FOR THE FISCAL YEAR ENDED JUNE 30, 2005

2005

COMPREHENSIVE
ANNUAL FINANCIAL REPORT

FAIRFAX COUNTY UNIFORMED RETIREMENT SYSTEM

A PENSION TRUST FUND OF FAIRFAX COUNTY, VIRGINIA

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FAIRFAX COUNTY

V I R G I N I A

BOARD OF TRUSTEES
UNIFORMED 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 Uniformed 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 Uniformed Retirement System was established on July 1, 1974, as a public employee retirement system providing defined benefit pension plan coverage for uniformed or sworn employees of the Fire and Rescue Department, helicopter pilots, the Sheriff's Department, the animal control division and certain park police officers. There were 1,698 active members and 799 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 Uniformed Retirement System returned 10.5% for fiscal 2005, after management fees. This return placed the fund in the 38th percentile of the Russell/Mellon public fund universe. The returns for the total fund exceeded the policy benchmark for the year by 1.0%. The fund's performance over the three-year and five-year periods exceeded 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 14.9%, from $755 million on June 30, 2004 to $837 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.

An ordinance amendment approved in June, 2005 moved public safety communications positions from the Employees' Retirement System to the Uniformed Retirement System. As of July 1, all new employees in the designated positions will be members of the Uniformed System. Employees in the affected positions at the time of the ordinance amendment are being given the option to remain in the Employees' System or transfer to the Uniformed System. Those electing to transfer are also being given the option of transferring all past service to the Uniformed System by paying the difference in employee contributions or transferring an actuarially reduced amount of past service without paying the past contribution difference. Employee decisions and transfer of membership will occur in early FY 2006.

With respect to the investment program and strategy, following an asset/liability study, the strategic asset allocation was revised to include the incorporation of global bond and international small-cap equity allocations and the international large-cap allocation was increased. Brandywine Asset Management was hired to manage a global bond portfolio and The Boston Company was hired to manage an international small-cap equity portfolio.

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 decreased from 90.0% to 87.1%. The actuarial section contains further information on the results of the July 1, 2004 valuation.

Based on the July 1, 2004 actuarial valuation, the employer contribution rate as determined under the corridor funding policy, remained constant at 24.30%. With the ordinance changes regarding public safety communications positions mentioned earlier the final employer contribution rate for FY 2006 will increase to 24.92%.

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 Uniformed 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

Barclays Global Investors
San Francisco, CA

Brandywine Asset Management
Wilmington, DE

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

HarbourVest Partners, LLC
Boston, MA

J. L. Kaplan Associates
Boston, MA

Lazard Asset Management
New York, NY

Marathon Asset Management
London, England

JP Morgan Investment Management, Inc.
New York, NY

Pantheon Ventures, Inc.
San Francisco, CA

Payden & Rygel Investment Counsel
Los Angeles, CA

Peregrine Capital Management
Minneapolis, MN

PIMCO
Newport Beach, CA

Standish Mellon Asset Management
Pittsburgh, PA

State Street Global Advisors
Boston, MA

Trust Company of the West
Los Angeles, CA

UBS Realty Advisors LLC
Hartford, CT

Wasatch Advisors
Salt Lake City, UT

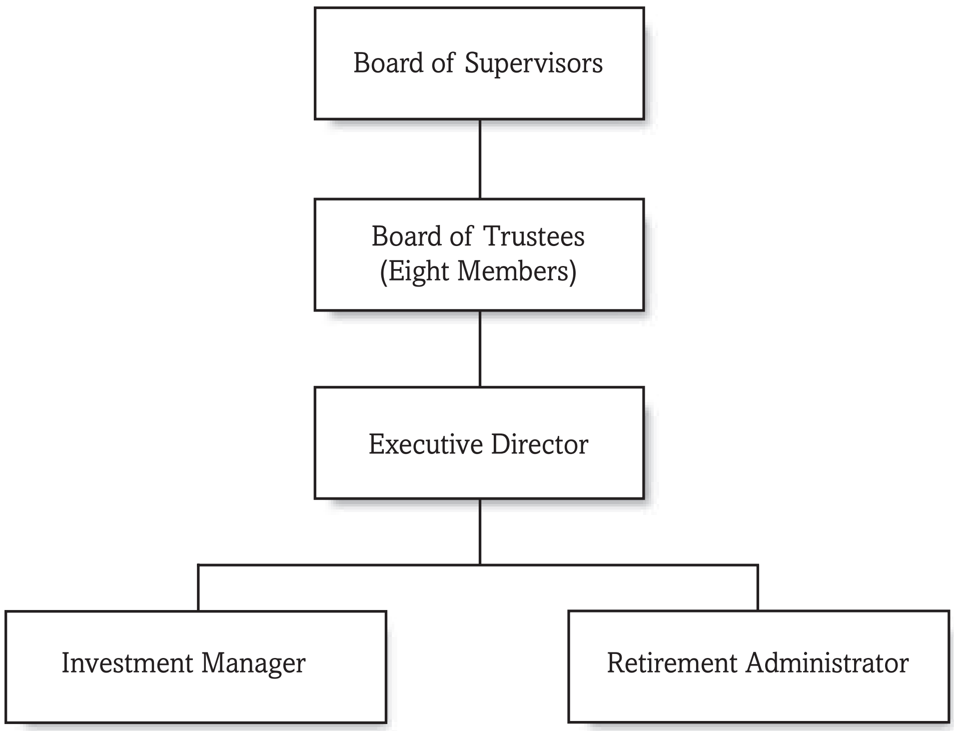
INVESTMENT CONSULTANT

New England Pension Consultants
Cambridge, MA

CUSTODIAL BANK

Mellon Global Securities Services
Pittsburgh, PA

ORGANIZATIONAL CHART



SUMMARY OF PLAN PROVISIONS

Membership in the Fairfax County Uniformed Retirement System includes most uniformed or sworn employees of the Fire and Rescue Department, the Sheriff's Department, the Animal Control Division, helicopter pilots and former park police officers who elected to remain in the System rather than transfer to the Police Officers Retirement System. The System consists of four Plans, Plan A, Plan B, Plan C and Plan D, which have different employee contribution rates and slightly different benefits. Plan A members were given the opportunity to join Plan B as of July 1, 1981 and to enroll in Plan C as of April 1, 1997. From July 1, 1981 until March 31, 1997, all members were enrolled in Plan B. Plan B members were given the opportunity to enroll in Plan D as of April 1, 1997. From April 1, 1997 forward, all new members are enrolled in Plan D. However, previous members of the Fairfax County Uniformed Retirement System who left their money in the System when their employment was terminated, upon return to service, must rejoin the Plan that they were in during their previous period of membership.

The general provisions of the Uniformed Retirement System follow:

All Plans

Normal Retirement:

is either age 55 with at least 6 years of service or any age with 25 years of service (including sick leave).

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:

20 years of service (including sick leave). Reduction factors are applied to the basic formula for early retirement.

Deferred Vested Retirement:

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 County at age 55.

Service-Connected Disability Retirement:

available for members, regardless of their length of service, who become disabled as a result of a job-related illness or injury. Benefits are 40% of their final compensation less workers' compensation and 64% of any Social Security disability award. Benefits for members retired on a severe service-connected disability will be calculated at 90% of salary at the time of retirement less the average monthly workers' compensation benefit and 64% of any Social Security disability benefits.

Ordinary Disability Retirement:

available for vested members who become disabled due to an injury or illness that is not job-related. Normal retirement benefits are paid.

Death Benefits:

Before Retirement — If the member is vested and the spouse is the beneficiary, the spouse may elect to receive 50% of the normal retirement benefit earned as of the date of the member's death. This benefit ceases if the spouse remarries before age 60. If this benefit is not elected, a refund of the member's contributions and interest is payable to the named beneficiary.

After Retirement — Refunds of any of the member's contributions and interest not already paid out in benefits will be paid to the named beneficiary(ies) unless the member has elected the irrevocable Joint and Last Survivor Option which provides a benefit to the member's spouse for life. At retirement, the member may choose to have his or her spouse receive 50%, 66⅔%, 75% or 100% of the member's reduced annuity upon the member's death. The member's annuity is reduced by a percentage based on the difference in age

SUMMARY OF PLAN PROVISIONS *(continued)*

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.

Service-Connected Death Benefit — a $10,000 lump-sum payment is made to the beneficiary if the member's death is due to a job-related illness or injury.

Normal Retirement Benefit:

Plans A and B — 2.0% of average final compensation (AFC) (highest consecutive three years) multiplied by the number of years of creditable service. The benefit is then increased by 3%.

A supplemental benefit is payable up to age 62. The amount of the supplemental benefit is based on the primary Social Security benefit the member would have been entitled to if the member were 65 on the date of retirement. For members hired on or after July 1, 1976, this basic amount is equal to a percentage of the Social Security benefit. That percentage is determined by dividing the member's creditable service by 25. The exact amount of this benefit also depends on the member's age and Plan (see below). The benefit is then increased by 3%.

Plan A Pre-62 Supplemental Benefit — If the member is less than age 55, no supplemental benefit is payable. From age 55 to 62, the full basic amount of the supplement is payable. After age 62, the benefit payable is any excess of the full basic amount which exceeds the member's actual earliest Social Security benefit payable.

Plan B Pre-62 Supplemental Benefit — If the member is less than age 55, one-half of the basic amount of the supplemental benefit is payable. From age 55 to 62, the full basic amount of the supplement is payable. After age 62, the benefit payable is any excess of the full basic amount which exceeds the member's actual earliest Social Security benefit payable.

