portfolio

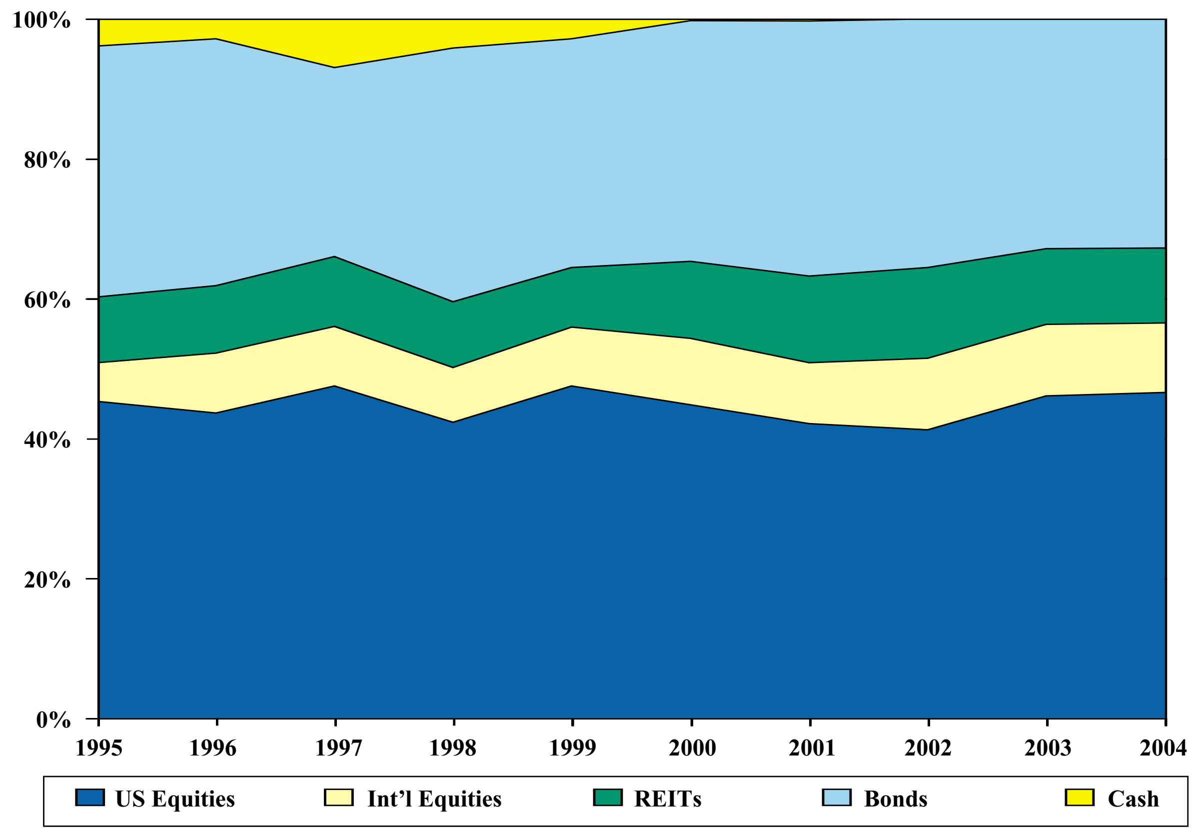


CAPITAL MARKETS AND ECONOMIC CONDITIONS

(Continued)

On a market value basis, the total net assets held in trust rose from $591.9 million at June 30, 2003 to $679.1 million at June 30, 2004. For fiscal 2004, investments provided a return of +15.5%, net of fees, reflecting a sharply improved economic environment. The System's annualized rate of return, net of fees, was +4.6% over the last three years and +3.6% over the last five years. These System investment returns ranked in the third quartile of a universe of public plan sponsors during fiscal 2004, were in the top third of public funds in 2003, and were in the top half in fiscal 2002. The Police Officers Retirement System's annualized net return over the last five years has trailed the rate of 7.5%, the long-term return used for actuarial purposes. At year-end 2004, the System's assets were allocated by manager mandate as follows: domestic equities — 46%; international equities — 10%; fixed income securities — 33%; and real estate — 11%.

Asset Allocation 1995 - 2004



ASSET ALLOCATION BY CATEGORY AND INVESTMENT MANAGER

June 30, 2004

Asset Class Manager	Investment Style	Total Assets	% of Total Net Assets
Domestic Equities			
Robert E. Torray	Large Cap Value	$ 80,343,023	11.8%
PIMCO StocksPlus LP*	Enhanced S&P 500 Index	80,564,306	11.9%
JANUS Capital	Large Cap Growth	53,203,042	7.8%
Veredus	Small Cap Growth	38,546,976	5.7%
Systematic Financial	Small Cap Value	35,934,062	5.3%
Oak Associates	Large Cap Growth	27,068,916	4.0%
International Equities			
Capital Guardian	Developed & Emerging Markets	67,531,860	9.9%
Global Fixed Income			
Dodge & Cox	Domestic Core Bonds	147,804,082	21.8%
Peregrine Capital	Duration Management	36,845,552	5.4%
Trust Company of the West	Mortgage-Backed Securities	36,762,617	5.4%
Real Estate			
Cohen & Steers	Real Estate Investment Trusts	72,557,179	10.7%
Short-term			
Standish Mellon Enhanced STIF			
- Fund portion	Short-Term Cash Management	982,788	0.1%
Cash Held by County Treasurer	Short-Term Cash Management	1,166,202	0.2%
Net Assets**		**$679,310,605**	**100.0%**

