FOR THE FISCAL YEAR ENDED JUNE 30, 2005

2005

COMPREHENSIVE
ANNUAL FINANCIAL REPORT

FAIRFAX COUNTY POLICE OFFICERS RETIREMENT SYSTEM

A PENSION TRUST FUND OF FAIRFAX COUNTY, VIRGINIA

TABLE OF CONTENTS

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 1, 2005

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, 2005. 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 2005 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 715 retirees participating in the System as of June 30, 2005.

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 2005 was a year of solid growth in the economy and the domestic equity market advanced at a moderate pace. The international equity markets outpaced the returns in the U.S. market. The S&P 500 Index rose 6.3% during fiscal 2005, while the smaller-capitalization

Russell 2000 Index advanced 9.5%. International equity returns were quite a bit higher with the developed markets index (EAFE) up 14.1% and the emerging markets index up 34.9%. Returns on REITs were also excellent with the NAREIT index up 32.7%. Bonds outperformed large-cap U.S. equities as the Lehman Brothers Aggregate Bond index increased 6.8%.

The diversified fund of the Police Officers Retirement System returned 9.1% for fiscal 2005, after management fees. This return placed the fund in the 60th percentile of the Russell/Mellon public fund universe. The returns for the total fund were 1.1% below the policy benchmark. The fund's relative performance over the three-year period ranked at the 61st percentile while returns for the five-year period were at the 44th percentile, exceeding the median return of the public fund universe.

After accounting for all cash flows, including contributions, expenses and benefit payments, the market value of the System's assets increased 8.2%, from $679 million on June 30, 2004 to $735 million on June 30, 2005.

Major Initiatives

A comprehensive defined benefit administration software application was selected to replace our existing legacy computer systems. The new system will interface with County and Schools systems for maintaining salary and service records of active members. The new system will also provide automated benefit calculations, support retiree recordkeeping and payroll functions and will include capabilities for internet access. Systems functionality requirements and a detailed implementation plan are in place and underway. System customization, testing and data conversion will be a major undertaking throughout FY 2006.

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, 2004 indicated that the ratio of assets accumulated by the System to total actuarial accrued liabilities for benefits remained at 91.5%. The actuarial section contains further information on the results of the July 1, 2004 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 website 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

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

Standish Mellon Asset Management
Pittsburgh, PA

Systematic Financial Management
Teaneck, NJ

Trust Company of the West
Los Angeles, CA

Veredus Asset Management
Louisville, KY

ATTORNEY

W. McCauley Arnold
McCandlish & Lillard
Fairfax, VA

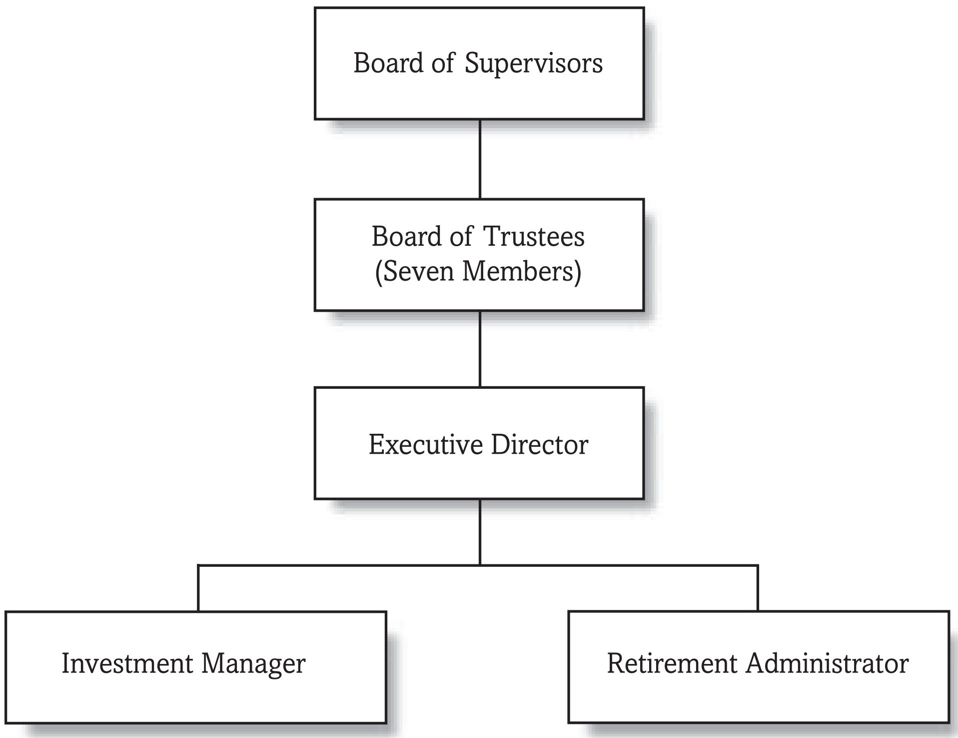
CUSTODIAL BANK

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 follow:

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 66⅔% 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 66⅔% 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 adjusted 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).

Death Benefits:

Before Retirement — An automatic monthly benefit is payable to the member's spouse and children. This benefit equals $1,748.44 for the spouse (until remarriage before age 60) or surviving handicapped child (if there is no spouse), plus each eligible child receives $699.37 up to a total family benefit of $3,496.87 (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 $1,748.44 for the spouse (until remarriage before age 60) or surviving handicapped child (if there is

SUMMARY OF PLAN PROVISIONS *(continued)*

no spouse), plus each eligible child receives $699.37 up to a total family benefit of $3,496.87 (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%, 66²/₃% 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 pre-deceases 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% or the percentage increase in the Consumer Price Index for the Washington Consolidated Metropolitan Statistical Area.

KPMG

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 statement 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, 2005 and the related statement of changes in plan net assets for the year then ended. These basic financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit 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 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 as of June 30, 2005 and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note C to the basic financial statements, the system has implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, effective July 1, 2004.

The management's discussion and analysis on pages 13 through 14 is not a required part of the basic financial statements but is 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.

FINANCIAL

KPMG

Other required supplementary information on pages 23 through 24 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

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

September 14, 2005

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 year ended June 30, 2005. 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 Statement of Plan Net Assets as of June 30, 2005 and Statement of Changes of Plan Net Assets for the year then ended. These statements reflect the resources available for the payment of benefits as of year-end and the sources and uses of these funds during the year.

Notes to Financial Statements.

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

Required Supplementary Information.

The Required Supplementary Information and related notes provide information regarding the System's funding progress and employer contributions. The Required Supplementary Information and related notes immediately follow 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 by the System increased $56 million or 8.2% during fiscal 2005. The change is primarily due to an increase in fair value of investments during the fiscal year.

Return on Investments.

The System's return on investments net of investment management fees for fiscal 2005 is 9.1%. The System's domestic equities had a 3.7% return. The international equity portfolio returned 11.8%. The System's fixed income investment returned 6.9%. The System's REIT portfolio returned 39.1%. Additional investment market commentary is provided in the Investment Section of this document.

Additions.

Total additions decreased $29.4 million from fiscal 2004 to 2005 primarily due to lower investment returns. Employer contributions increased $219 thousand or 1.5% from fiscal 2004 to fiscal 2005. The 2005 employer contribution rate of 17.96% of covered payroll remained the same as the 2004 rate. Plan member contributions increased during fiscal 2005 as a result of an increase in covered payroll. The System experienced net investment gains during the fiscal year. Net appreciation in the fair value of investments was $38.6 million. Interest and dividend income was $26.2 million. Investment activity expense increased $227 thousand or 6.5% from fiscal 2004 to 2005. Net securities lending income increased $13 thousand from fiscal 2004 to 2005. This was primarily due to having a larger base of securities available to lend and a favorable borrowing climate.

Deductions.

Benefit payments increased 5.6% during the fiscal year. 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 2.9% as of July, 2004. Refunds and other expenses increased 58.9% from fiscal 2004. 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, 2004 showed the System's funded status at 91.5%.

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

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/.

SUMMARY STATEMENT OF PLAN NET ASSETS

	2005	2004	Difference
Assets			
Total cash and investments	$847,618,785	$747,760,511	$ 99,858,274
Total receivables	9,300,339	8,260,297	1,040,042
Total Assets	856,919,124	756,020,808	100,898,316
Liabilities	121,827,091	76,873,236	44,953,855
Net Assets	$735,092,033	$679,147,572	$ 55,944,461

SUMMARY OF ADDITIONS AND DEDUCTIONS

	2005	2004	Difference
Additions			
Contributions			
Employer	$ 14,901,070	$ 14,682,201	$ 218,869
Plan members	9,930,883	9,689,253	241,630
Net investment income	61,323,112	91,176,999	(29,853,887)
Total Additions	86,155,065	155,548,453	(29,393,388)
Deductions			
Benefit payments	29,242,384	27,682,363	1,560,021
Refunds and other	968,220	609,246	358,974
Total Deductions	30,210,604	28,291,609	1,918,995
Net Change	$55,944,461	$ 87,256,844	$(31,312,383)

FINANCIAL STATEMENTS

STATEMENT OF PLAN NET ASSETS

as of June 30, 2005

Assets		
Cash and short-term investments		
Equity in County's pooled cash and temporary investments	$ 3,439,614	
Cash collateral received for securities on loan	110,627,454	
Short-term investments	27,932,438	
Total cash and short-term investments		$141,999,506
Receivables		
Contributions	839,480	
Accrued interest and dividends	3,008,641	
Securities sold	5,452,218	
Total receivables		9,300,339
Investments, at fair value		
Corporate bonds	54,236,234	
U.S. Government obligations	69,892,806	
Pooled and mutual funds	92,168,681	
Asset-backed securities	112,398,001	
Common stock	376,923,557	
Total investments		705,619,279
Total assets		856,919,124
Liabilities		
Cash collateral received for securities on loan	110,627,454	
Purchase of investments	10,192,504	
Accounts payable and accrued expenses	1,007,133	
Total liabilities		121,827,091
Net assets held in trust for pension benefits		$735,092,033

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

See accompanying notes to financial statements.