In addition, a **Pre-Social Security Supplement** is payable to members of Plans A & B until the first month after the member attains the age of eligibility for unreduced Social Security retirement benefits. The amount of the Pre-Social Security Supplement is 0.2% of AFC multiplied by the number of years of creditable service, increased by 3%.

Plans C and D – 2.5% of average final compensation (highest consecutive three years) multiplied by the number of years of creditable service. The benefit is then increased by 3%. No Pre-62 Supplemental Benefits are payable under Plans C or D.

In addition, a **Pre-Social Security Supplement** is payable to members of Plans C & D until the first month after the member attains the age of eligibility for unreduced Social Security retirement benefits. The amount of the Pre-Social Security Supplement is 0.3% of AFC multiplied by the number of years of creditable service, increased by 3%.

Cost of Living Benefit:

Annual cost-of-living adjustments (COLAs) 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. Members of Plan A and C receive COLA increases beginning at age 55. Members of Plan B and D receive COLAs beginning at retirement.

Contribution Rates:

Plan A Contribution Rate:

4% of base salary up to the maximum Social Security wage base plus 5.75% of base salary over the wage base.

Plan B Contribution Rate:

7.08% of base salary up to the maximum Social Security wage base plus 8.83% of base salary over the wage base.

Plan C Contribution Rate:

4% of creditable compensation.

Plan D Contribution Rate:

7.08% of creditable compensation.

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 Uniformed Retirement System:

We have audited the statement of plan net assets of the Fairfax County Uniformed 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Accordingly, we express no such opinion. 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.

KPMG

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.

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 Uniformed 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 Statements of Plan Net Assets as of June 30, 2005 and Statements 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 $81.4 million or 10.8% during fiscal 2005. These changes are primarily due to increases 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 10.5%, ranking in the top half of the universe of public funds. The System's domestic equities returned 7.8%. The international developed equity portfolios returned 16.4% for fiscal 2005. Emerging markets returned 33.4% for the fiscal year. The System's fixed income investments returned 7.1% for fiscal 2005. The System's real estate portfolios returned 21.2% for the fiscal year. Additional investment market commentary is provided in the Investment Section of this document.

Additions.
Total additions decreased $12.8 million from fiscal 2004 to 2005 primarily due to investment returns. Employer contributions increased $2.4 million or 9.5% from fiscal 2004 to 2005. The 2005 employer contribution rate of 24.30% of covered payroll increased 2.40% over the fiscal 2004 adopted rate of 21.9% of covered payroll. Total contributions for fiscal 2005 were also impacted by the increases in covered payroll that occurred each year. The System experienced net investment gains during fiscal 2005. Net appreciation in the fair value of investments was $61.9 million during fiscal 2005. Interest and dividend income was $20.7 million for the fiscal year. Investment activity expense increased $51 thousand or 1.3% due to investment management fees computed on the increasing investment values. Net securities lending income increased $28.5 thousand from fiscal 2004 to 2005. This was primarily due to a larger base of securities available to lend and a favorable borrowing climate.

Deductions.
Benefit payments increased 13.3% during fiscal 2005. The number of retirees and beneficiaries collecting benefits and the amount of the average benefit increased during the year and were responsible for the increase in the expense. Retirees received cost of living increases of 1.9% as of July, 2004. Refunds and other expenses increased 18 thousand from fiscal 2004 to 2005. 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 87.1%, a decrease of 2.9 percentage points from the July 1, 2003 funded percentage of 90.0%.

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	$938,304,120	$824,490,139	$113,813,981
Total receivables	36,702,158	32,200,551	4,501,607
Total Assets	975,006,278	856,690,690	118,315,588
Liabilities	138,321,433	101,401,995	36,919,438
Net Assets	$836,684,845	$755,288,695	$ 81,396,150

SUMMARY OF ADDITIONS AND DEDUCTIONS

	2005	2004	Difference
Additions			
Contributions			
Employer	$ 27,192,791	$ 24,823,288	$ 2,369,503
Plan members	7,953,800	7,649,425	304,375
Other income	-	150,859	(150,859)
Net investment income	78,696,049	94,008,180	(15,312,131)
Total Additions	113,842,640	126,631,752	(12,789,112)
Deductions			
Benefit payments	31,678,214	27,954,431	3,723,783
Refunds and other	768,276	749,804	18,472
Total Deductions	32,446,490	28,704,235	3,742,255
Net Change	$ 81,396,150	$ 97,927,517	$ (16,531,367)

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	$ 1,256,061	
Cash collateral received for securities on loan	65,805,620	
Short-term investments	59,832,877	
Total cash and short-term investments		$126,894,558
Receivables		
Contributions	1,607,922	
Accrued interest and dividends	2,286,631	
Securities sold	32,807,605	
Total receivables		36,702,158
Investments, at fair value		
Corporate bonds	41,488,946	
U.S. Government obligations	46,465,526	
Asset-backed securities	139,342,717	
Common and preferred stock	206,900,663	
Pooled and mutual funds	377,211,710	
Total investments		811,409,562
Total assets		975,006,278
Liabilities		
Purchase of investments	71,459,326	
Cash collateral received for securities on loan	65,805,620	
Accounts payable and accrued expenses	1,056,487	
Total liabilities		138,321,433
Net assets held in trust for pension benefits		$836,684,845

(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	$27,192,791	
Plan members	7,953,800	
Total contributions		$ 35,146,591
Investment income from investment activities		
Net appreciation in fair value of investments	61,927,139	
Interest	16,799,077	
Dividends	3,907,042	
Total investment income	82,633,258	
Investment activity expense		
Management fees	3,701,581	
Custodial fees	128,103	
Consulting fees	169,010	
Allocated administration expense	111,749	
Total investment expense	4,110,443	
Net income from investment activities		78,522,815
From securities lending activities		
Securities lending income	1,454,167	
Securities lending expenses		
Borrower rebates	1,205,484	
Management fees	75,449	
Total securities lending activities expense	1,280,933	
Net income from securities lending activities		173,234
Total net investment income		78,696,049
Total additions		113,842,640
Deductions		
Annuity benefits	24,716,535	
Disability benefits	6,533,655	
Survivor benefits	428,024	
Refunds	544,777	
Administrative expense	223,499	
Total deductions		32,446,490
Net increase		81,396,150
Net assets held in trust for pension benefits		
Beginning of fiscal year		755,288,695
End of fiscal year		$836,684,845

See accompanying notes to financial statements.

Notes to the Financial Statements

For the year ended June 30, 2005

The Fairfax County Uniformed Retirement System is considered part of the County of Fairfax, Virginia's ("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 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	766
Terminated plan members entitled to but not yet receiving benefits	26
DROP participants	48
Active plan members	1,646
Total	2,486

Plan Description.

The System is a single-employer defined benefit pension plan. The plan covers uniformed employees including non-clerical employees of the Fire and Rescue Department, Office of the Sheriff, park police, helicopter pilots, animal wardens and game wardens who are not covered by other plans of the County or the Virginia Retirement System. Benefit provisions are established and may be amended by County ordinance. All benefits vest at five years of service. To be eligible for normal retirement, an individual must meet the following criteria: (a) attain the age of 55 with six years of service, or (b) complete 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). In lieu of continuing to earn service credit, DROP members accrue a lump sum benefit payable at retirement. Participating members continue working up to an additional three years after eligibility for normal retirement. To be eligible for early retirement, the employee must have 20 years of service. The benefit for early retirement is actuarially reduced and payable at early termination.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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. Plan A members were given the opportunity to join Plan B as of July 1, 1981 and to enroll in Plan C as of April 1, 1997. From July 1, 1981, until March 31, 1997, all new hires were enrolled in plan B. Plan B members were given the opportunity to enroll in Plan D as of April 1, 1997. From April 1, 1997, forward, all new hires are enrolled in Plan D. Plan A requires member contributions of 4 percent up to the Social Security wage base and 5.75 percent of compensation in excess of the wage base. Plan B requires member contributions of 7.08 percent of compensation up to the Social Security wage base and 8.83 percent of compensation in excess of the wage base. Plan C requires member contributions of 4 percent of compensation. Plan D requires contributions of 7.08 percent of compensation. The County is required to contribute at an actuarially determined rate; the rates for the year ended June 30, 2005 was 24.30 percent of annual covered payroll.

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 Section 51.1-800 Code of Virginia (Code). Section 51.1-124.30.C of the Code authorizes fiduciaries of the System to purchase investments *with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with the same aims. The Board shall also diversify such investments as to minimize the risk of large losses unless under the circumstances it is clearly prudent not to do so.*

The System has implemented the requirements of Governmental Accounting Standards Board Statement No. 40. While the System is not subject to the provisions of the Employee Retirement Income Security Act (ERISA), the Board of Trustees endeavors to comply with the spirit of ERISA to the extent that it does not conflict with the Code of Virginia.

The System has adopted a statement of Investment Objectives and Policies whose general investment philosophy is to maintain a well-diversified, high-quality investment program that can meet the long-term needs of the members of the System. The Board of Trustees' investment policy provides that the retention of experienced money management professionals with proven investment disciplines is the best means of attaining the System's investment goals and that the investment program should be sufficiently flexible to adapt to changes in the financial markets. Investment decisions for these assets are made by the Board of Trustees or investment managers selected by the Board. The overall investment policies do not address specific levels of credit risk, interest rate risk or foreign currency risk. Each individual investment portfolio is managed by an investment management firm selected by the Board. Each investment portfolio has a specific benchmark and investment guidelines. The interest rate risk for the fixed income accounts is controlled by limiting the credit quality of the securities held and the duration of the portfolio against the duration of the benchmark. While the overall investment guidelines do not specifically address concentration of credit risk, managers have specific quality and concentration limits appropriate for the type of mandate they are managing and that fits within the total risk tolerance of the fund. The System does not have 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.