** Pooled Fund*

*** Without deduction for accounts payable and accrued liabilities.*

LIST OF LARGEST HOLDINGS FOR ACTIVE (NON-POOLED) ACCOUNTS

as of June 30, 2004

Asset Class Manager Security	Market Value	% of Account
Domestic Equities		
Robert E. Torray		
Illinois Tool Works Inc.	$4,142,448	5.16%
Franklin Resources Inc.	$3,405,440	4.24%
First Data Corp.	$3,392,424	4.23%
Amgen Inc.	$3,334,227	4.15%
Cardinal Health Inc.	$3,257,325	4.06%
JANUS Capital		
Yahoo! Inc.	$3,212,664	5.99%
Genentech Inc.	$2,399,740	4.48%
United Health Group Inc.	$2,253,138	4.20%
Clear Channel Communications	$2,224,759	4.15%
Liberty Media Corp.	$2,222,633	4.15%
Veredus		
Palmone Inc.	$1,627,236	4.26%
Cytyc Corp.	$1,623,680	4.25%
Sierra Wireless Inc.	$1,277,535	3.34%
Toll Brothers Inc.	$1,273,832	3.33%
Chicago Mercantile Exchange Holdings	$1,169,397	3.06%
Systematic Financial		
Bankunited Financial Corp.	$ 730,140	2.02%
Triad Guaranty Inc.	$ 675,120	1.87%
Wabash National Corp.	$ 658,445	1.82%
New Century Financial Corp.	$ 627,388	1.74%
GATX Corp.	$ 620,160	1.72%
Oak Associates		
Cisco Systems Inc.	$1,896,000	7.01%
Maxim Integrated Products Inc.	$1,729,860	6.39%
Medtronic Inc.	$1,534,680	5.67%
Juniper Networks Inc.	$1,523,340	5.63%
Ebay Inc.	$1,425,225	5.27%
International Equities		
Capital Guardian Int'l Equity		
Vodafone Group Plc.	$2,123,067	3.20%
Royal Dutch Petroleum Co.	$1,637,053	2.47%
Sanofi-Aventis	$1,615,112	2.44%
Astrazeneca	$1,546,932	2.34%
Novartis AG	$1,176,157	1.78%

LIST OF LARGEST HOLDINGS FOR ACTIVE (NON-POOLED) ACCOUNTS
(Continued)

Asset Class / Manager / Security	Market Value	% of Account
Global Fixed Income		
Dodge & Cox		
U S Treasury Note, 5.625%, 2/15/2006	$9,715,413	6.53%
U S Treasury Note, 3.375%, 11/15/2008	$5,936,400	3.99%
FNMA Mortgage Pool #0725226, 6.50%, 7/1/2018	$5,294,587	3.56%
FNMA Mortgage Pool #0535685, 6.50%, 1/1/2016	$5,138,868	3.46%
FNMA Mortgage Pool #0555299, 7.00%, 11/1/2017	$4,972,728	3.34%
Peregrine Capital		
FHLMC Note, 2.70%, 4/28/2006	$2,590,380	7.05%
Federal Home Loan Bank Bond, 2.25%, 1/30/2006	$2,582,060	7.03%
FNMA Note, 2.50%, 4/28/2006	$2,581,716	7.03%
FNMA Note, 2.40%, 4/28/2006	$2,577,510	7.02%
FHLMC Note, 2.20%, 12/1/20054	$2,386,420	6.50%
Trust Company of the West		
FHLMC, Variable rate, 6/15/2031	$3,149,756	8.67%
Du Pont De Nemour Discount Note, 7/19/2004	$2,690,849	7.41%
FNMA REMIC, 6.00%, 1/25/2024	$2,320,204	6.39%
FHLMC, 5.50%, 10/15/2032	$2,103,205	5.79%
GSR Mortgage Loan Trust, Variable rate, 9/25/2032	$2,064,873	5.69%
Real Estate – REITs		
Cohen & Steers		
Prologis	$4,332,272	6.00%
Boston Properties Inc.	$4,276,832	5.93%
Vornado Realty Trust	$4,140,475	5.74%
Avalonbay Communities Inc.	$3,238,596	4.49%
Rouse Co.	$2,930,750	4.06%

CHEIRON Classic Values, Innovative Advice

April 29, 2004

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

Dear Members of the Board:

At your request, we have conducted our annual actuarial valuation of the Fairfax County Police Officers Retirement System as of July 1, 2003. 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, 2001. Under this approach the contribution rate is based on the normal cost rate and expense rate on July 1, 2001 and will remain at this level as long as the actuarial funded ratio remains within a corridor of 90% to 120%. Furthermore any plan changes are amortized over 15 years. This funding objective is currently being realized.

Assumptions
The actuarial assumptions used in performing the July 1, 2003 valuation were recommended by the actuary and adopted by the Board of Trustees based on the prior actuary's most recent review of the System's experience for the five year period ending June 30, 2000. 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. No assumption changes were made since the prior valuation.

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

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

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

We were responsible for the most recent year of the Schedule of Funding Progress, Schedule of Employer Contributions and Notes to Trend Data shown in the Financial Section.

8200 Greensboro Drive, Suite 1125, McLean, VA 22102 Tel: 877 CHEIRON (243.4766) Fax: 703.893.2006 www.cheiron.us

Fairfax County Police Officers Retirement System
Page 2

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

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

I certify that, to the best of my knowledge and understanding, the Fairfax County Police Officers 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.

Sincerely,
CHEIRON

Fiona E. Liston

Fiona E. Liston, FSA
Consulting Actuary

8200 Greensboro Drive, Suite 1125, McLean, VA 22102 Tel: 877 CHEIRON (243.4766) Fax: 703.893.2006 www.cheiron.us

SUMMARY OF VALUATION RESULTS

Overview

This report presents the results of the July 1, 2003 actuarial valuation of the Fairfax County Police Officers Retirement System. The primary purposes of performing the annual actuarial valuation are to:

- Measure and disclose, as of the valuation date, the financial condition of the Plan;
- Indicate trends in the financial progress of the Plan;
- Determine the contribution rate to be paid by the County for Fiscal Year 2005;
- 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.

Actuary's Comments

Fairfax County's annual contribution to this System is determined by using a Corridor Funding Method. Under this funding approach, the County's contribution rate is based on the normal cost rate plus expense rate determined as of the implementation date of the corridor method (July 1, 2001) 17.00% of payroll plus an expense rate currently 0.30% of payroll. This rate will remain the same as long as the System's actuarial funded ratio remains within a corridor of 90% to 120%.

The County's contribution rate will change when benefits are increased or modified. The new rate will reflect the change in normal cost rate and the change in actuarial liability amortized over 15 years. Since inception of the Corridor Funding Method benefit changes have added 0.32% to the contribution rate, for a total Corridor Funding Contribution of 17.62% 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.

The valuation as of July 1, 2003 shows that the actuarial funded ratio (including a credit for the amortization piece of prior benefit increases) remains within the corridor and so there is no required increase in the rate at this time.

Since performing this valuation, the County implemented a DROP component which will result in an increase to the County contribution. The County's contribution rate for FY 2005 will therefore increase from 17.62% of payroll to 17.96% of payroll.