FINANCIAL STATEMENTS *(continued)*

STATEMENT OF CHANGES IN PLAN NET ASSETS

For the Year Ended June 30, 2005

Additions		
Contributions		
Employer	$14,901,070	
Plan members	9,930,883	
Total contributions		$ 24,831,953
Investment income from investment activities		
Net appreciation in fair value of investments	38,634,995	
Interest	17,969,276	
Dividends	8,254,178	
Total investment income	64,858,449	
Investment activity expense		
Management fees	3,403,827	
Custodial fees	125,580	
Consulting fees	87,930	
Allocated administration expense	114,390	
Total investment expense	3,731,727	
Net income from investment activities		61,126,722
From securities lending activities		
Securities lending income	1,936,570	
Securities lending expenses		
Borrower rebates	1,651,856	
Management fees	88,324	
Total securities lending activities expense	1,740,180	
Net income from securities lending activities		196,390
Total net investment income		61,323,112
Total additions		86,155,065
Deductions		
Annuity benefits	26,542,408	
Disability benefits	1,207,863	
Survivor benefits	1,492,113	
Refunds	739,440	
Administrative expense	228,780	
Total deductions		30,210,604
Net increase		55,944,461
Net assets held in trust for pension benefits		
Beginning of fiscal year		679,147,572
End of fiscal year		$735,092,033

See accompanying notes to financial statements.

Notes to the Financial Statements

For the year ended June 30, 2005

The Fairfax County Police Officers Retirement System 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 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, 2005 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, 2004, the date of the latest actuarial valuation, membership in the System consisted of:

Retirees and beneficiaries receiving benefits	698
Terminated plan members entitled to but not yet receiving benefits	17
DROP participants	19
Active plan members	1,298
Total	2,032

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 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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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 rate for the year ended June 30, 2005 was 17.96 percent.

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 that meet the prudent expert standard of judgment and care set forth in section 26-45.1 of the Code.

The System has implemented the requirements of Governmental Accounting Standards Board Statement No. 40.

The System's Board of Trustees has adopted a Statement of Investment Objectives and Policy which establishes a broad set of investment objectives, guidelines, risk tolerance and performance standards for the assets of the System. While the System is not subject to the provisions of the Employee Retirement Income Security Act (ERISA), the Board has elected to incorporate the standards of ERISA in the System's Statement of Investment Objectives and Policy. The Board recognizes that investing in worldwide capital markets inherently entails the assumption of risk. The Board's investment policy addresses part of the risk involved in managing the System's assets by investing in diversified, lowly-correlated asset classes and employing different philosophies and investment management styles. The Board has selected a long-term strategic asset allocation strategy which provides a high degree of diversification, maintains appropriate asset coverage of plan liabilities, and also optimizes investment return without introducing higher volatility to contribution levels. Investment decisions for these assets are made by the Board of Trustees or investment managers selected by the Board. The Board hires each of its investment managers on the basis of its specific area of expertise as well as its fit with the total risk and return objectives of the System. Each manager exercises investment discretion around specifically mandated quality, concentration, benchmark and performance guidelines, and practices active risk controls in order to achieve the System's investment expectations.

For the most part, the overall investment policy does not identify a specific level of credit risk, interest rate risk or foreign currency risk. That is addressed at the individual account level. The guideline for "concentration of risk" is system-wide, however. The System does not hold investments (other than U.S. Government and U.S. Government guaranteed obligations) in any one organization that represents 5 percent or more of net assets available for benefits. All investments, except for the 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 and the custodian provides insurance for all custodied assets.

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

The System's investments quality ratings at June 30, 2005 are as follows:

Type of Investment	Fair Value	Ratings	Percent of fixed
U.S. Government Obligations	$ 69,892,806	AAA	29.5%
Corporates and others	4,537,470	AAA	1.9%
	8,513,498	A	3.6%
	23,364,820	BBB	9.9%
	15,259,263	BB	6.5%
	917,376	B	0.4%
	1,643,807	unrated	0.7%
Asset-backed	110,805,788	AAA	46.8%
	1,592,213	unrated	0.7%
Total fixed income	236,527,041	AA	100.0%
Short-term	27,932,438	AA	
Cash collateral received for securities on loan	110,627,454	AA	
Equity in County's pooled cash	3,439,614	N/A	
Common stock	376,923,557	N/A	
Pooled and mutual funds	92,168,681	N/A	
Total investments	$847,618,785		

As of June 30, 2005 the fixed income portfolio exhibited an overall credit quality rating of "AA", and approximately 7% of the portfolio was invested in below-investment grade securities.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

The Lehman Brother Aggregate Bond Index (LAGG) 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 LAGG if they forecast falling interest rates (and thus higher bond prices). Conversely, if managers anticipate that the general level of interest rates will rise, they have the ability to shorten the duration of their portfolio and thus reducing the portfolio's sensitivity to rising rates.

The System's investments' sensitivity to interest rates at June 30, 2005 follow:

Investment type	**Fair value**	**Effective duration in years**	**Percentage of fixed**
US Government obligations	$ 22,216,541	0 - 0.9	9.4%
	29,090,118	1.0 - 4.9	12.3%
	18,586,147	5.0 - 9.9	7.9%
Corporate and other	6,614,358	0.0 - 0.9	2.8%
	26,548,008	1.0 - 4.9	11.2%
	16,311,636	5.0 - 9.9	6.9%
	4,762,232	10.0 - 19.9	2.0%
Asset-backed	7,949,963	< 0.0	3.4%
	30,613,935	0.0 - 0.9	12.9%
	51,397,274	1.0 - 4.9	21.7%
	10,088,566	5.0 - 9.9	4.3%
	5,470,391	10.0 - 19.9	2.3%
	6,877,872	>20.0	2.9%
Total fixed income	236,527,041	3.3	100.0%
Short-term investments	27,932,438	0.1	
Cash collateral received for securities on loan	110,627,454	0.1	
Equity in County's pooled cash	3,439,614	N/A	
Common and preferred stock	376,923,557	N/A	
Pooled and mutual funds	92,168,681	N/A	
Total investments	$847,618,785		

As of June 30, 2005 the System's overall fixed income portfolio duration was a conservative 3.3 compared with the longer 4.2 duration of the Lehman Brothers Aggregate Bond Index.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the investment. The System investments include 9.1% of investments held in currencies other than US dollars. The System investments at June 30, 2005 are held in the following currencies:

International securities	Equity	Fixed Income	Short-term and other	Total
European currency unit	$ 23,674,793		$ 687,966	$ 24,362,759
Japanese Yen	17,704,097		684,759	18,388,856
British pound sterling	9,998,317		645,945	10,644,262
Swiss franc	6,495,453	$ 94,306	(1,016,030)	5,573,729
Canadian dollar	2,439,002		(234,606)	2,204,396
Australian dollar	1,805,744		1,964	1,807,708
Swedish krona	1,743,293			1,743,293
Other currencies	2,604,695	-	671	2,605,366
Total	66,465,394	94,306	770,669	67,330,369
Securities held in US dollars	310,458,163	236,432,735	119,330,450	666,221,348
Total investments	$376,923,557	$236,527,041	$120,101,119	$733,551,717

Derivative Financial Instruments.

As of June 30, 2005, 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 of 105 percent. The custodian receives cash or securities as collateral from the borrower.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

The following represents the balances relating to the securities lending transactions at June 30, 2005.

Securities Lent	Underlying Securities	Securities Collateral Value	Cash Collateral Investment Value
Lent for cash collateral			
Short-term investments	$ 1,686,927		$ 1,713,625
US Government obligations	56,935,636		58,096,613
Asset-backed securities	6,182,796		6,924,794
Corporate and other bonds	6,028,256		6,183,750
Common and preferred stock	36,373,672		37,708,672
Lent for other collateral			
US Government obligations	6,979,856	$7,120,365	
Common and preferred stock	817,443	842,469	
Total	$115,004,586	$7,962,834	$110,627,454

The System did not impose any restrictions during fiscal 2005 on the amounts of loans the lending agent made on its behalf. At year end, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceed the amounts the borrowers owed the System. The custodian provides full indemnification to the System for any losses that might occur in the program due to the failure of a broker/dealer to return a borrowed security or failure to pay the System income earned on the securities while on loan.