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:

Investment type	Fair Value	Ratings	Percent of fixed
U.S. Government Obligations	$ 46,465,526	AAA	20.4%
Corporates and others	25,086,106	AAA	11.0%
	1,137,812	AA	0.5%
	3,533,946	A	1.6%
	6,668,291	BBB	2.9%
	2,413,101	BB	1.1%
	758,875	B	0.3%
	9,772	CCC	0.0%
	1,881,043	unrated	0.8%
Asset-backed	135,521,510	AAA	59.6%
	1,401,295	A	0.6%
	2,419,912	unrated	1.1%
Total fixed income	227,297,189	AA	100.0%
Short-term	59,832,877	AA	
Fixed pooled funds	14,936,087	AA	
Cash collateral received for securities on loan	65,805,620	AA	
Equity in County's pooled cash	1,256,061	N/A	
Common stock	206,900,663	N/A	
Equity mutual funds	362,275,623	N/A	
Total investments	$938,304,120		

As of June 30, 2005 the fixed income portfolio exhibited an overall credit quality rating of "AA", and less than 2% of the portfolio was invested in below-investment grade securities.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

The Lehman Brothers Aggregate Bond Index (LAGG) is the standard benchmark against which the industry and the System's Board measures its 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	$ 11,157,100	1.0 - 4.9	4.9%
	13,494,656	5.0 - 9.9	5.9%
	21,813,770	10.0 - 19.9	9.6%
Corporate and other	7,535,081	0.0 - 0.9	3.3%
	17,982,627	1.0 - 4.9	7.9%
	14,120,186	5.0 - 9.9	6.2%
	1,481,465	10.0 - 19.9	0.7%
	369,587	not rated	0.2%
Asset-backed	7,066,768	< 0.0	3.1%
	43,107,918	0.0 - 0.9	19.0%
	66,652,755	1.0 - 4.9	29.3%
	6,886,087	5.0 - 9.9	3.0%
	8,190,847	10.0 - 19.9	3.6%
	7,438,342	>20.0	3.3%
Total fixed income	227,297,189	3.9	100.0%
Short-term investments	59,832,877	0.2	
Fixed pooled funds	14,936,087	4.1	
Cash collateral received for securities on loan	65,805,620	0.1	
Equity in County's pooled cash	1,256,061	N/A	
Common and preferred stock	206,900,663	N/A	
Equity mutual funds	362,275,623	N/A	
Total investments	$938,304,120		

As of June 30, 2005 the System's overall fixed income portfolio duration was a slightly conservative 3.9 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 at June 30, 2005 held in currencies other than US dollars are as follows:

International securities	Equity	Fixed Income	Short-term and other	Total
European currency unit	$ 33,118,571	$ 5,387,328	$ (4,822,761)	$ 33,683,138
Japanese Yen	29,030,982		5,757,437	34,788,419
British pound sterling	26,259,659	1,773,620	52	28,033,331
Canadian dollar		2,013,028	3,713,317	5,726,345
Hong Kong dollar	4,395,416			4,395,416
Australian dollar	1,669,346	4,924,313	(4,291,698)	2,301,961
Other currencies	8,252,416	3,501,513	595,817	12,349,746
International mutual funds and similar securities	-	-	37,871,550	37,871,550
Total international	102,726,390	17,599,802	38,823,714	159,149,906
Securities held in US dollars	104,174,273	209,697,387	398,220,873	712,092,533
Total investments	$206,900,663	$227,297,189	$437,044,587	$871,242,439

Derivative Financial Instruments.
As permitted by the Code described above, the System holds off-financial-statement derivatives in the form of exchange-traded financial futures, interest rate swaps, options on futures and swaps, total return swaps and spread locks in accordance with Board of Trustees' policy. These strategies are employed by one of the System's fixed income investment managers. Use of these instruments may involve certain costs and risks, including the risk that a portfolio could not close out a position when it would be most advantageous to do so. Portfolios investing in derivatives could lose more than the principal amount invested.

An exchange-traded financial futures contract is a legally-binding agreement to buy or sell a financial instrument in a designated future month at a price agreed upon by the buyer and seller at initiation of the contract. Futures contracts are standardized according to quality, quantity and delivery time. The System uses Money Market Futures Contracts as a means of managing interest rate exposure at the short end of the yield curve in an efficient manner with low transaction costs. The System also uses Government Futures Contracts as risk-neutral substitutes for the underlying physical securities. The System entered into contracts in April, May, and June of 2005, all of which will mature in September of 2005. The market and interest rate risks of holding exchange-traded futures contracts arise from adverse changes in market prices and interest rates. These risks are equivalent to holding exposure to the underlying security. Counterparty credit risk is modest because the futures clearinghouse becomes the counterparty to all transactions.

An Options Contract is a financial instrument that, in exchange for the option price, gives the option buyer the ***right***, but not the obligation, to buy (or sell) a financial asset at the exercise price from (or to) the option seller within a specified time period, or on a specified date (expiration date). The System employs Options on Treasury Futures as well as Options on Swaps (Swaptions). Options on Treasury Futures are used to manage interest rate and volatility exposure of the portfolio. Swaptions have similar investment characteristics to other options but have the advantage of being more customized instruments that can serve more specific applications in a portfolio. Swaptions are used in an attempt to generate income by writing puts and calls to manage swap rates or swap rate volatility. A most important characteristic of options is that they can cause the effective duration of a portfolio to change with movements in interest rates. To control interest rate risk, the duration change potential of options positions over a wide range of best and worst case interest rate scenarios are measured and controlled.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

An interest rate swap is a binding agreement between counterparties to exchange periodic interest payments on some predetermined dollar principal, which is called the notional principal amount. The System uses interest rate swaps as risk-neutral substitutes for physical securities, or to obtain non-leveraged exposure in markets where no physical securities are available, such as an interest rate index. The counterparty credit risk is equal to the amount of profit or loss that has not yet been realized. This risk is controlled by the System's investment guidelines and limited by periodic resets to the swap that allow the unrealized profit and loss to be realized. The market risk is equivalent to holding the exposure to the index.

The following table shows the derivative instruments the System held at June 30, 2005.

	Notional value	**Fair value**	**Maturity**
Money market futures contracts	$ 23,500,000	$ 22,567,050	Dec-05
Money market futures contracts	5,250,000	5,039,738	Jun-06
Money market futures contracts	1,750,000	1,679,213	Dec-06
Government futures contracts	3,400,000	4,013,203	Sep-05
Options			
on government futures	(4,400,000)	(2,906)	Sep-05
on money market futures	(11,650,919)	-	Dec-05
on swaps (swaptions)	(3,400,000)	(5,862)	Sep-05
on swaps (swaptions)	(5,600,000)	(8,372)	Aug-05
Swaps	3,900,000	(192,272)	Sep-15

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.

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	$ 1,487,690		$ 1,522,500
U.S. Government Obligations	41,094,486		41,899,190
Corporate and other bonds	2,590,144		2,704,663
Common and preferred stock	18,673,596		19,679,267
Lent for other collateral			
U.S. Government Obligations	4,877,787	$ 4,978,429	
Asset-backed securities	3,750,007	3,819,000	
Corporate and other bonds	3,374,341	3,450,412	
Common and preferred stock	2,609,965	2,856,480	
Total	$78,458,016	$15,104,321	$65,805,620

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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	$560,044	$531,789	$ (28,255)	105.31%	$ 78,622	-35.94%
7/1/2000	624,298	614,243	(10,055)	101.64%	87,943	-11.43%
7/1/2001	666,599	651,840	(14,759)	102.26%	93,577	-15.77%
7/1/2002	687,093	720,996	33,903	95.30%	99,200	34.18%
7/1/2003	715,797	795,342	79,545	90.00%	100,749	78.95%
7/1/2004	767,357	881,015	113,658	87.10%	102,960	110.39%

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.

REQUIRED SUPPLEMENTARY INFORMATION *(continued)*

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2000	$16,489,406	100%
2001	18,818,351	100%
2002	16,834,252	112%
2003	21,548,814	107%
2004	25,186,003	99%
2005	32,320,929	84%

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 14 years

Asset valuation method .... 3-year smoothed market

Actuarial assumptions:

- Investment rate of return* 7.5%
- Projected salary increases* .... 4.1% - 8.5%
- *Includes inflation at 4.0%
- Cost of living adjustments 3.0%