SUMMARY OF VALUATION RESULTS
(Continued)

Trends

The financial markets performed below expectation during the fiscal year ending in 2003, which again produced actuarial losses on the asset side of the System. The actual return on a market value basis was approximately 4.07%. On an actuarial value basis, the assets returned 3.31% compared with an assumed rate of return of 7.5%. The loss recognized for funding purposes was $26.3 million.

The measurement of liabilities also produced a loss this year in the amount of $5.1 million. This loss was largely due to increases in pay which exceeded those assumed. Part of the loss was attributable to a retiree COLA in excess of the 3% assumed and a data inconsistency with prior year's valuations.

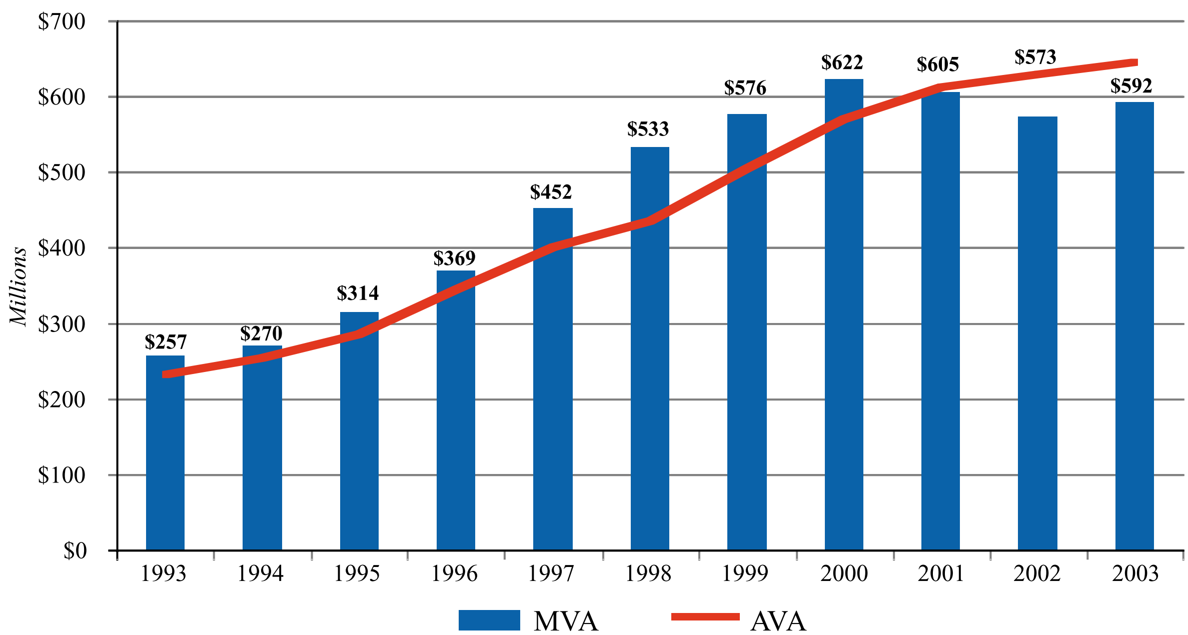
The combination of liability and investment experience over the last year produced a deterioration in the System's funding ratio (actuarial value of assets over actuarial accrued liability) from 95.7% at July 1, 2002 to 91.5% at July 1, 2003. For purposes of measuring whether the System remains within 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. On this basis, the System's actuarial funded ratio also decreased from 96.1% at July 1, 2002 to 91.9% at July 1, 2003.

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 page we present a series of charts which display key factors in the valuations over the last ten years. After the historical review we present a few projection graphs, showing the possible condition of the System over the next ten years under various market return scenarios.

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

MVA - Market value of assets	AVA - Actuarial value of assets
PVAB - Present value of accrued benefits	PSL - Past service liability
PVFB - Present value of future benefits	

Growth in Assets

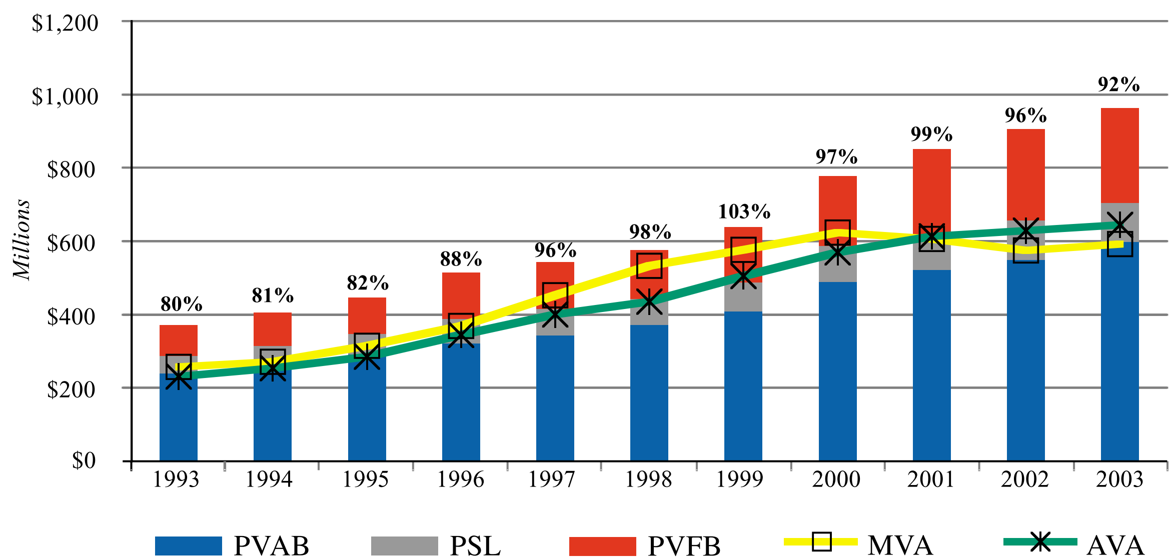


SUMMARY OF VALUATION RESULTS
(Continued)

The upward trend in market value of assets was reversed over the last two years as the equity bull market turned into a bear market. Due to the asset smoothing method in place, the actuarial value of assets did increase slightly over the year.

Over the period July 1, 1993 to June 30, 2003 the System's assets returned approximately 8.73% per year measured at Market Value, compared to a valuation assumption of 7.5% per year.