All securities loans can be terminated on demand by either the System or the borrower. Cash collateral is invested in the lending agent's collective collateral investment pool which at June 30, 2005 had a weighted-average maturity of 31 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 plans that invest cash collateral in the investment pool.

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 *(in thousands)* (a)	Actuarial Accrued Liability-AAL Entry Age *(in thousands)* (b)	Unfunded AAL-UAAL *(in thousands)* (b-a)	Funded Ratio (a/b)	Covered Payroll *(in thousands)* (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/1999	$503,649	$487,951	$(15,698)	103.2%	$55,081	-28.5%
7/1/2000	568,942	586,939	17,997	96.9%	64,946	27.7%
7/1/2001	611,514	617,510	5,996	99.0%	66,755	9.0%
7/1/2002	618,383	656,615	38,232	94.2%	69,197	55.3%
7/1/2003	644,405	703,977	59,572	91.5%	71,401	83.4%
7/1/2004	685,495	749,344	63,849	91.5%	78,080	81.8%

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
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%
2005	20,744,793	72%

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, 2004
Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	Weighted average of 13.5 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%

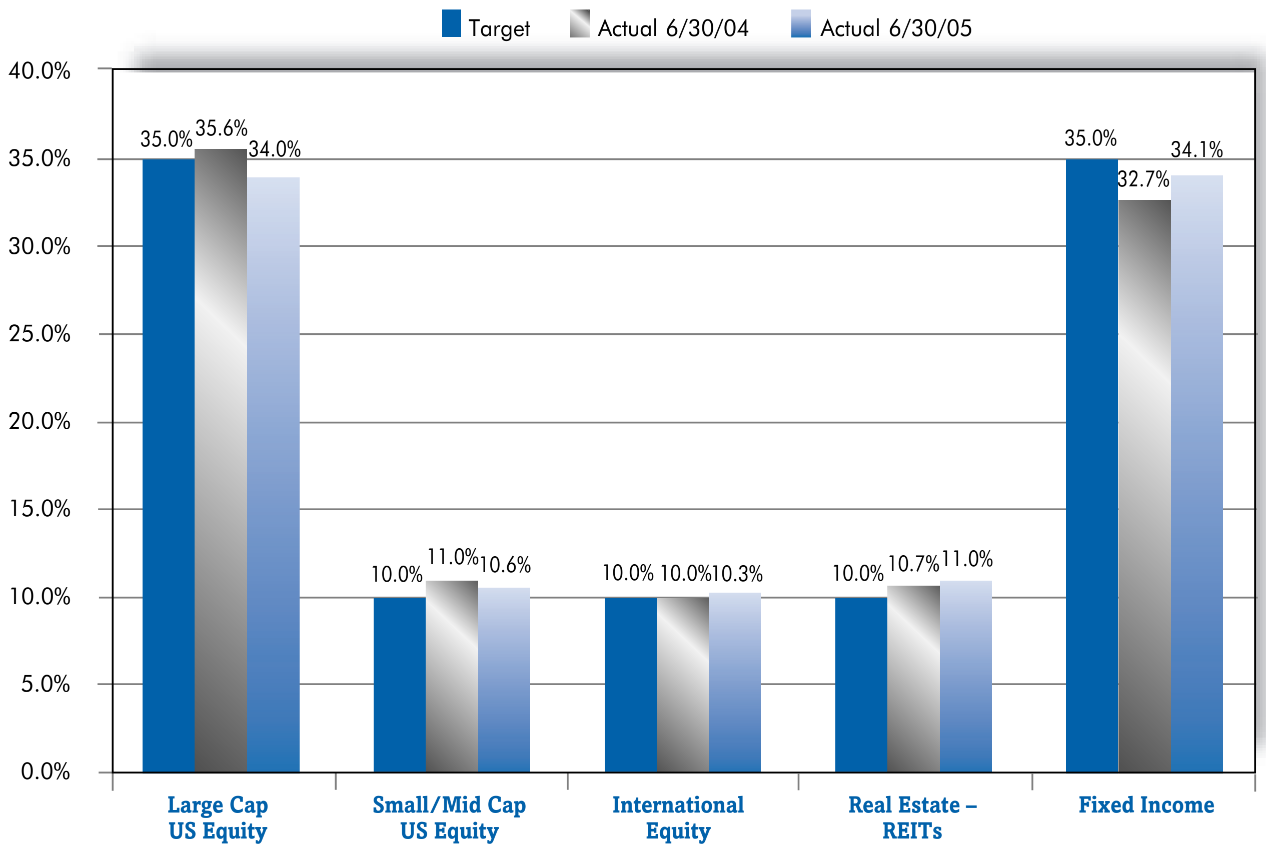
The actuarial assumptions used have been recommended by the actuary and adopted by the System's Board of Trustees based on the most recent review of the System's experience, completed in 2001. The rate of employer contributions to the plan is composed of normal cost, amortization of the unfunded actuarial accrued liability and an allowance for administrative expenses. The normal cost is a level percent of payroll cost which, along with the member contributions, will pay for projected benefits at retirement for the average plan participant. The actuarial accrued liability is that portion of the present value of projected benefits that will not be paid by future normal employer costs or member contributions. The difference between this liability and the funds accumulated as of the same date is the unfunded actuarial accrued liability. The allowance for administrative costs is based upon the plan's actual administrative expenses.

The actuarial valuation performed as of July 1, 2004 resulted in a contribution rate of 24.96% for fiscal 2006 per the GASB methodology, an increase of 0.43% over the fiscal 2005 rate of 24.53% per the GASB methodology. 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 18.44% for fiscal 2006, an increase of 0.48% over the fiscal 2005 adopted rate of 17.96%.

OVERVIEW

The Board of Trustees has established an investment policy for the System to identify investment objectives, guidelines and performance standards 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.

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 weekly 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, 2005 and 2004.

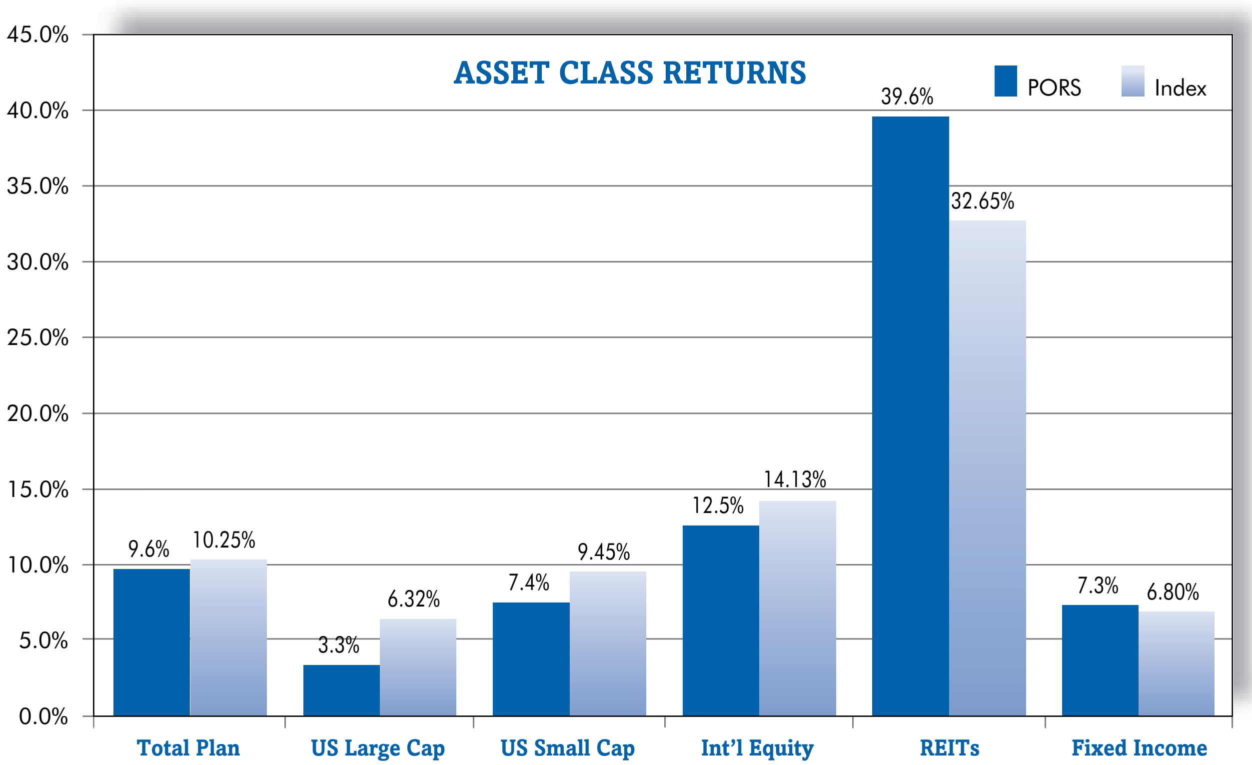


The Board of Trustees hires investment management firms and provides each firm with a specific investment mandate, and assigns a benchmark index or a blend of indices against which the performance of the account is measured. Each managed account has its own investment guidelines outlining the nature of 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 monthly by staff and reviewed by the Board of Trustees quarterly.