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

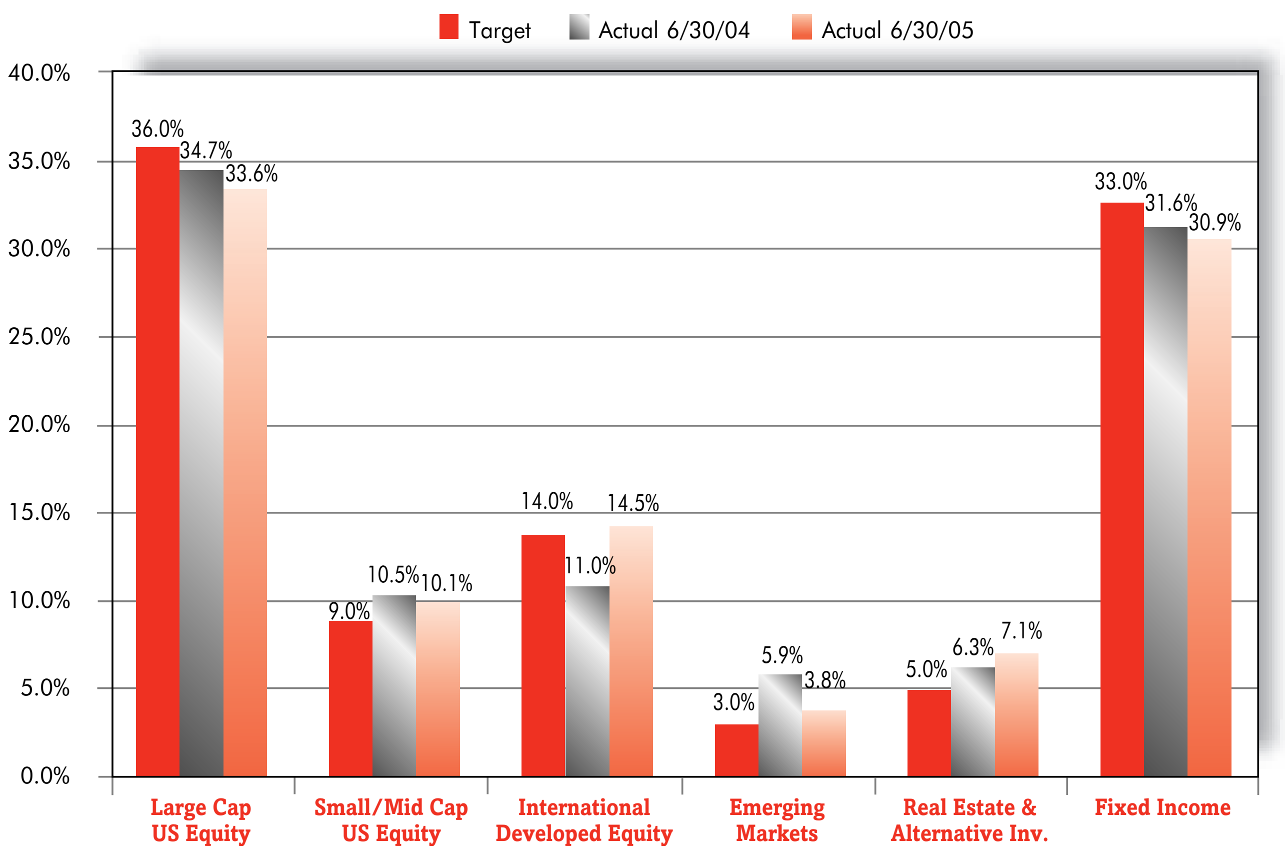
The rate of employer contributions to the plan is composed of normal cost, amortization of the unfunded actuarial accrued liability and an allowance for administrative expenses. The normal cost is a level percent of payroll cost which, along with the member contributions, will pay for projected benefits 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 29.83% for fiscal 2006 per the GASB methodology, an increase of 3.80% over the fiscal 2005 rate of 26.03% per the GASB methodology. The corridor method, which is used to stabilize the adopted contribution rate over time, results in an adopted rate of 24.92% for fiscal 2006, an increase of 0.62% over the fiscal 2005 adopted rate of 24.30%.

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.

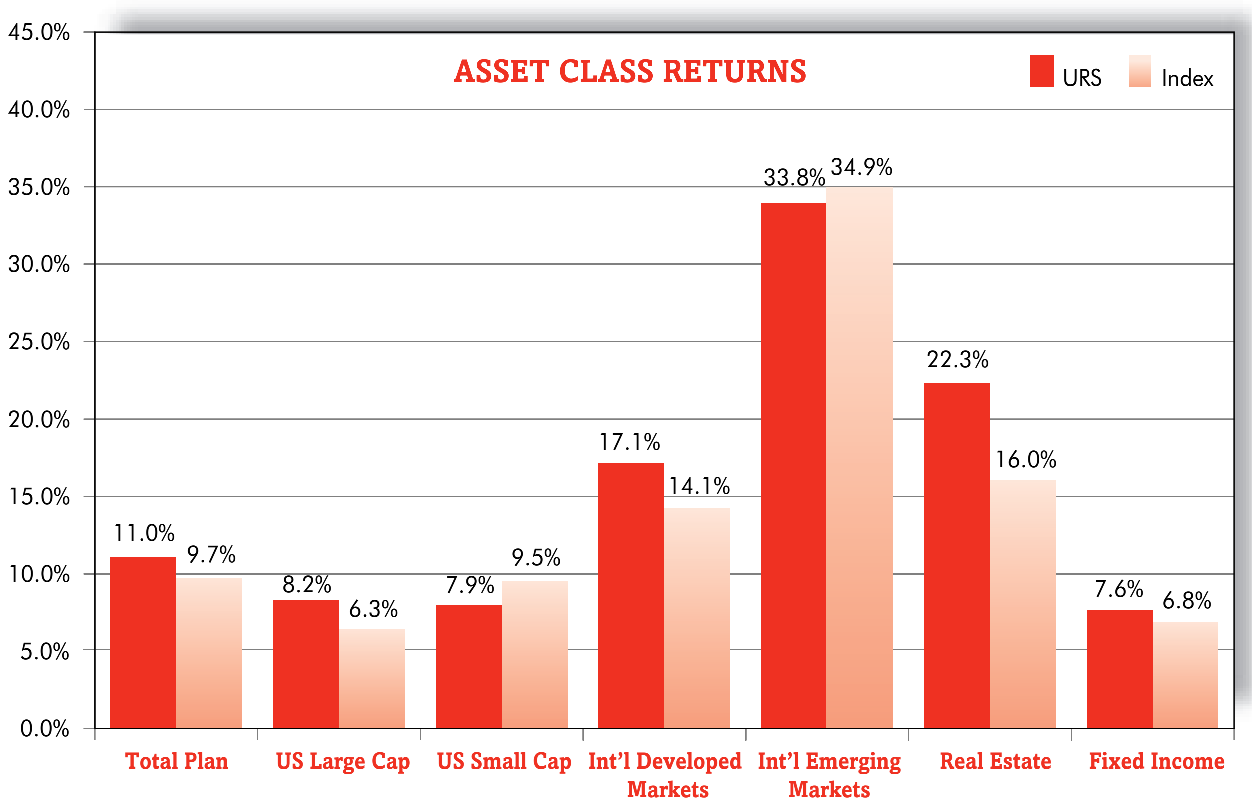


The Board of Trustees hires investment management firms and provides each firm with a specific investment mandate, and assigns a benchmark index or a blend of indices against which the performance of the account is measured. Each managed account has its own investment guidelines outlining the nature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



CAPITAL MARKETS AND ECONOMIC CONDITIONS *(continued)*

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

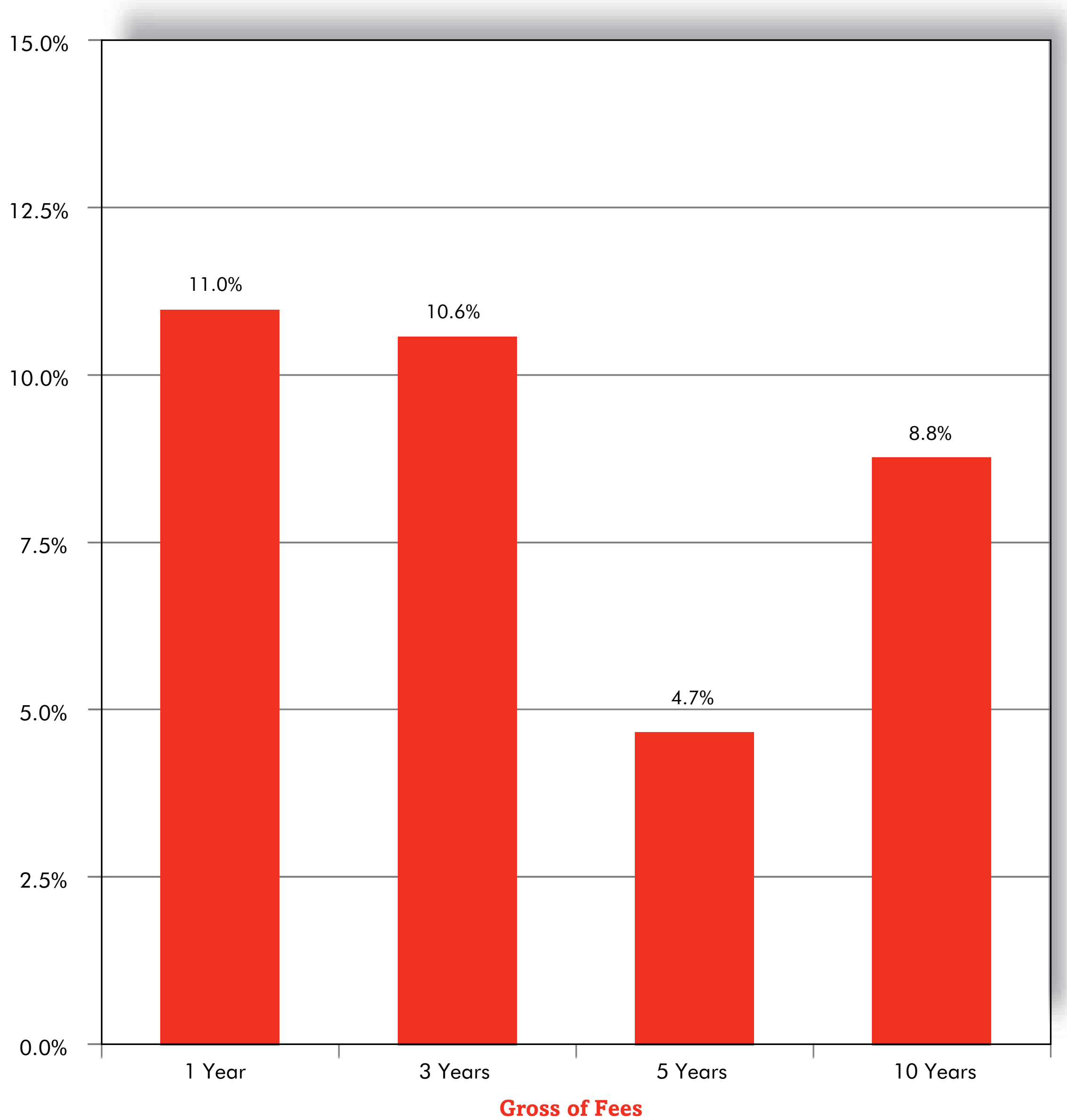
The public real estate market had another outstanding year as measured by the 32.7% return of the NAREIT Equity REIT Index. In an environment of low coupon yields, access to inexpensive financing, and improving real estate fundamentals, the 5% - 6% payouts offered by REITs proved irresistible to investors. 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 Uniformed 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 $755.3 million at June 30, 2004 to $836.7 million at June 30, 2005. For fiscal 2005, investments provided a return of +10.5%, net of fees, reflecting an expansionary economic environment. The System's annualized rate of return, net of fees, was +10.1% over the last three years and +4.3% over the last five years. These System returns ranked in the top half of a universe of public plans during fiscal 2005 and were in the top third of public plans for the last five years. The Uniformed Retirement System's annualized ten-year net return of 8.4% has surpassed the 7.5% long-term threshold return used for actuarial purposes.