Assets and Liabilities

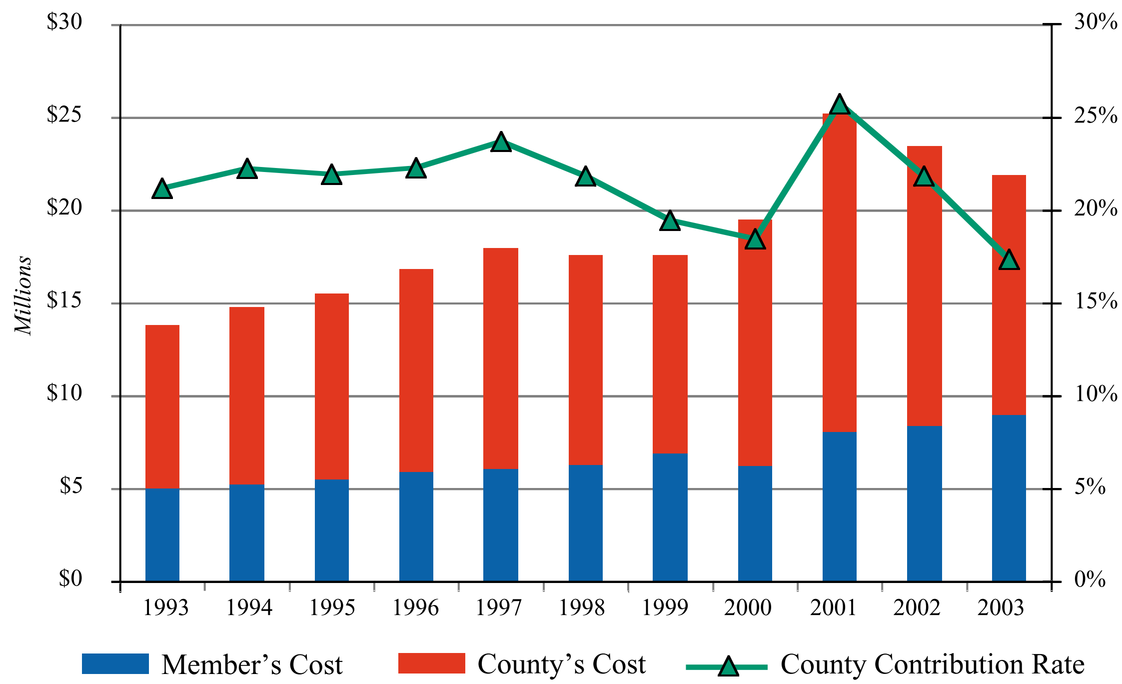


The three-colored bars represent the three different measures of liability mentioned in this report. For funding purposes, the target amount is represented by the top of the gray bar. We compare the actuarial value of assets to this measure of liability in developing the funded percent. These are the percentages shown in the graph labels.

As you can see, the System had its highest funded percentage (103%) at July 1, 1999, before a combination of benefit improvements and the recent slide in the market. The amount represented by the top of the red bars, the Present Value of Future Benefits (PVFB), is the amount needed to provide all benefits for the current participants and their beneficiaries. If the System had assets equal to the PVFB no contributions would, in theory, be needed for the current members.

SUMMARY OF VALUATION RESULTS
(Continued)

Contribution Rates

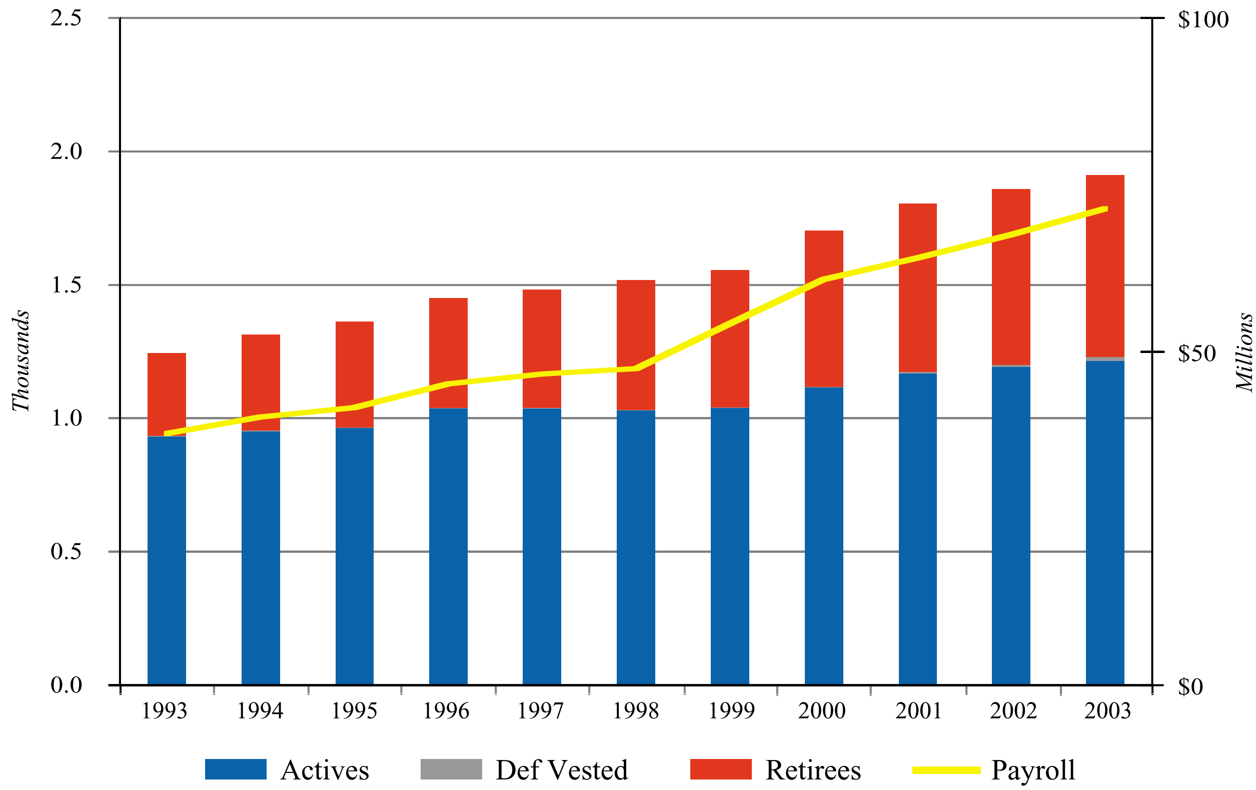


The stacked bars in this graph show the contributions made by both the County and the members in dollar terms. The line shows the County contribution rate as a percent of payroll.