CAPITAL MARKETS AND ECONOMIC CONDITIONS

Financial And Economic Summary

Worldwide capital markets experienced moderately strong performance during fiscal year 2005 following the strong post-bubble rebound achieved in fiscal 2004. Most asset classes were able to generate positive results during the year. Global economic expansion continued at a respectable pace, and the absence of any major "events" such as 9/11 helped restore some degree of confidence among investors. In the US, corporate earnings expanded at double-digit rates every quarter of the year, pushing GDP growth up to 3.6% for the twelve-month period. The major topic of discussion during the year was surging oil prices, which hit a 22-year high of $60 per barrel at year end. Rising energy prices fueled fears of future economic stagnation, but appeared to have little impact on consumers' buying decisions. By year end consumer confidence had reached a 4-year high, and consumer spending continued to exceed personal income growth. Housing starts increased nearly 10% during the year, while consumers reached ever-higher levels of personal indebtedness. Business spending for plant, equipment and labor expanded sharply during the year to make up for declining productivity gains. Consumers' appetite for foreign-made goods resulted in the US trade gap swelling to nearly 7% of GDP. Notwithstanding consumers' spending binge, inflation remained well constrained as the CPI increased at an annual rate of 2.5%. Unemployment fell from a high of 6.4% in June of 2003 to 5.0% at June 2005, a four-year low, as two million jobs were created during the year. But the 17-year low in labor participation in June indicates that the longer term unemployed simply haven't returned to the job hunt. During the year Federal Reserve policy makers raised the benchmark US interest rate from 1.0% to 3.25% in nine consecutive quarter-point increments, and vowed to continue the rate hikes at a 'measured' pace until a "normal" level of real rates was re-established.



Equity Markets

Major US equity benchmarks posted modest gains over the trailing year, with the S&P 500 Index flip-flopping positive and negative quarters. The broad S&P 500 Index returned 6.3% on a total return basis, but narrower equity indices barely eked out gains, as the Dow Jones Industrial Average returned 0.7% and the NASDAQ Composite gained 0.5%. For the second consecutive fiscal year the Russell 2000 Index was the strongest major domestic index with a 9.5% return. “Value” was an across-the-board winner in fiscal 2005, outpacing “growth” stocks by better than a 6 to 1 margin. The best-performing capitalization range was mid-cap with a 17.1% total return, 7.6 percentage points ahead of small-cap and 12.6 points better than large-cap. Wildly fluctuating fuel prices propelled S&P Energy stocks to the head of the pack in 2005 with a 39.4% return, which accounted for nearly two-thirds of the Index’s weighted return. Only 3 of 10 S&P sectors, (Energy, Utilities and Telecom Services), outpaced the overall Index, while the worst performing sector was Information Technology with a negative 3.5% return.

International equity markets rode a strong global economy and a declining US dollar early in the fiscal year to stellar results in 2005. The developed markets, as evidenced by the MSCI EAFE Index, advanced 14.1% on a strong showing in Europe and Hong Kong and despite negative returns for Japan, which appeared to be falling back into recession for the third time. Emerging markets were the biggest winner overall in fiscal 2005 as these raw materials-based economies produced flat-out to keep up with the prodigious demand from China. The MSCI Emerging Markets Free Index rose 34.9% for the year, led by the 58% advance in Latin America.

Fixed Income

The domestic bond market, as measured by the Lehman Brothers Aggregate Bond Index, returned 6.8% over the year, not only outperforming the S&P 500 Index but overcoming short-term interest rate hikes, an expanding economy and inflation fears, and major downgrades in the auto sector. The Treasury yield curve flattened dramatically over the past year as the Federal Reserve continued to raise short-term interest rates. Uncharacteristically, however, intermediate/long bond yields declined rather than rose as expected, which was largely attributed to steady demand for longer Treasuries from foreign central banks. During the year short-term interest rates advanced 180 basis points while the 10-year Treasury bond yield declined 68 basis points. The T-Bill-to-10-year Treasury spread contracted from 329 basis points at the beginning of the year to 81 basis points at year end. High yield bonds (LB High Yield Index) were up 10.9% and long bonds (LB Long Government/Credit Index) were the best performing segment, returning 16.9%. Treasury Inflation Protected Securities (TIPS) was the third-best performing segment at 9.3%.

Real Estate

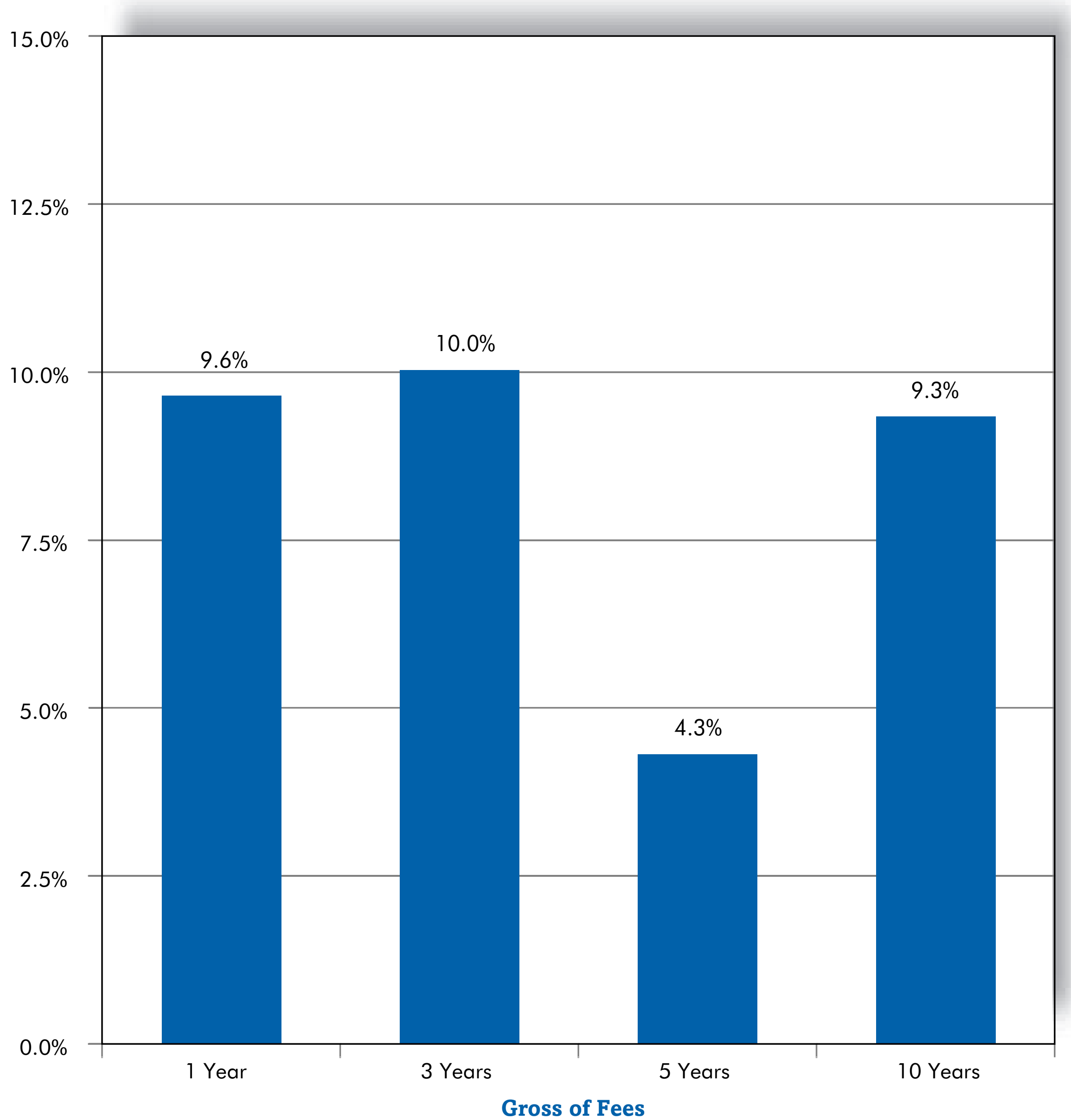
The public real estate market had another outstanding year as measured by the 32.7% return of the NAREIT Equity REIT Index. In an environment of low coupon yields, access to inexpensive financing, and improving real estate fundamentals, the 5% - 6% payouts offered by REITs proved irresistible to investors. This marks the sixth consecutive year that the REIT index has outperformed the S&P 500 Index. Private real estate exhibited more modest but consistent gains through the year on rising fundamentals (occupancies and rents), returning a solid 16.0%.

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.

CAPITAL MARKETS AND ECONOMIC CONDITIONS *(continued)*

COMPOUND ANNUAL RETURN ON INVESTMENT PORTFOLIO



On a market value basis, the total net assets held in trust rose from $679.1 million at June 30, 2004 to $735.1 million at June 30, 2005. For fiscal 2005, investments provided a return of +9.1%, net of fees, reflecting an expansionary economic environment. The System's annualized rate of return, net of fees, was +9.6% over the last three years and +3.9% over the last five years.

These System returns ranked in the third quartile of a universe of public plans during fiscal 2005 and were in the top half of public plans for the last five years. The Police Officers Retirement System's annualized ten-year net return of 8.9% has handily surpassed the 7.5% long-term threshold return used for actuarial purposes.