During the past twelve months, several changes were made to the asset allocation targets of the System to help further diversify the investment program. New allocations to global fixed income and international small cap were put into place, and the stage was set for adding non-correlated absolute return strategies in fiscal year 2006.

ASSET ALLOCATION BY CATEGORY AND INVESTMENT MANAGER

June 30, 2005

ASSET CLASS Manager	**Investment Style**	**Total Assets**	**% of Total Net Assets**
DOMESTIC EQUITIES			
BGI Alpha Tilts Fund *	Enhanced S&P 500 Index	$189,568,874	22.7%
SSGA S&P 500 Fund *	S&P 500 Index	91,261,471	10.9%
J.L. Kaplan	Small Cap Value	48,594,058	5.8%
Wasatch Advisors	Small Cap Growth	35,828,810	4.3%
Pantheon Private Equity *	Private Equity	8,169,517	1.0%
J.P. Morgan Private Equity *	Private Equity	3,856,157	0.5%
Harbourvest Private Equity *	Private Equity	2,334,273	0.3%
INTERNATIONAL EQUITIES			
Marathon Asset Mangement	Developed Markets	86,045,004	10.3%
Lazard International	Developed Markets	35,405,869	4.2%
BGI Emerging Markets Fund *	Emerging Markets Index	31,602,710	3.8%
GLOBAL FIXED INCOME			
PIMCO	Total Return	86,477,222	10.3%
Payden & Rygel	Domestic Core Plus Bonds	44,895,815	5.4%
Trust Company of the West	Mortgage-Backed Securities	42,713,893	5.1%
Brandywine	Global Bonds	40,279,375	4.8%
Peregrine Capital	Duration Management	39,252,332	4.7%
REAL ESTATE			
UBS Realty *	Direct Real Estate	35,482,622	4.2%
Cohen & Steers	Real Estate Investment Trusts	9,757,959	1.2%
SHORT-TERM			
Standish Mellon Enhanced STIF			
• Fund portion	Short-Term Cash Management	3,313,940	0.4%
Cash Held at County Treasurer	Short-Term Cash Management	1,256,061	0.2%
Net Assets		$836,095,962	100.0%

** Pooled fund*

LARGEST HOLDINGS FOR SEPARATELY MANAGED (NON-POOLED) ACCOUNTS

ASSET CLASS / Manager / Security	Market Value	% of Account
DOMESTIC EQUITIES		
J.L Kaplan Associates		
Ametek Inc	$ 1,736,775	3.58%
Arrow Electronics Inc.	$ 1,697,500	3.50%
Ross Stores Inc.	$ 1,676,780	3.45%
Scotts Miracle-Gro Co.	$ 1,609,346	3.31%
Pentair Inc.	$ 1,596,813	3.29%
Wasatch Advisors		
National Semiconductor Corp.	$ 1,350,990	3.76%
SRA International Inc.	$ 1,088,264	3.03%
Amsurg Corp	$ 1,076,781	3.00%
United Surgical Partners Int'l	$ 1,013,008	2.82%
Microchip Technology Inc.	$ 985,606	2.75%
INTERNATIONAL EQUITIES		
Lazard Asset Mgt.		
Total SA	$ 1,301,524	3.66%
Nokia AB	$ 1,292,774	3.63%
Royal Dutch Petroleum Co.	$ 1,124,452	3.16%
Royal Bank of Scotland	$ 1,039,592	2.92%
Novartis AG	$ 1,038,865	2.92%
Marathon Asset Mgt.		
Jardine Matheson Holdings	$ 1,621,462	1.90%
Shell Transport & Trading	$ 1,197,581	1.40%
Jardine Strategic Holdings	$ 1,149,407	1.35%
Royal Dutch Petroleum Co.	$ 1,000,239	1.17%
New World Development Co.	$ 832,252	0.98%
REAL ESTATE SECURITIES		
Cohen & Steers Capital Mgt.		
Equity Office Properties Trust	$ 436,920	4.47%
Arden Realty Group Inc.	$ 320,222	3.27%
Equity Residential	$ 301,924	3.09%
Reckson Assoc. Realty Corp.	$ 291,885	2.98%
Home Properties Inc.	$ 288,234	2.95%

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

ASSET CLASS **Manager** Security	**Market Value**	**% of Account**
FIXED INCOME		
Brandywine Asset Mgt.		
US Treasury Bill, 12/08/2005	$ 4,726,393	11.90%
FHLMC Debenture, 2.875%, 05/15/2007	$ 3,738,630	9.41%
Government Of Canada Treasury Bill, 01/26/2006	$ 3,704,887	9.33%
FNMA Mortgage Pool, 4.0%, 05/23/2007	$ 3,701,665	9.32%
U S Treasury Bill, 11/17/2005	$ 2,365,773	5.96%
Payden & Rygel		
FNMA TBA, 5.5%, 07/01/2035	$ 4,398,321	7.69%
US Treasury Note, 3.375%, 02/15/2008	$ 3,832,980	6.70%
US Treasury Note, 2.375%, 08/31/2006	$ 3,127,839	5.47%
US Treasury Note, 4.0%, 04/15/2010	$ 3,104,384	5.43%
US Treasury Note, 4.0%, 02/15/2015	$ 2,650,296	4.63%
Peregrine Capital Mgt.		
US Treasury Bond, 5.375%, 02/15/2031	$10,593,327	27.21%
US Treasury Bond, 6.25%, 05/15/2030	$ 7,100,342	18.24%
Federal Home Loan Bank Bond, 2.25%, 01/30/2006	$ 2,677,725	6.88%
Federal Home Loan Bank Bond, 1.52%, 07/14/2005	$ 2,598,440	6.67%
FHLMC Note, 2.2%, 12/01/2005	$ 2,486,250	6.39%
Pacific Investment Mgt. (PIMCO)		
FNMA TBA, 5.5%, 07/01/2035	$19,761,300	17.67%
FHLMC Mortgage Pool, 5.5%, 05/01/2035	$ 4,057,449	3.63%
US Treasury Note, 4.125%, 05/15/2015	$ 3,349,170	3.00%
Total Fina Elf Discount Note, 07/01/2005	$ 2,299,785	2.06%
DNB Nor Bank ASA Discount Note, 07/14/2005	$ 2,276,773	2.04%
TCW Asset Mgt.		
FHLMC Multiclass, 6.5%, 02/15/2032	$ 3,262,474	7.70%
FHLMC Multiclass, Variable Rate, 07/15/2033	$ 2,509,423	5.92%
FHLMC Multiclass, 5.0%, 04/15/2033	$ 2,135,125	5.04%
FNMA Guaranteed REMIC, Variable Rate, 05/25/2033	$ 1,719,530	4.06%
FHLMC Multiclass, Variable Rate, 12/15/2032	$ 1,706,145	4.03%

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CHEIRON Classic Values, Innovative Advice

December 23, 2004

Fairfax County Uniformed
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 Uniformed 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). 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, F*inancial 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

December 23, 2004
Fairfax County Uniformed Retirement System
Page 2

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

We are responsible for the 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 Uniformed 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 Uniformed 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 Uniformed 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 determined as of the implementation date of the corridor method (July 1, 2001) 17.55% of payroll plus an expense rate, currently 0.25% 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 the inception of the Corridor Funding Method benefit changes have added 6.50% to the contribution rate (this includes a 1.57% increase to the normal cost component), for a total Corridor Funding Contribution of 24.30% 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 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 14.28%. On an actuarial value basis, the assets returned 6.66% compared with an assumed rate of return of 7.5%. The loss recognized for funding purposes was $6 million.

The measurement of liabilities also produced a loss this year in the amount of $1 million. This loss was due to increases in pay which exceeded those assumed (loss of $0.5 million), the timing of the retiree increase (loss of $2 million), the plan experience (loss of $1.5 million), and offset by a gain due to the base COLA being less than 3% (gain of $3 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 $3 million in apparent loss.

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 90.0% at July 1, 2003 to 87.1% 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 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.