The member contribution rate is set by the County Ordinance, depending on which plan the member elects to participate in. The County contribution rate is set by the actuarial process, as constrained by the Corridor Method. Please note there is a lag in the rate shown. For example, the 2003 value is the rate prepared by the 2001 valuation and implemented for the period July 1, 2002 to June 30, 2003.

SUMMARY OF VALUATION RESULTS
(Continued)

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.

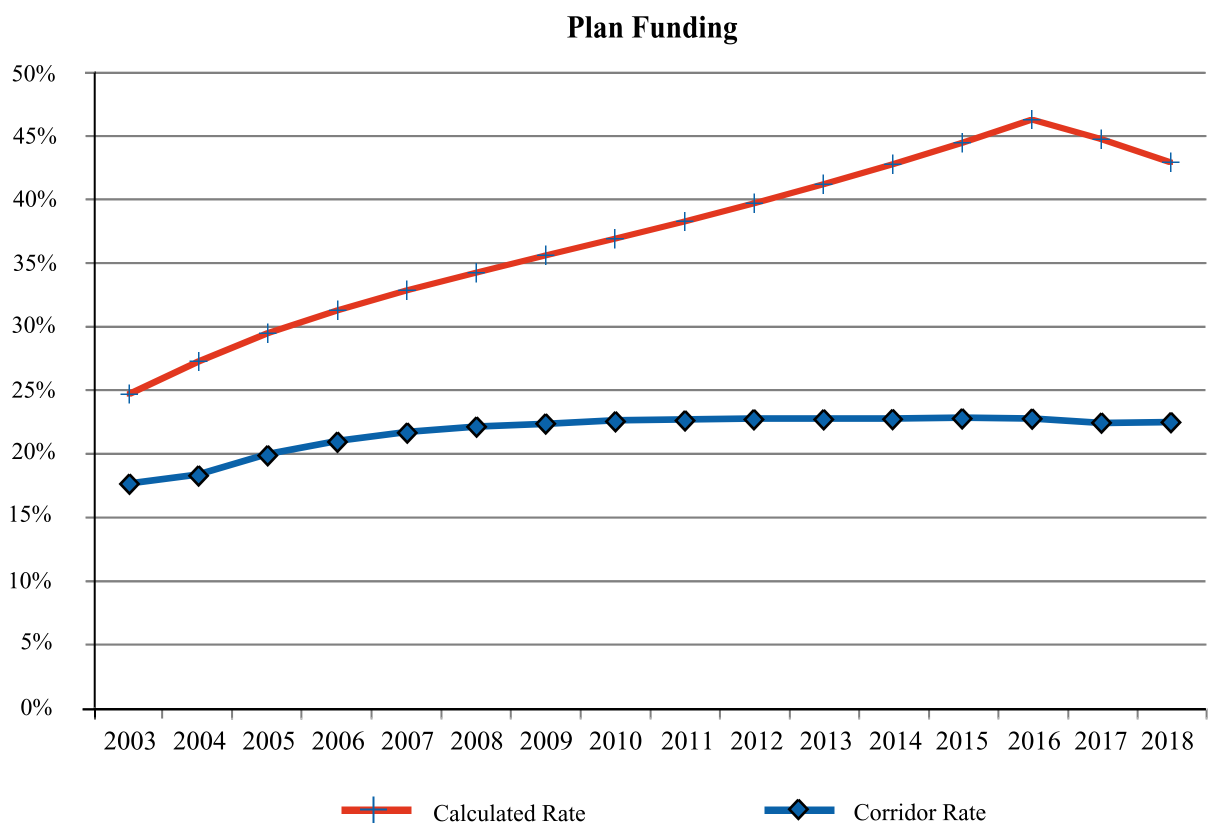
The chart also shows that the number of active members covered by the plan has increased slightly over the ten-year period.

SUMMARY OF VALUATION RESULTS
(Continued)