ASSET ALLOCATION BY CATEGORY AND INVESTMENT MANAGER

June 30, 2005

ASSET CLASS Manager	**Investment Style**	**Total Assets**	**% of Total Net Assets**
DOMESTIC EQUITIES			
PIMCO StocksPlus LP *	Enhanced S&P 500 Index	$ 85,881,646	11.7%
Robert E. Torray	Large Cap Value	80,031,271	10.9%
JANUS Capital	Large Cap Growth	57,561,254	7.8%
Veredus	Small Cap Growth	40,027,147	5.4%
Systematic Financial	Small Cap Value	37,269,264	5.1%
Oak Associates	Large Cap Growth	24,616,690	3.3%
INTERNATIONAL EQUITIES			
Capital Guardian	Developed & Emerging Markets	75,530,725	10.3%
GLOBAL FIXED INCOME			
Dodge & Cox	Domestic Core Bonds	163,865,119	22.3%
Trust Company of the West	Mortgage-Backed Securities	43,622,354	5.9%
Peregrine Capital	Duration Management	41,452,674	5.6%
REAL ESTATE			
Cohen & Steers	Real Estate Investment Trusts	80,615,316	11.0%
SHORT-TERM			
Standish Mellon Enhanced STIF			
• Fund portion	Short-Term Cash Management	1,301,561	0.2%
Cash Held by County Treasurer	Short-Term Cash Management	3,439,614	0.5%
Net Assets		$735,214,635	100.0%

**Pooled Fund*

LARGEST HOLDINGS FOR SEPARATELY MANAGED (NON-POOLED) ACCOUNTS

ASSET CLASS **Manager** Security	**Market Value**	**% of Account**
DOMESTIC EQUITIES		
Janus Capital Mgt.		
Yahoo! Inc.	$ 3,514,896	6.12%
United Health Group Inc.	$ 3,284,820	5.72%
Medtronic Inc.	$ 2,772,319	4.83%
Roche Holdings Ltd. ADR	$ 2,261,255	3.94%
Celgene Corp.	$ 2,179,078	3.79%
Oak Associates		
Charles Schwab Corp.	$ 1,562,280	6.35%
Cisco Systems Inc.	$ 1,526,400	6.20%
MBNA Corp.	$ 1,373,400	5.58%
EMC Corp.	$ 1,295,595	5.27%
Dell Inc.	$ 1,262,720	5.13%
Systematic Financial Mgt.		
Triad Guarantee Inc.	$ 1,022,917	2.73%
Bankunited Financial Corp.	$ 924,768	2.47%
SVB Financial Group	$ 752,030	2.01%
Infinity Property & Casualty Corp.	$ 666,208	1.78%
Wabash National Corp.	$ 659,056	1.76%
Robert E. Torray & Co.		
Franklin Resources Inc.	$ 4,487,934	5.61%
First Data Corp.	$ 3,167,046	3.96%
Illinois Tool Works Inc.	$ 3,067,680	3.84%
AMBAC Financial Group Inc.	$ 2,929,920	3.66%
Amgen Inc.	$ 2,914,172	3.64%
Veredus Asset Mgt.		
Beazer Homes USA Inc.	$ 1,710,214	4.22%
Meritage Homes Corp.	$ 1,633,725	4.03%
Amerigroup Corp.	$ 1,386,900	3.43%
Ryland Group Inc.	$ 1,335,312	3.30%
Portfolio Recovery Associates Inc.	$ 1,247,994	3.08%

LARGEST HOLDINGS FOR SEPARATELY MANAGED (NON-POOLED) ACCOUNTS *(continued)*

ASSET CLASS / **Manager** / Security	**Market Value**	**% of Account**
INTERNATIONAL EQUITIES		
Capital Guardian Trust Co.		
Vodafone Group PLC	$ 2,228,879	3.02%
Sanofi-Aventis	$ 1,847,926	2.50%
Royal Dutch Petroleum Co.	$ 1,738,978	2.36%
Sumitomo Mitsui Group	$ 1,448,425	1.96%
Novartis AG	$ 1,270,513	1.72%
REAL ESTATE SECURITIES		
Cohen & Steers Capital Mgt.		
Boston Properties Inc.	$ 5,453,000	6.78%
Simon Property Group Inc.	$ 4,733,597	5.89%
Vornado Realty Trust	$ 3,939,600	4.90%
Prologis	$ 3,786,584	4.71%
Avalonbay Communities Inc.	$ 3,692,560	4.59%
CORE FIXED INCOME		
Dodge & Cox		
US Treasury Note, 3.375%, 11/15/2008	$ 8,912,790	5.34%
US Treasury Note, 1.625%, 10/31/2005	$ 7,957,200	4.77%
US Treasury Note, 3.0%, 11/15/2007	$ 6,391,811	3.83%
US Treasury Note, 3.375%, 09/15/2009	$ 5,748,693	3.45%
US Treasury Note, 2.625%, 05/15/2008	$ 5,589,575	3.35%
Peregrine Capital Mgt.		
US Treasury Bond, 5.375%, 02/15/2031	$ 11,094,961	26.98%
US Treasury Bond, 6.25%, 05/15/2030	$ 7,491,186	18.22%
Federal Home Loan Bank Bond, 2.25%, 01/30/2006	$ 2,578,550	6.27%
FNMA Note, 2.4%, 04/28/2006	$ 2,572,050	6.25%
Federal Home Loan Bank Bond, 1.52%, 07/14/2005	$ 2,386,800	5.80%
TCW Asset Mgt.		
LaSalle Bank Corp Discount Note, 07/06/2005	$ 2,997,827	6.92%
FNMA Guaranteed REMIC, 6.0%, 01/25/2024	$ 2,550,186	5.89%
FHLMC Multiclass, 5.5%, 10/15/2032	$ 2,464,706	5.69%
FHLMC Multiclass, Variable Rate 06/15/2031	$ 2,173,497	5.02%
Rabobank USA Financial Discount Note, 07/07/2005	$ 1,798,866	4.15%

THIS PAGE INTENTIONALLY LEFT BLANK

CHEIRON Classic Values, Innovative Advice

December 23, 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, 2004. 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 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, 2004 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. Since the prior valuation, the System has implemented a DROP plan which necessitated a change in the retirement assumption.

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.

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

ACTUARIAL

April 29, 2004
Fairfax County Police Officers Retirement System
Page 2

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

We are responsible for 2003 and 2004 information in the Schedule of Funding Progress, Schedule of Employer Contributions and Notes to Trend Data shown in the Financial Section.

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

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

I hereby certify that, to the best of my knowledge, this report is complete and accurate and was prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the applicable Guides to Professional Conduct, Amplifying Opinions, and Supporting Recommendations and Interpretations of the American Academy of Actuaries.

Sincerely,
CHEIRON

Fiona E. Liston

Fiona E. Liston, FSA
Consulting Actuary

CHEIRON

SUMMARY OF VALUATION RESULTS

Overview

This report presents the results of the July 1, 2004 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 2006;
- ★ 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 1.14% to the contribution rate (this includes a 0.18% increase to the normal cost component), for a total Corridor Funding Contribution of 18.44% 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, 2004 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.

Trends

The financial markets performed above expectation during the fiscal year ending in 2004. However, due to the smoothing technique and past asset losses, the System experienced a small loss on the actuarial value of assets. The actual return on a market value basis was approximately 15.46%. On an actuarial value basis, the assets returned 7.01% compared with an assumed rate of return of 7.5%. The loss recognized for funding purposes was $3 million.

The measurement of liabilities produced a gain this year in the amount of $8 million. This gain was due to increases in pay which were not as high as those assumed (gain of $2 million), a base retiree COLA less than 3% (gain of $4 million), and plan experience (gain of $2 million).

Another component of loss came from the corridor method contribution not being sufficient to pay the amortization component of the underlying calculation. This amounted to an additional $4 million in apparent loss. Furthermore, higher than expected total payroll means that each established amortization layer will bring in more than anticipated. This results in a gain of $3 million.