SUMMARY OF VALUATION RESULTS *(continued)*

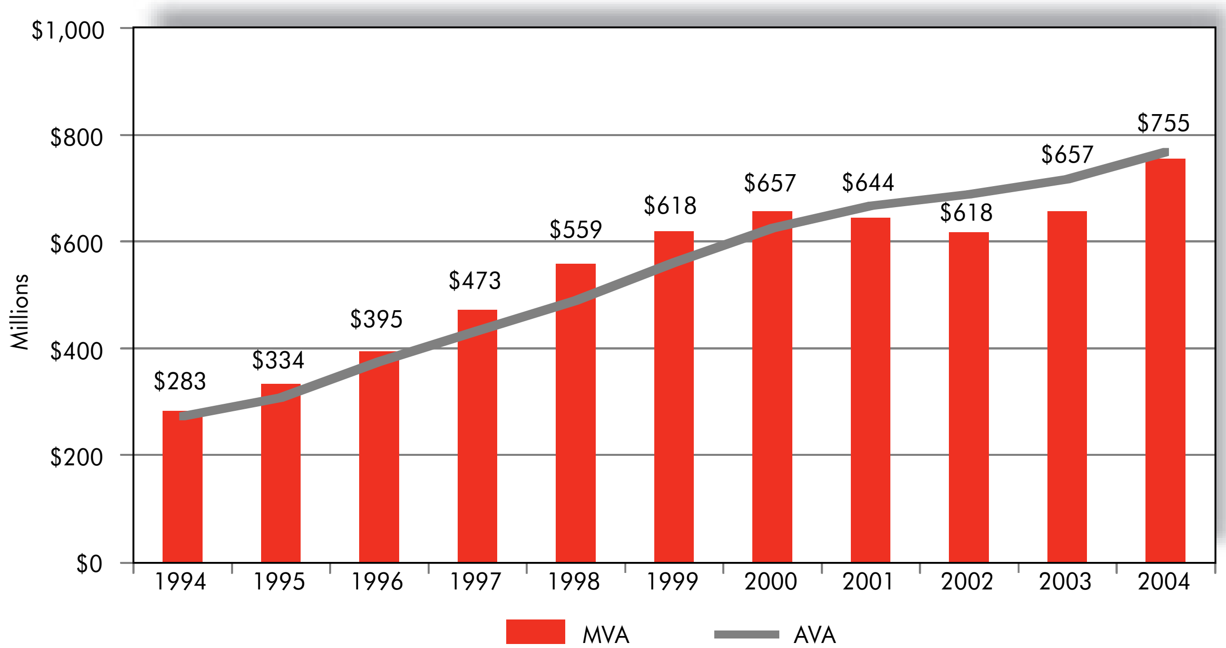
On this basis, the System's actuarial funded ratio also decreased from 93.8% at July 1, 2003 to 93.5% at July 1, 2004.

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

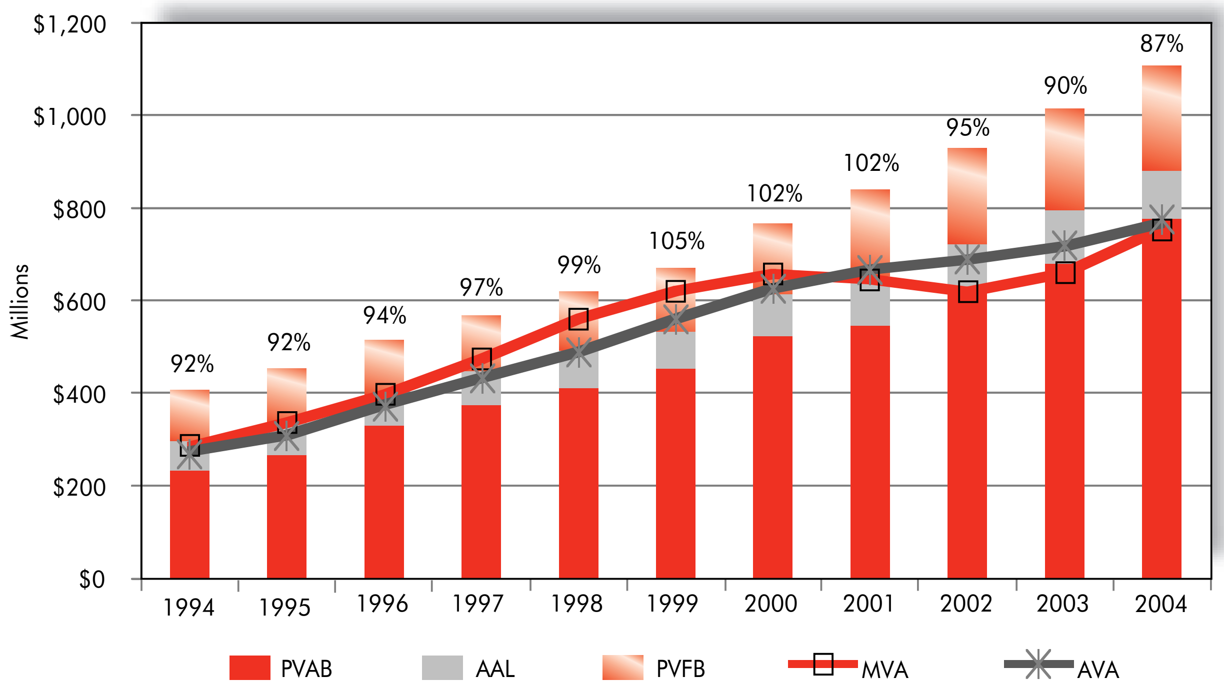


The positive growth in the market value of assets continued this year with a substantial return of over 14%. Due to the asset smoothing method in place, the actuarial value of assets (AVA) increased slightly over the year, but not as significantly as the market value (MVA).

Over the period July 1, 1994 to June 30, 2004 the System's assets returned approximately 8.0% per year measured at market value, compared to a valuation assumption of 7.5% per year.

SUMMARY OF VALUATION RESULTS *(continued)*

ASSETS AND LIABILITIES

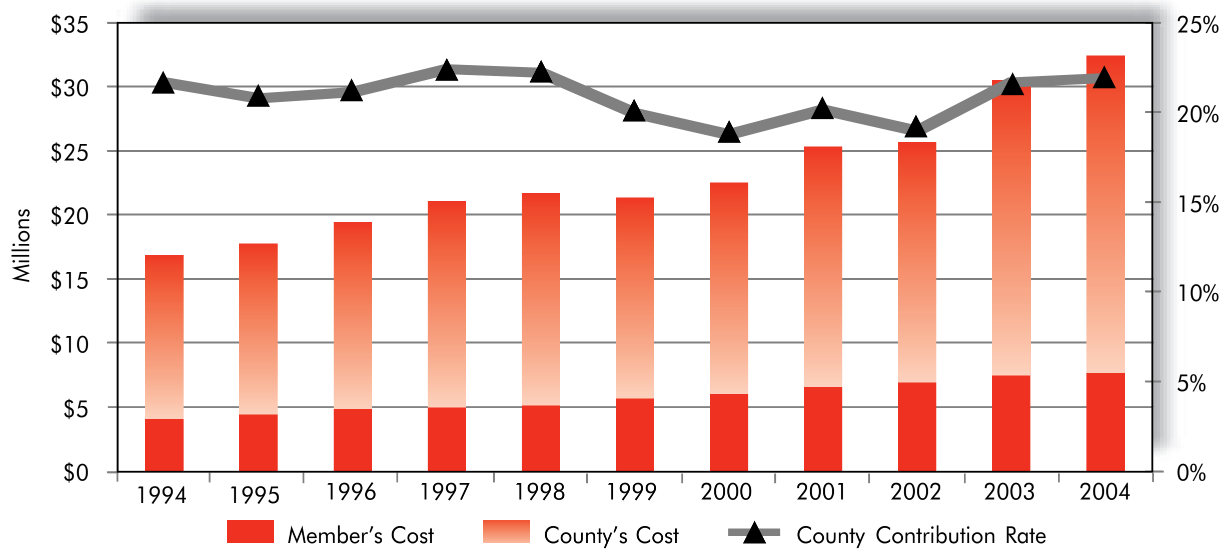


The three colored bars represent the three different measures of liability mentioned in this report. For funding purposes, the target amount is represented by the top of the gray bar. We compare the actuarial value of assets to this measure of liability in developing the funded percent. These are the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

As you can see, the System had its highest funded percentage (105%) 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 light 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)*

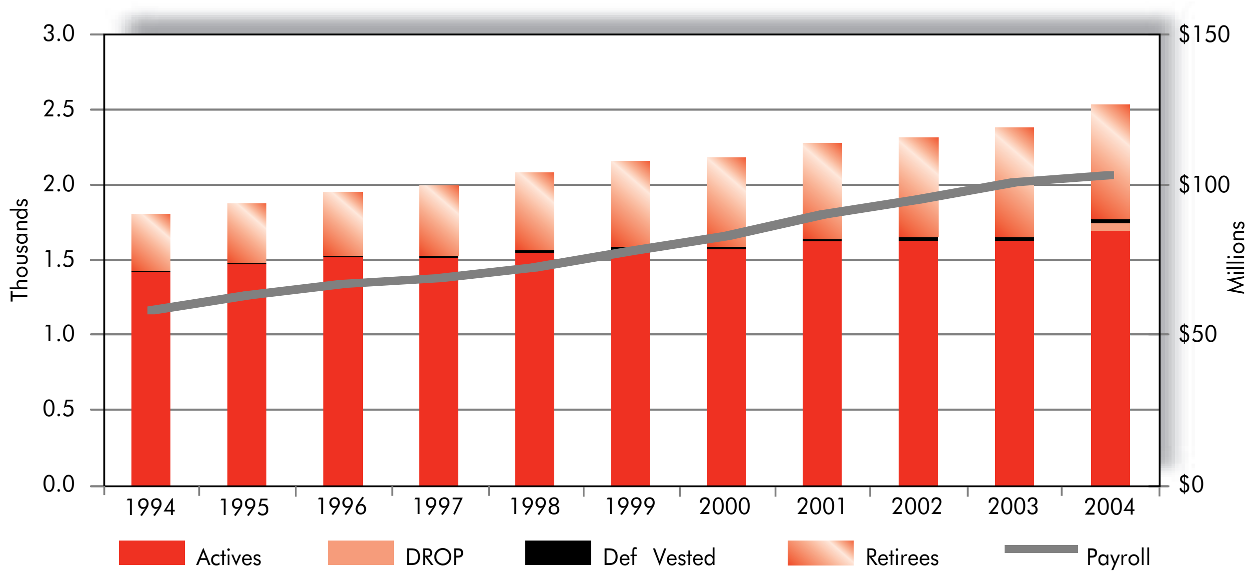
CONTRIBUTION RATES



The stacked bars in this graph show the contributions made by both the County and the members (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, depending on which plan the member participates 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 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.