Future Outlook

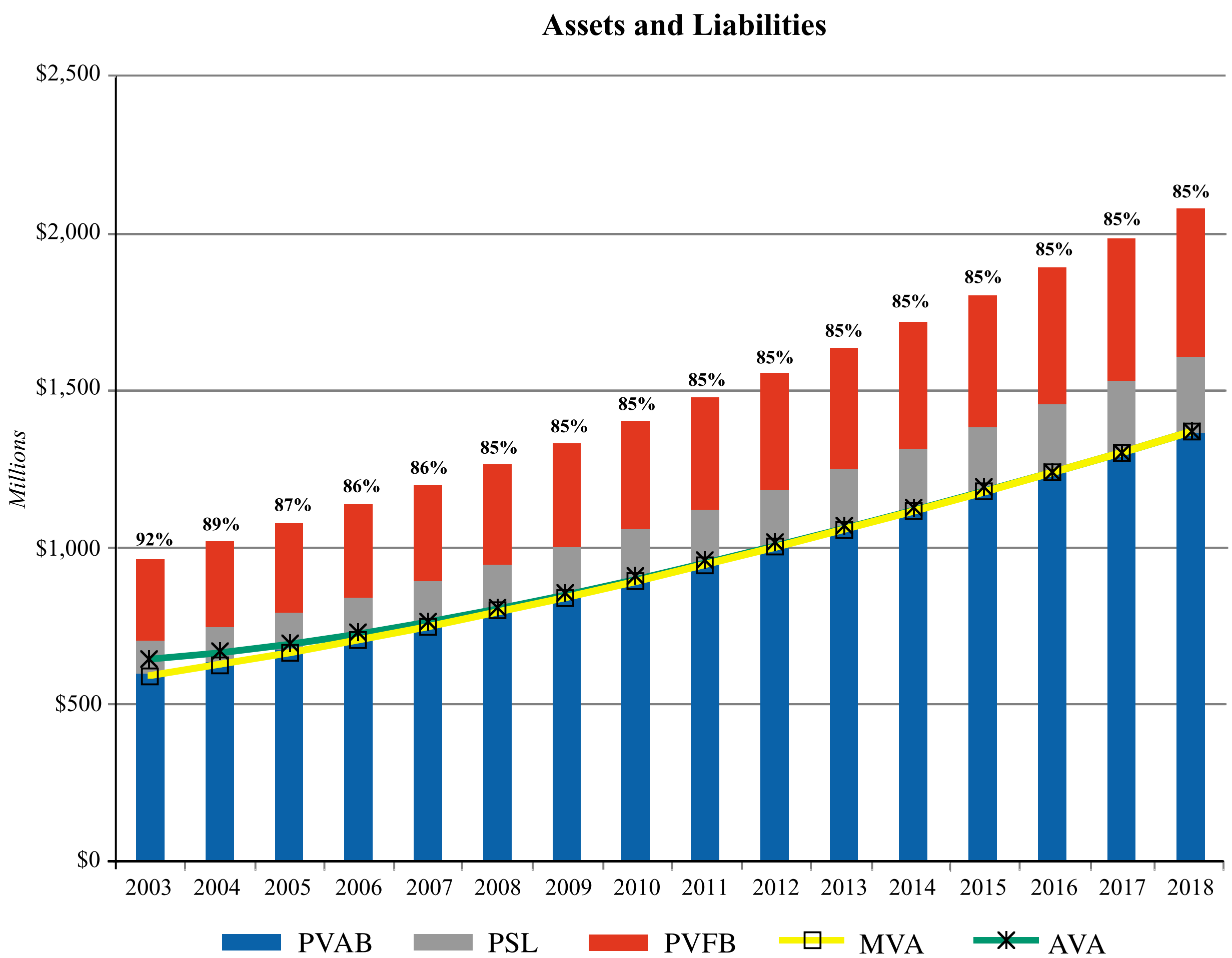
Baseline Projections

The following two charts 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 chart entitled "Plan Funding" shows that the corridor is likely to be breached with the 2004 valuation (if all other actuarial assumptions are met as well as the 7.5% interest rate). The red line shows the actuarially calculated rate if the corridor were not in place.



SUMMARY OF VALUATION RESULTS
(Continued)

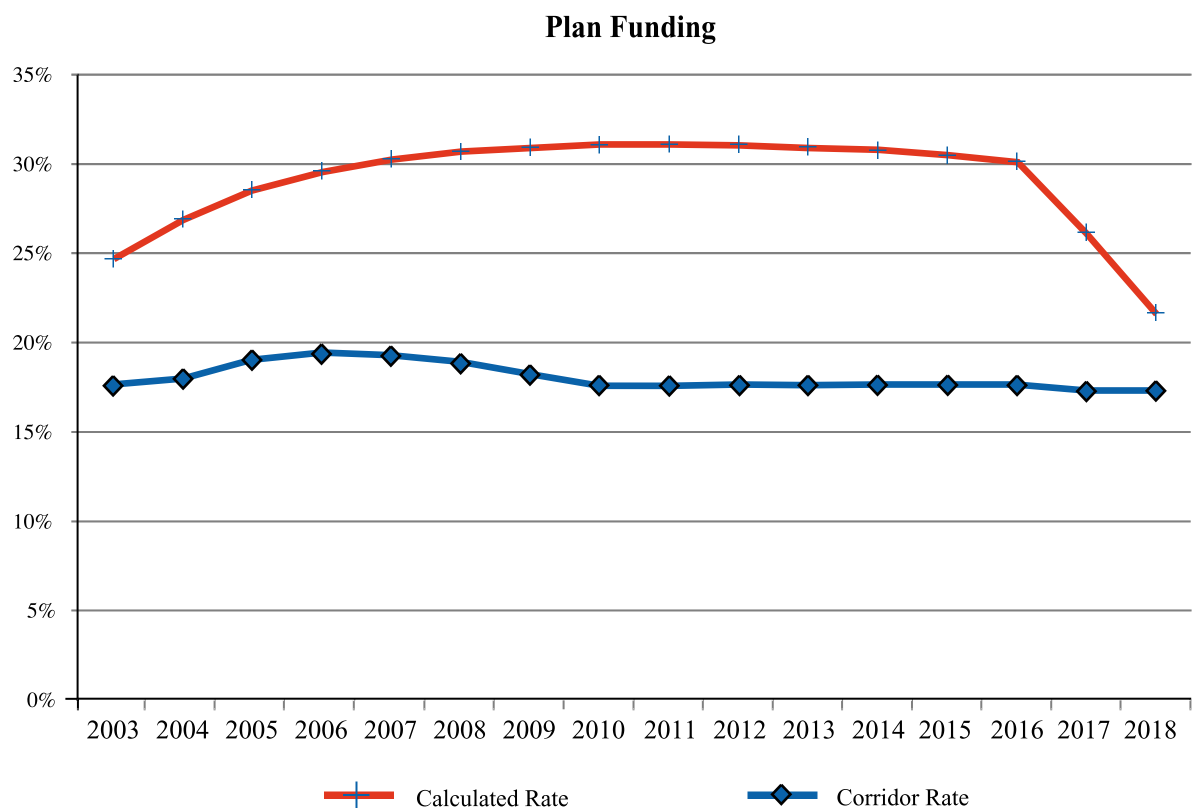
The Assets and Liabilities chart shows the projected funding status over the next decade. If the currently unrecognized investment losses are allowed to flow into the calculation, the System's funded status is projected to drop from the current level of 92% down to around 85%. Once outside of the 90% corridor floor, the County's Rate will increase.



SUMMARY OF VALUATION RESULTS
(Continued)