The combination of liability and investment experience over the last year held the System's funding ratio (actuarial value of assets over actuarial accrued liability) relatively stable from 91.54% at July 1, 2003 to 91.48% at July 1, 2004. For purposes of measuring whether the System remains within the funding corridor, an adjusted funding ratio is used. In this ratio there

SUMMARY OF VALUATION RESULTS *(continued)*

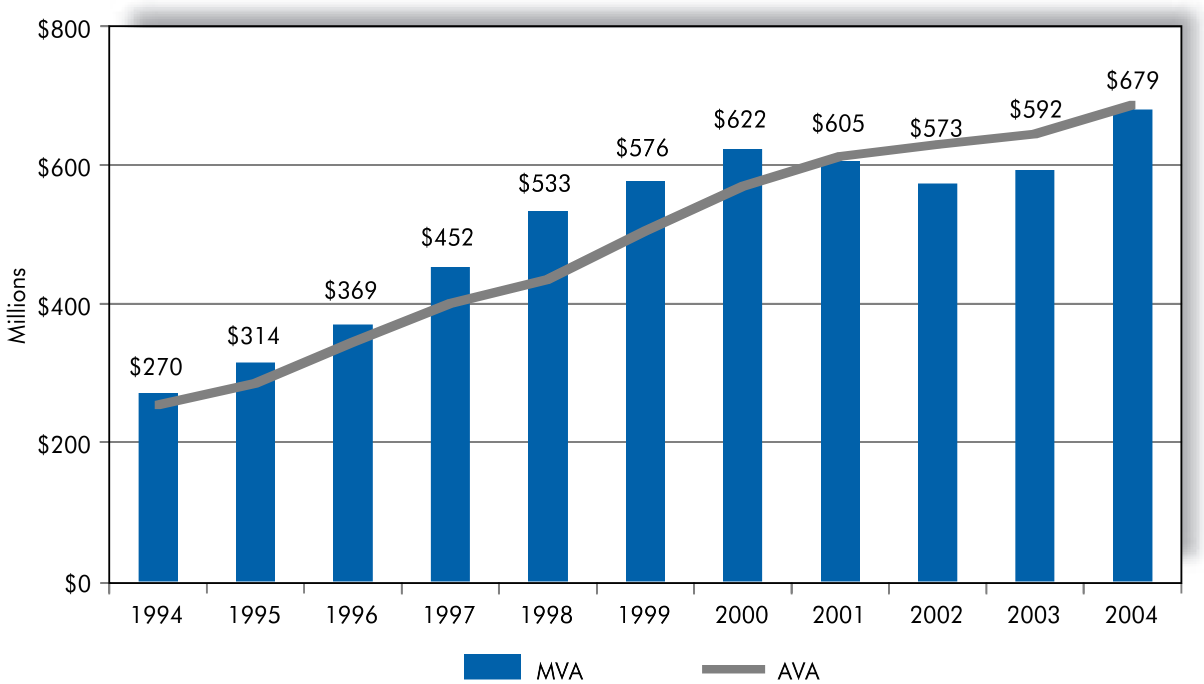
is an additional asset recognized in the amount of the Unfunded Actuarial Liability (UAL) payments being made by the County to pay for benefit increases. On this basis, the System's actuarial funded ratio increased from 91.90% at July 1, 2003 to 92.62% at July 1, 2004.

It is important to take a step back from the latest results and view them in the context of the System's recent history. A series of charts follow 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 15 years under various market return scenarios.

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

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

GROWTH IN ASSETS

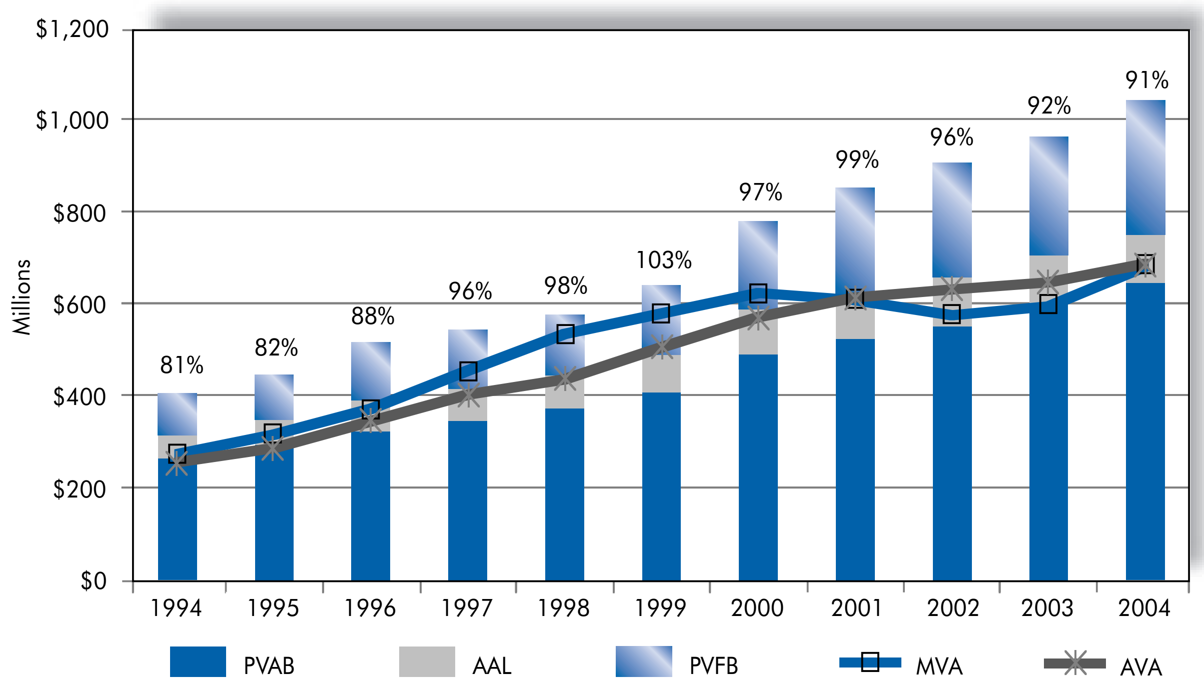


The positive growth in the market value of assets (MVA) continued this year with a substantial return of over 15%. Due to the asset smoothing method in place, the actuarial value of assets (AVA) increased slightly over the year.

Over the period July 1, 1994 to June 30, 2004 the System's assets returned approximately 8.76% per year measured at market value, compared to a valuation assumption of 7.5% per year.

SUMMARY OF VALUATION RESULTS *(continued)*

ASSETS AND LIABILITIES

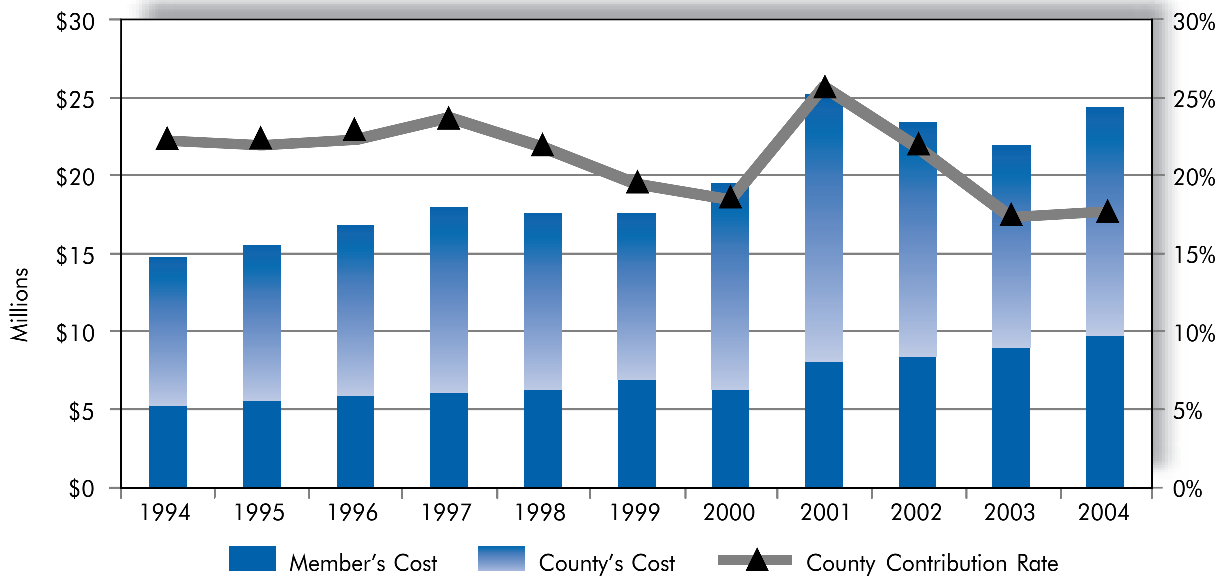


The three colored bars represent the three different measures of liability mentioned in this report. For funding purposes, the target amount is represented by the top of the gray bar. We compare the actuarial value of assets to this measure of liability in developing the funded percent. These are the 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 slide in the market in 2000. The amount represented by the top of the pink 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)*