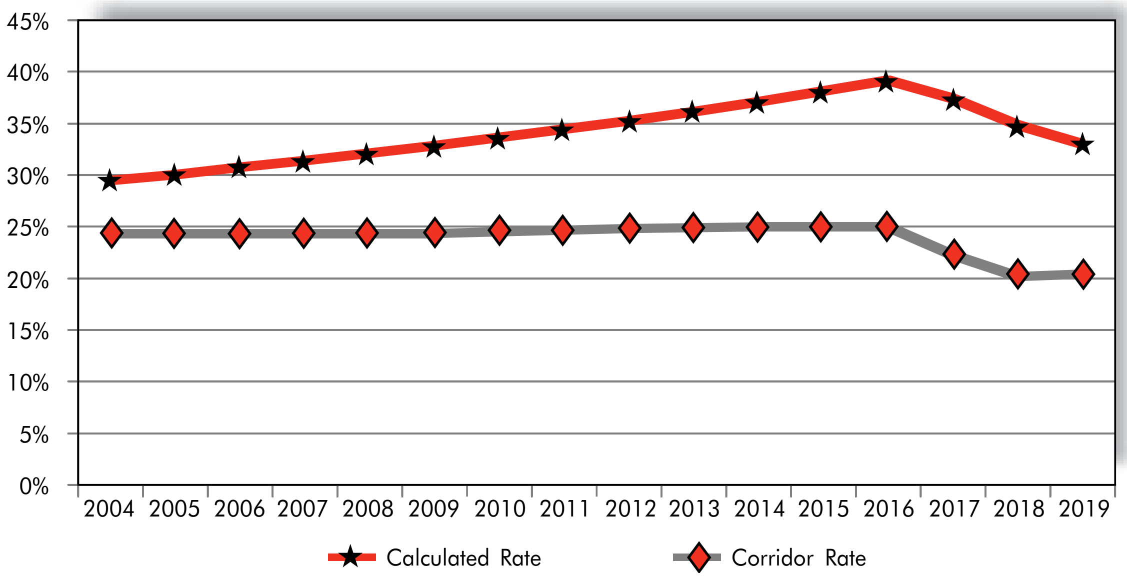
SUMMARY OF VALUATION RESULTS *(continued)*

Future Outlook

Base Line Projections

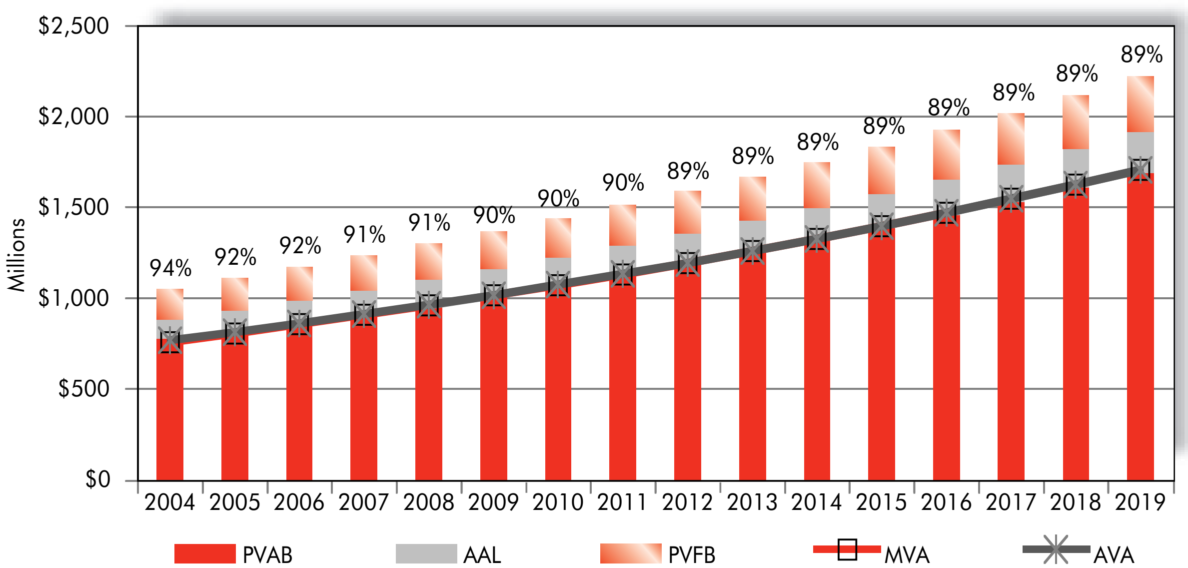
The two graphs below show the expected progress of the plan over the next 15 years assuming the System's assets earn 7.5% on their market value. The chart entitled "Plan Funding" shows the System remaining near the bottom of the corridor if all other actuarial assumptions are met as well as the 7.5% interest rate. The red line shows the actuarially calculated rate as if the corridor were not in place. In both cases, the decreases in 2017 and 2018 show plan change bases becoming fully amortized.

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 earlier. 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 94% to around 89%. Once outside of the 90% corridor floor, the County's rate will increase.