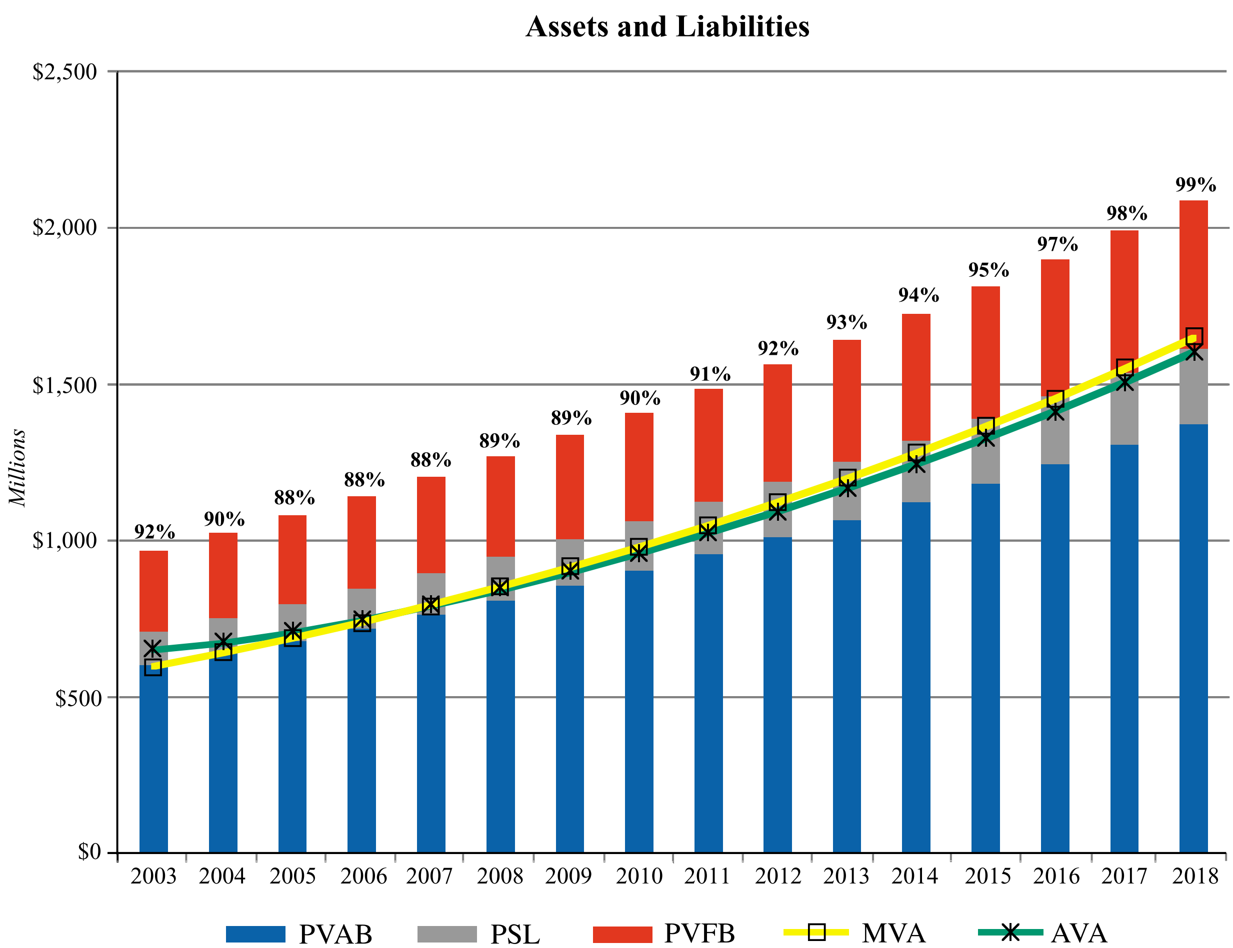
Projections with asset returns of 9.0%

The future funding of this System will be largely driven by the investment earnings. Due to the size of assets, as compared to liabilities, the System is in a highly leveraged position. This means that relatively minor changes in the market returns can have significant effects on the System's status. The next two charts show what the coming decade would look like with a 9% annual return in each year.



SUMMARY OF VALUATION RESULTS
(Continued)

As you can see, the System still falls out of the corridor in 2004, but re-enters in 2010 and regains its fully funded position by the end of the 15 year period.



SUMMARY OF VALUATION RESULTS
(Continued)

SUMMARY OF PRINCIPAL RESULTS

This table compares the principal results from the 2002 and 2003 valuations.

Participant Data	July 1, 2002	July 1, 2003	Percent Change
Active members	1,192	1,216	2.0%
Vested former members	9	14	55.6%
Retired members and beneficiaries	657	682	3.8%
Total	1,858	1,912	2.9%
Annual salaries of active members	$ 67,478,038	$ 71,401,221	5.8%
Annual benefits for retired members and beneficiaries	$ 24,968,523	$ 27,100,399	8.5%

Assets and Liabilities	July 1, 2002	July 1, 2003	Percent Change
Total actuarial liability	$656,615,241	$703,977,098	7.2%
Assets for valuation purposes	628,383,173	644,404,891	2.5%
Unfunded actuarial liability	$ 28,232,068	$ 59,572,207	111.0%
Funded ratio	95.70%	91.54%	
Present value of accrued benefits	$549,467,136	$598,465,100	
Market value of assets	573,316,655	591,890,728	
Unfunded FASB accrued liability	$ 0	$ 6,574,372	
Accrued benefit funding ratio	104.34%	98.90%	

Contributions *(as a percentage of payroll)*	*Fiscal Year 2004*	*Fiscal Year 2005*
GASB Method:		
Employer normal cost rate	17.00%	17.00%
Unfunded actuarial liability contribution	3.53%	7.23%
Administrative expense	0.30%	0.30%
Total employer contribution – GASB method	20.83%	24.53%
Corridor Method:		
Employer normal cost rate	17.00%	17.00%
Increase due to ad-hoc COLA	0.32%	0.32%
Amortization of amount outside corridor	0.00%	0.00%
Administrative expense	0.30%	0.30%
Total employer contribution – corridor method	17.62%	17.62%[1]

[1]The budgeted FY 2005 rate is 17.96% to reflect an additional 0.34% for the DROP plan.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Funding Method

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

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

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

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

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

Under the Corridor Funding Method, the County's total contribution rate is equal to the normal cost rate plus rate changes due to amendments passed since June 30, 2002 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-2002 plan changes, plus expense rate.

Actuarial Value of Assets

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

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

Changes Since Last Valuation

There have been no changes since the last valuation.

ACTUARIAL ASSUMPTIONS AND METHODS

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

*20% of deaths are assumed to be service-connected.

Termination of Employment: **(Prior to Normal Retirement Eligibility)**

Annual Terminations per 1,000 Members

Years of Service	Terminations
0	100
1	75
2	50
3	50
4	30
5 or more	15

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

ACTUARIAL ASSUMPTIONS AND METHODS

(Continued)

Disability

	Annual Disabilities per 1,000 Members*		Annual Deaths Per 1,000 Disabled Members 1994 Uninsured Pensioners Mortality Table +5	
Age	Male and Female	Age	Male	Female
20	2	40	2	1
25	2	45	3	2
30	2	50	5	2
35	2	55	9	5
40	2	60	16	9
45	4	65	26	15
50	6	70	40	24
55	6	75	67	42
60	6	80	105	73

*70% of disabilities are assumed to be service-connected. Of these, 100% are assumed to receive Workers Compensation benefits.