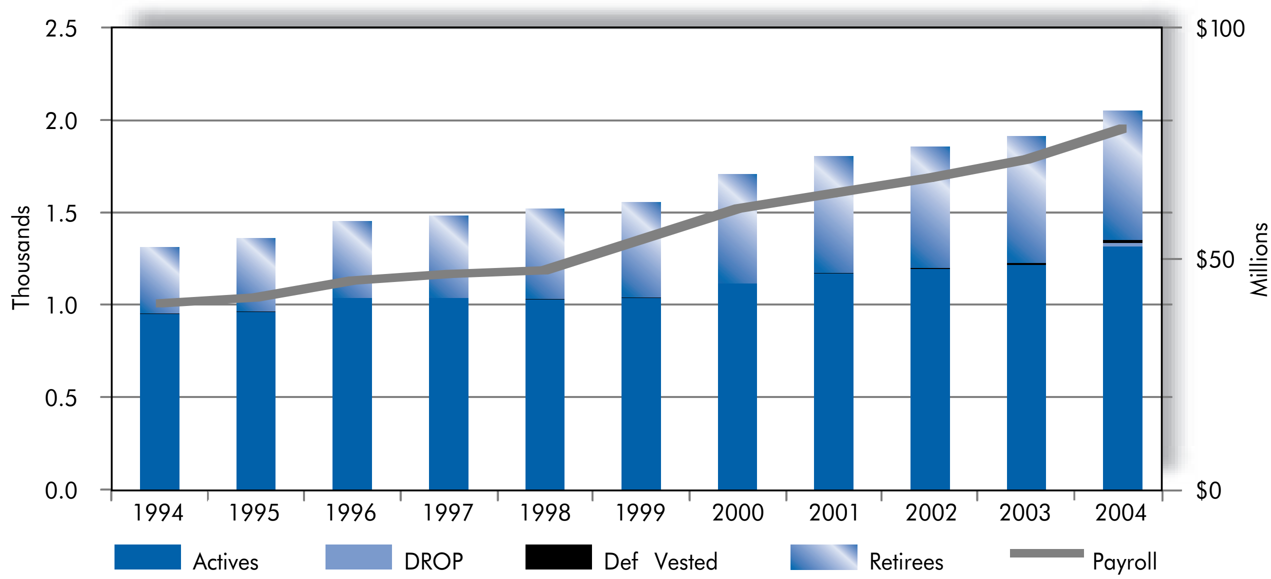
CONTRIBUTION RATES



The stacked bars in this graph show the contributions made by both the County and the members (left hand scale). The 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. Please note there is a lag in the rate shown. For example, the 2004 value is the rate prepared by the 2002 valuation and implemented for the period July 1, 2003 to June 30, 2004.

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 actives covered by the plan has increased slightly over the ten-year period.

This year we show a new class of DROP participants. Neither County nor member contributions are made on their behalf, which leads to a slightly lower growth in effective covered payroll for this System. The DROP participants are expected to remain active for a 3-year period until eventually retiring to receive their monthly benefits and DROP account balance.

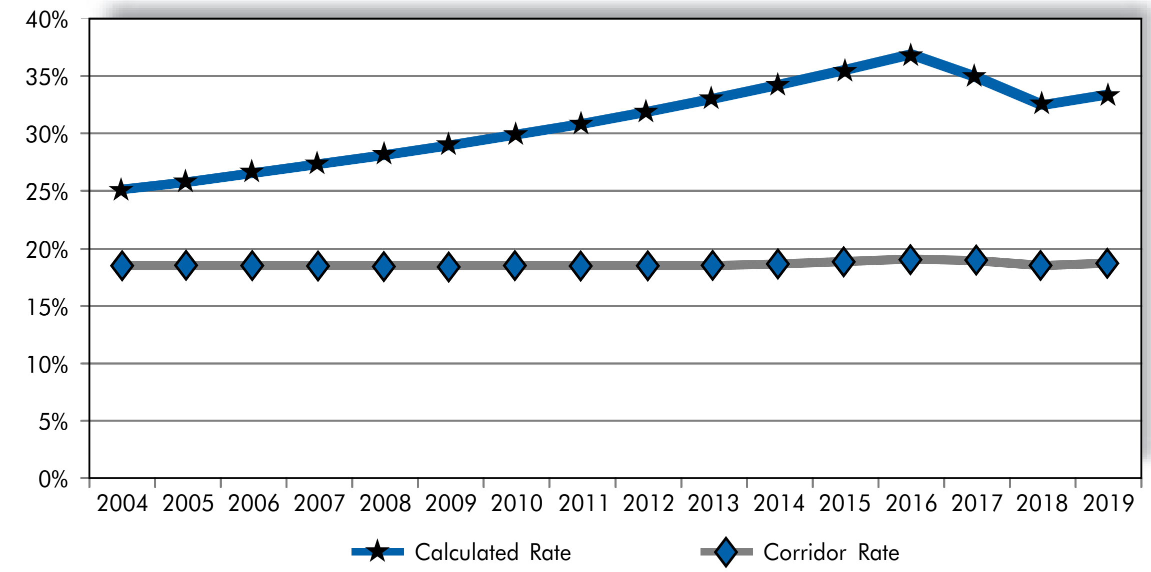
SUMMARY OF VALUATION RESULTS *(continued)*

Future Outlook

Base Line Projections

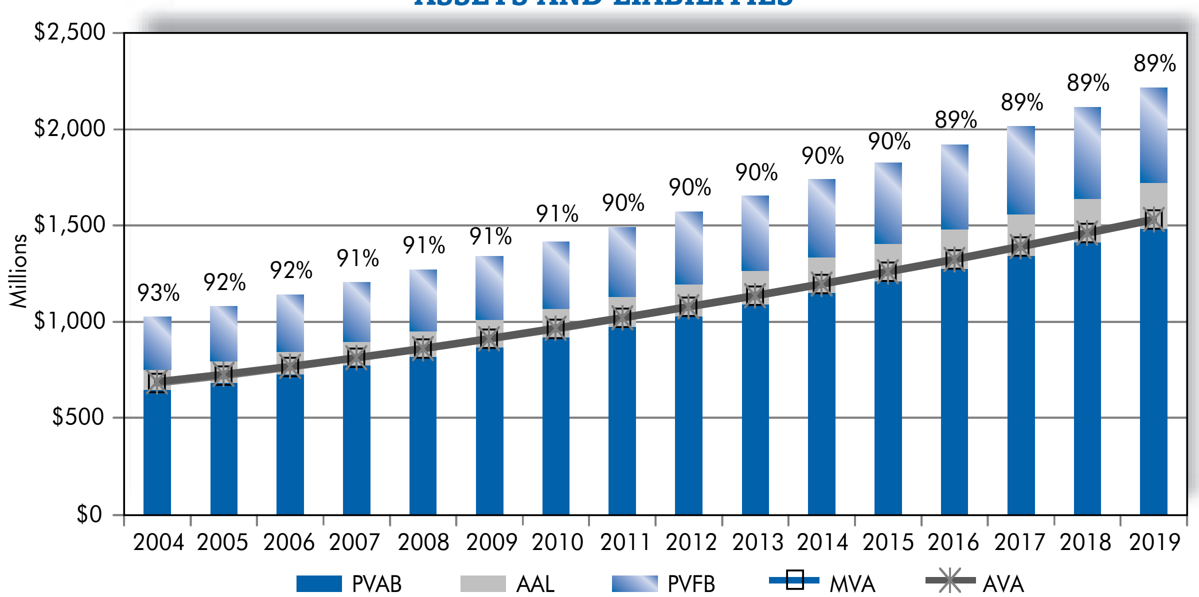
The two graphs below show the expected progress of the plan over the next 15 years assuming the System's assets earn 7.5% on their market value. The chart entitled "Plan Funding" shows that the corridor is likely to be breached with the 2014 valuation (if all other actuarial assumptions are met as well as the 7.5% interest rate). The red line shows the actuarially calculated rate if the corridor were not in place.

PLAN FUNDING



The "Assets and Liabilities" graph shows the projected funding status over the next decade. Note that the 2004 funded level differs from that shown in the historical graph. The ratio used here reflects the corridor method. 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 93% to around 89%. Once outside of the 90% corridor floor, the County's rate will increase.