ASSETS AND LIABILITIES

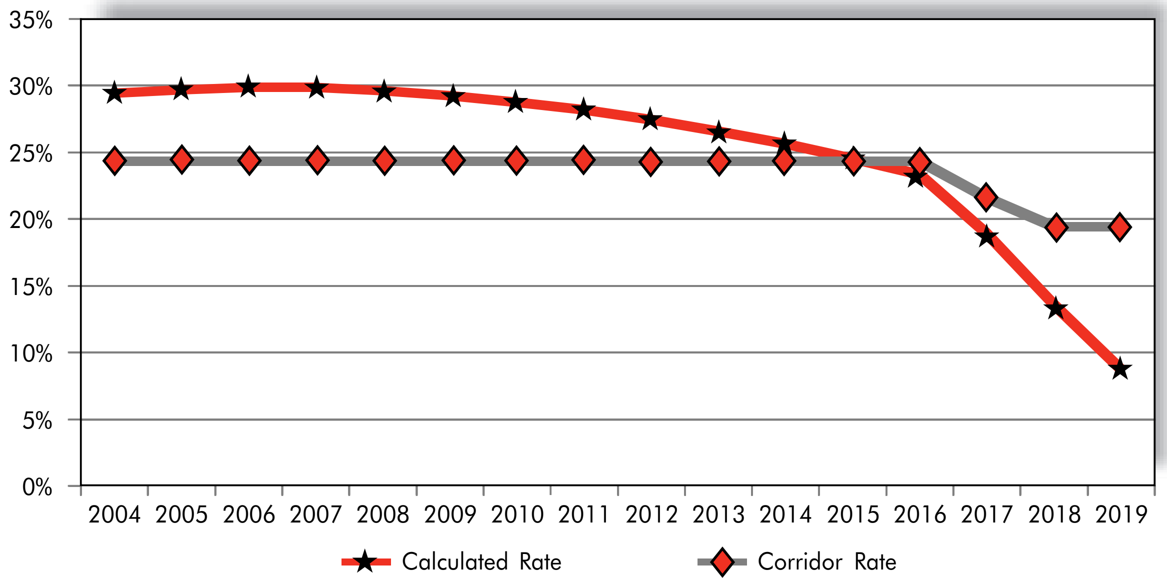


SUMMARY OF VALUATION RESULTS *(continued)*

Projections With Asset Returns of 9.0%

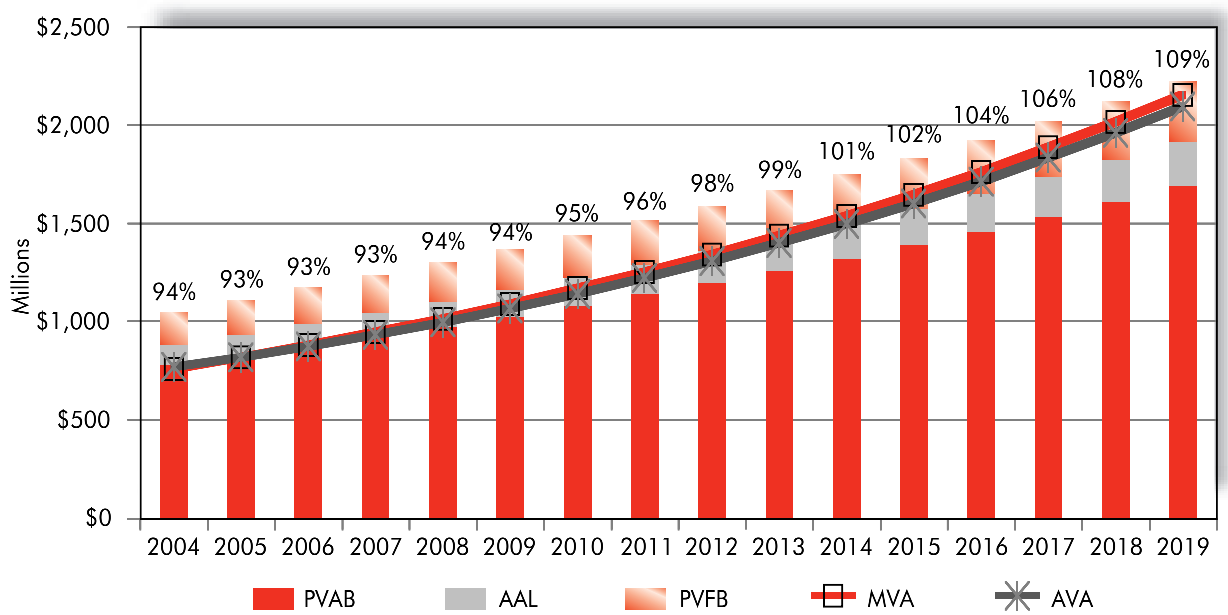
The future funding status of this System will be largely driven by the investment earnings. Due to the size of assets, as compared to liabilities, the System is in a highly leveraged position. This means that relatively minor changes in the market returns can have significant effects on the System's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

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	1,625	1,646	1.3%
DROP participants	NA	48	NA
Vested former members	25	26	4.0%
Retired members and beneficiaries	731	766	4.8%
Total	2,381	2,486	4.4%
Annual salaries of active members	$100,749,162	$102,959,655	2.2%
Annual benefits for retired members and beneficiaries — base only, not including supplements	$ 23,946,156	$ 27,963,468	16.8%

Assets and Liabilities	**July 1, 2003**	**July 1, 2004**	**% Change**
Total actuarial liability	$795,342,264	$881,014,726	10.8%
Assets for valuation purposes	715,797,245	767,357,454	7.2%
Unfunded actuarial liability	$79,545,019	$113,657,272	42.9%
Funded ratio	90.00%	87.10%	
Present value of accrued benefits	$678,696,202	$776,925,844	14.5%
Market value of assets	657,361,178	755,288,695	14.9%
Unfunded FASB accrued liability	$ 21,335,024	$ 21,637,149	1.4%
Accrued benefit funding ratio	96.86%	97.22%	

Contributions *(as a percentage of payroll)*	**Fiscal Year 2005**	**Fiscal Year 2006**
GASB Method:		
Employer normal cost rate	18.95%	19.12%
Unfunded actuarial liability contribution	6.83%	9.84%
Administrative expense	0.25%	0.25%
Total employer contribution — GASB method	26.03%	29.21%
Corridor Method:		
Employer normal cost rate	18.95%	19.12%
Increase due to ad-hoc COLA	2.70%	4.93%
Amortization of amount outside corridor	0.00%	0.00%
Administrative expense	0.25%	0.25%
Total employer contribution — corridor method	21.90%	24.30%

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 expense rate, plus amortization of post-2002 plan changes.

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

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

1994 Uninsured Pensioners Mortality Table + 5

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

Age	Male	Female
20	60	50
25	50	50
30	30	50
35	15	50
40	13	50
45	10	50
50	8	50

It is assumed that members who terminate before normal or early retirement age 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	3
35	4
40	6
45	10
50	17
55	24
60	24

**Disabilities are assumed to be all service-connected. Of these, 30% are assumed to receive Social Security benefits and 38% are assumed to receive Workers Compensation benefits.*

LONG-TERM ASSUMPTIONS USED *(continued)*

RETIREMENT

*Annual Retirement per 1,000 Eligible**

Age	Early	Normal
40	38	0
41	40	0
42	43	0
43	45	0
44	48	0
45	50	0
46	58	0
47	63	0
48	68	0
49	75	0
50	150	0
51	40	0
45-64	0	750
65	0	1,000

**75% are assumed to take DROP.*

MERIT/SENIORITY SALARY INCREASE

(In Addition to Across-the-Board Increase)

Age	Merit/Seniority Increase
25	4.5%
30	4.0%
35	2.8%
40	1.7%
45	0.7%
50	0.4%
55	0.1%

FAMILY COMPOSITION

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

SICK LEAVE CREDIT

It is assumed that retirees, deferred vested terminations, and deceased members receive an additional 3.0% of service credit due to sick leave.

CHANGE SINCE LAST VALUATION

Effective October 1, 2003, the System implemented DROP which changed the normal retirement assumption for age 45 to 64 from 75% to 80%. Furthermore, 75% 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:	0.25% 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	$(11,208,979)	$(34,733,822)	$(29,218,034)	$ (6,034,380)
Combined Liability Experience	(3,258,857)	14,531,374	(16,189,649)	(3,532,945)
Gain (or Loss) During Year From Financial Experience	(14,467,836)	(20,202,448)	(45,407,683)	(9,567,325)
Non-Recurring Items	17,110,280	(30,388,171)	-	27,183,266
Composite Gain (or Loss) During Year	$ 2,642,444	$(50,590,619)	$(45,407,683)	$17,615,941

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

Year Ended June 30	*Added to Rolls* No.	*Added to Rolls* Annual Allowance	*Removed From Rolls* No.	*Removed From Rolls* Annual Allowance	*On Rolls @ Yr. End* No.	*On Rolls @ Yr. End* Annual Allowance	% Increase Allowance	Average Allowance
1999	55	$2,148,156	7	$248,459	566	$15,183,122	14.30%	$26,825
2000	29	1,982,436	6	234,523	589	16,931,035	11.51%	28,745
2001	56	2,688,692	9	232,369	636	19,387,357	14.51%	30,483
2002	34	2,152,809	7	241,818	663	21,298,348	9.86%	32,124
2003	85	4,795,387	17	589,036	731	25,504,699	19.75%	34,890
2004	43	3,842,598	8	397,144	766	28,950,153	13.51%	37,794

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	$56,975,778	$211,276,417	$263,536,559	$560,044,161	100%	100%	111%
07/01/00	62,528,390	231,064,298	320,649,967	624,297,885	100%	100%	103%
07/01/01	63,630,360	267,348,939	320,860,989	666,599,019	100%	100%	105%
07/01/02	72,967,375	290,395,797	357,632,571	687,093,049	100%	100%	91%
07/01/03	75,564,839	347,474,506	372,302,919	715,797,245	100%	100%	79%
07/01/04	76,250,569	446,268,151	358,496,006	767,357,454	100%	100%	68%

SCHEDULE OF ADDITIONS BY SOURCE

Fiscal Year	Plan Member Contributions	Employer Contributions	Employer Contributions % of covered Payroll	Net Investment Income (loss)	Total Additions
2000	$6,002,735	$16,489,406	19.90%	$ 32,133,144	$ 54,625,285
2001	6,525,647	18,818,351	20.11%	(18,768,044)	6,575,954
2002	6,892,667	18,778,608	18.93%	(31,599,441)	(5,928,166)
2003	7,478,708	23,027,237	21.65%	33,576,497	64,082,442
2004	7,800,284	24,823,288	21.90%	94,008,180	126,631,752
2005	7,953,800	27,192,791	24.30%	78,696,049	113,842,640

SCHEDULE OF DEDUCTIONS BY TYPE

Fiscal Year	Benefit Payments	Refunds of Contributions	Administrative Expenses	Total Deductions
2000	$15,696,421	$670,016	$200,089	$16,566,526
2001	18,341,664	336,462	219,827	18,897,953
2002	20,116,400	290,966	220,125	20,627,491
2003	23,863,933	259,624	223,110	24,346,667
2004	27,954,431	452,616	297,188	28,704,235
2005	31,678,214	544,777	223,499	32,446,490

SCHEDULE OF BENEFIT PAYMENTS BY TYPE

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Total
2000	$10,217,461	$5,002,237	$213,311	$263,412	$15,696,421
2001	12,521,546	5,283,214	222,066	315,838	18,342,664
2002	13,996,618	5,546,273	244,173	329,336	20,116,400
2003	17,410,370	5,806,457	269,750	377,356	23,863,933
2004	21,252,301	6,148,149	159,241	394,740	27,954,431
2005	24,716,535	6,242,349	291,306	428,024	31,678,214

STATISTICAL

SCHEDULE OF RETIRED MEMBERS BY BENEFIT TYPE

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Total
2000	368	188	15	18	589
2001	411	191	15	19	636
2002	437	191	15	20	663
2003	503	191	17	20	731
2004	533	194	17	22	766
2005	569	193	17	20	799

SCHEDULE OF AVERAGE MONTHLY BENEFIT AMOUNTS

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Average
2000	$2,532	$2,325	$1,232	$1,315	$2,396
2001	2,697	2,419	1,276	1,356	2,540
2002	2,853	2,527	1,368	1,436	2,683
2003	3,166	2,659	1,460	1,477	2,948
2004	3,529	2,684	1,442	1,735	3,217
2005	3,696	2,855	1,471	1,843	3,399

FAIRFAX COUNTY RETIREMENT
ADMINISTRATION AGENCY

10680 MAIN STREET, SUITE 280 • FAIRFAX, VIRGINIA 22030