Retirement

Years of	Retirement per 1,000 eligible:	
Service	Hired pre-7/1/81	Hired post-7/1/81
20	250	N/A
21	250	N/A
22	250	N/A
23	250	N/A
24	250	N/A
25	250	250
26	250	250
27	250	250
28	250	250
29	250	250
30	1000	1000

ACTUARIAL ASSUMPTIONS AND METHODS
(Continued)

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

Years of Service	Merit/Seniority Increase
0	6.0%
5	6.0%
10	3.1%
15	2.9%
20	1.2%
25	0.9%
30	0.0%

Family Composition

For purposes of valuing the pre-retirement death benefit, an assumption concerning how many employees are married is needed. The assumption used in this valuation is that 80% of employees are married at death while active and that the female spouse is 5 years younger than the male spouse. In addition, each married employee is assumed to have two children, 22 and 24 years younger than the employee.

Sick Leave Credit

It is assumed that retirees, deferred vested terminations, and deceased members receive an additional 3% of service credit due to sick leave.

Economic Assumptions

Investment Return: 7.50% 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: 0.30% 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	2000	2001	2002	2003
Investment income	$ 26,460,234	($ 3,063,676)	($27,533,258)	($26,257,081)
Combined liability experience	90,339	12,919,293	6,530,757	(5,036,286)
Gain (or loss) during year from financial experience	$ 26,550,573	$ 9,855,617	($21,002,501)	($31,293,367)
Non-recurring items	(62,239,875)	1,060,013	2,524,680	0
Composite gain (or loss) during year	**($35,689,302)**	**$10,915,630**	**($18,477,821)**	**($31,293,367)**

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

	Added to Rolls		Removed From Rolls		On Rolls @ Yr. End			
Year Ended June 30	No.	Annual Allowance	No.	Annual Allowance	No.	Annual Allowance	% Increase Allowance	Average Allowance
1998	52	$1,942,183	6	$ 98,211	532	$15,725,197	13.28%	$29,559
1999	30	1,471,335	2	47,133	560	17,149,399	9.06%	30,624
2000	35	3,754,716	9	205,494	586	20,698,621	20.70%	35,322
2001	57	2,970,121	12	304,340	631	23,364,402	12.88%	37,028
2002	35	1,885,532	9	281,409	657	24,968,525	6.87%	38,004
2003	34	2,303,608	9	181,377	683	27,090,756	8.49%	39,698

SOLVENCY TEST

Aggregate Accrued Liabilities For

Valuation Date	(1) Active Member Contributions	(2) Retirees Vested Terms, Beneficiaries	(3) Active Members (Employer Financed Portion)	Reported Assets	Portion of Accrued Liabilities Covered by Reported Assets (1)	(2)	(3)
7/1/1998	$48,387,340	$249,724,374	$144,615,551	$434,259,212	100%	100%	94%
7/1/1999	51,421,149	270,112,380	166,417,518	503,649,251	100%	100%	109%
7/1/2000	55,487,975	323,515,804	207,935,179	568,941,559	100%	100%	91%
7/1/2001	54,082,616	359,197,834	204,229,762	611,514,245	100%	100%	97%
7/1/2002	62,004,264	380,114,653	214,496,324	628,383,173	100%	100%	87%
7/1/2002	66,312,754	406,321,385	231,342,959	644,404,891	100%	100%	74%

THIS PAGE INTENTIONALLY LEFT BLANK

SCHEDULE OF ADDITIONS BY SOURCE

Fiscal Year	Plan Member Contributions	Employer Contributions	Employer Contributions % of Covered Payroll	Net Investment Income (loss)	Total Additions
1999	$6,861,605	$10,685,734	19.40%	$42,983,245	$ 60,530,584
2000	7,521,134	11,950,073	18.40%	44,579,345	64,050,552
2001	8,038,085	17,149,427	25.69%	(19,333,682)	5,853,830
2002	8,335,903	15,077,920	21.79%	(30,661,679)	(7,247,856)
2003	8,941,529	12,923,806	17.30%	23,248,712	45,114,047
2004	9,689,253	14,682,201	17.62%	91,176,999	115,548,453

SCHEDULE OF DEDUCTIONS BY TYPE

Fiscal Year	Benefit Payments	Refunds of Contributions	Administrative Expenses	Total Deductions
1999	$16,428,235	$464,747	$158,989	$17,051,971
2000	17,724,731	530,622	195,729	18,451,082
2001	21,722,991	388,850	217,122	22,328,963
2002	24,024,119	599,127	199,138	24,822,384
2003	25,803,466	525,574	210,934	26,539,974
2004	27,682,363	350,894	258,352	28,291,609

SCHEDULE OF BENEFIT PAYMENTS BY TYPE

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Total
1999	$ 14,435,055	$1,030,037	$102,885	$ 860,258	$16,428,235
2000	15,660,231	1,096,252	106,195	862,053	17,724,731
2001	19,534,126	1,068,524	136,889	983,452	21,722,991
2002	21,668,153	995,832	150,434	1,209,700	24,024,119
2003	23,352,203	995,254	154,408	1,301,601	25,803,466
2004	24,982,292	1,110,494	159,948	1,429,629	27,682,363

SCHEDULE OF RETIRED MEMBERS BY BENEFIT TYPE

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Total
1999	459	38	8	55	560
2000	481	41	8	56	586
2001	522	37	9	63	631
2002	545	33	9	70	657
2003	569	33	9	72	683
2004	582	32	9	75	698

SCHEDULE OF AVERAGE MONTHLY BENEFIT AMOUNTS

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Average
1999	$2,753	$2,362	$1,095	$1,310	$2,563
2000	3,214	2,362	1,136	1,398	2,955
2001	3,360	2,432	1,397	1,465	3,088
2002	3,456	2,449	1,430	1,482	3,167
2003	3,602	2,617	1,482	1,561	3,311
2004	3,713	2,699	1,525	1,609	3,412

FAIRFAX COUNTY RETIREMENT
ADMINISTRATION AGENCY

10680 MAIN STREET, SUITE 280 ★ FAIRFAX, VIRGINIA 22030