ASSETS AND LIABILITIES

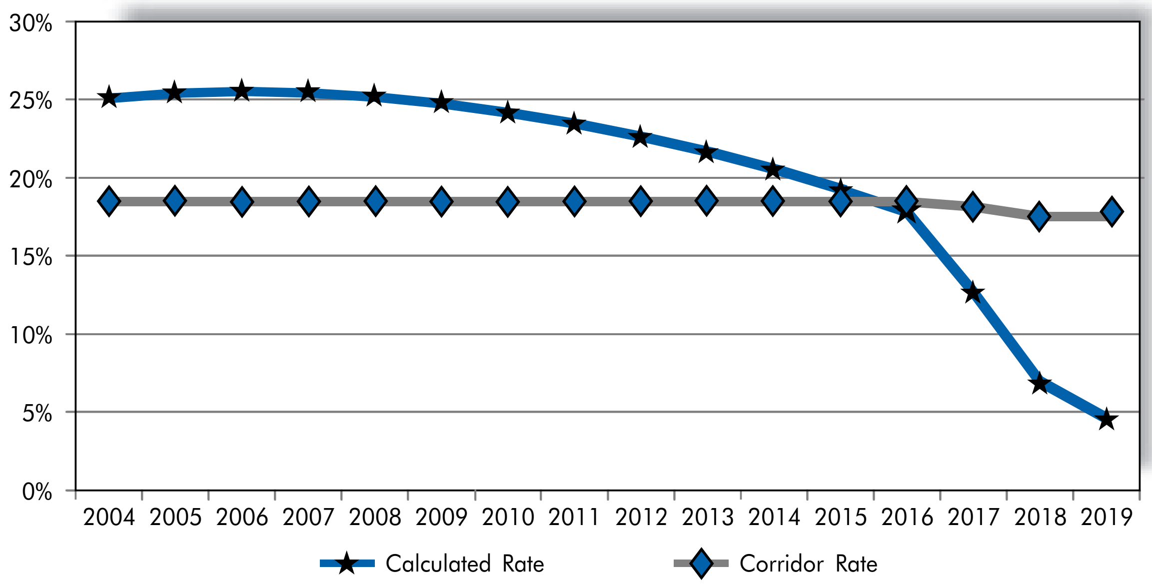


SUMMARY OF VALUATION RESULTS *(continued)*

Projections With Asset Returns of 9.0%

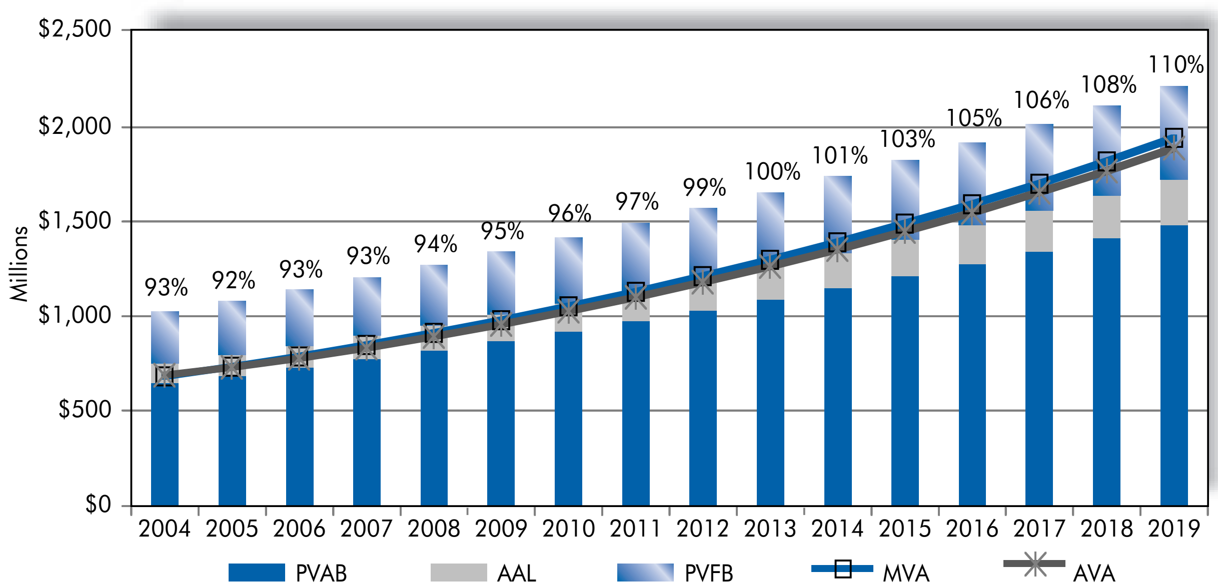
The future funding status of this System will be largely driven by the investment earnings. Due to the size of assets, as compared to liabilities, the System is in a highly leveraged position. This means that relatively minor changes in the market returns can have significant effects on the System's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

PLAN FUNDING



As you can see, the corridor contribution rate would remain adequate for the entire 15 year period and the System would return to its fully funded position.

ASSETS AND LIABILITIES



SUMMARY OF VALUATION RESULTS *(continued)*

This table presents the principal plan results for the valuations as of:

Participant Counts	**July 1, 2003**	**July 1, 2004**	**% Change**
Active members — excluding DROP	1,216	1,298	6.7%
DROP participants	NA	19	NA
Vested former members	14	17	21.4%
Retired members and beneficiaries	682	698	2.3%
Total	1,912	2,032	6.3%
Annual salaries of active members	$ 71,401,221	$ 78,079,888	9.4%
Annual benefits for retired members and beneficiaries	$ 27,100,399	$ 28,577,050	5.4%

Assets and Liabilities	**July 1, 2003**	**July 1, 2004**	**% Change**
Total actuarial liability	$703,977,098	$749,344,267	6.4%
Assets for valuation purposes	644,404,891	685,494,589	6.4%
Unfunded actuarial liability	$59,572,207	$63,849,678	7.2%
Funded ratio	91.54%	91.48%	
Present value of accrued benefits	$598,465,100	$645,330,236	7.8%
Market value of assets	591,890,728	679,147,572	14.7%
Unfunded FASB accrued liability	$ 6,574,372	$0	
Accrued benefit funding ratio	98.90%	105.24%	

Contributions *(as a percentage of payroll)*	**Fiscal Year 2005**	**Fiscal Year 2006**
GASB Method:		
Employer normal cost rate	17.00%	17.18%
Unfunded actuarial liability contribution	7.23%	7.48%
Administrative expense	0.30%	0.30%
Total employer contribution — GASB method	24.53%	24.96%
Corridor Method:		
Employer normal cost rate	17.00%	17.18%
Increase due to ad-hoc COLA	0.32%	0.96%
Amortization of amount outside corridor	0.00%	0.00%
Administrative expense	0.30%	0.30%
Total employer contribution — corridor method	17.62%	18.44%

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 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

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

Annual Deaths per 1,000 Disabled Members

Age	Male Deaths	Female Deaths
40	2	1
45	3	2
50	5	2
55	9	5
60	16	9
65	26	15
70	40	24
75	67	42
80	105	73

TERMINATION OF EMPLOYMENT:

(Prior to Normal Retirement Eligibility)

Annual Termination per 1,000 Members

Years of Service	Terminations
0	100
1	75
2	50
3	50
4	50
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.

DISABILITY

*Annual Disabilities per 1,000 Members**

Age	Male and Female
20	2
25	2
30	2
35	2
40	2
45	4
50	6
55	6
60	6

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

LONG TERM ASSUMPTIONS USED TO DETERMINE SYSTEM COSTS AND LIABILITIES *(continued)*

RETIREMENT

Years of Service	*Probability of Retirement** First Year Hired pre-7/1/81	Thereafter Hired post-7/1/81
20	30%	N/A
21	30%	N/A
22	30%	N/A
23	30%	N/A
24	30%	N/A
25	30%	30%
26	30%	30%
27	30%	30%
28	30%	30%
29	30%	30%
30	100%	100%

**50% are assumed to take DROP.*

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 active employees are married at death 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 3.0% of service credit due to sick leave.

CHANGES SINCE LAST VALUATION

Effective October 1, 2003, the System implemented DROP which changed the normal retirement assumption from 25% to 30% before 30 years of service. Furthermore, 50% of the retirements are expected to DROP.

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. We will use an assumption that post retirement cost-of-living increases will be 3% per year.)

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

Administrative Expenses: 0.30% of payroll.

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	2001	2002	2003	2004
Investment Income	$ (3,063,676)	$(27,533,258)	$(26,257,081)	$(3,173,508)
Combined Liability Experience	12,919,293	6,530,757	(5,036,286)	6,811,657
Gain (or Loss) During Year From Financial Experience	9,855,617	(21,002,501)	(31,293,367)	3,638,149
Non-Recurring Items	1,060,013	2,524,680	-	5,916,282
Composite Gain (or Loss) During Year	$10,915,630	$(18,477,821)	$(31,293,367)	$ 9,554,431

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**
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	60	2,993,514	12	296,497	634	23,395,638	13.03%	36,902
2002	34	1,870,218	10	274,297	658	24,991,559	6.82%	37,981
2003	34	2,303,608	9	181,377	683	27,113,790	8.49%	39,698
2004	26	1,714,726	11	251,466	698	28,577,050	5.40%	40,941

SOLVENCY TEST

AGGREGATE ACCRUED LIABILITIES

Valuation Date	*Aggregate Accrued Liabilities for* (1) Active Member Contributions	(2) Retirees Terminated vested And beneficiaries	(3) Active Members (Employer Financed Portion)	Reported Assets	Portion of Accrued Liabilities Covered by Reported Assets (1)	(2)	(3)
07/01/99	$51,421,149	$270,112,380	$166,417,518	$503,649,251	100%	100%	109%
07/01/00	55,487,975	323,515,804	207,935,179	568,941,559	100%	100%	91%
07/01/01	54,082,616	359,197,834	204,229,762	611,514,245	100%	100%	97%
07/01/02	62,004,264	380,114,653	214,496,324	628,383,173	100%	100%	87%
07/01/03	66,312,754	406,321,385	231,342,959	644,404,891	100%	100%	74%
07/01/04	70,693,277	441,029,277	237,621,713	685,494,589	100%	100%	73%

SCHEDULE OF ADDITIONS BY SOURCE

Fiscal Year	Plan Member Contributions	Employer Contributions	Employer Contributions % of covered Payroll	Net Investment Income (loss)	Total Additions
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
2005	9,930,883	14,901,070	17.96%	61,323,112	86,155,065

SCHEDULE OF DEDUCTIONS BY TYPE

Fiscal Year	Benefit Payments	Refunds of Contributions	Administrative Expenses	Total Deductions
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
2005	29,242,384	739,440	228,780	30,210,604

SCHEDULE OF BENEFIT PAYMENTS BY TYPE

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Total
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
2005	26,542,408	1,043,212	164,651	1,492,113	29,242,384

SCHEDULE OF RETIRED MEMBERS BY BENEFIT TYPE

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Total
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
2005	597	32	9	77	715

SCHEDULE OF AVERAGE MONTHLY BENEFIT AMOUNTS

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Average
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
2005	3,895	2,908	1,599	1,691	3,584

FAIRFAX COUNTY RETIREMENT
ADMINISTRATION AGENCY

10680 MAIN STREET, SUITE 280 • FAIRFAX, VIRGINIA 22030