2004 COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

FAIRFAX COUNTY EMPLOYEES' RETIREMENT SYSTEM

A PENSION TRUST FUND OF FAIRFAX COUNTY, VIRGINIA

TABLE OF CONTENTS

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FAIRFAX COUNTY
V I R G I N I A

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

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

September 15, 2004

Dear Members of the Board of Trustees:

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

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

History

The Fairfax County Supplemental Retirement System was established on July 1, 1955. On February 26, 2001 the name of the System was changed to the Fairfax County Employees' Retirement System. The System is a cost-sharing multiple-employer public employee retirement system providing defined benefit pension plan coverage to full-time and certain part-time Fairfax County and Fairfax County Public Schools employees who are not covered by the Fairfax County Police Officers Retirement System, the Fairfax County Uniformed Retirement System, the Educational Employees' Supplementary Retirement System of Fairfax County (ERFC) or the Virginia Retirement System (VRS). There were 14,466 active members and 4,622 retirees participating in the System as of June 30, 2004.

Benefit Provisions

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

Capital Markets and Economic Conditions

Fiscal 2004 experienced a much-needed rebound in economic growth and worldwide equity markets after suffering three years of general market declines. Stimulative fiscal and monetary policies sent consumers on a buying spree which resulted in a surprising 8.2% increase in fiscal first-quarter Gross Domestic Product (GDP) growth. Investors responded by sending equity prices surging. The S&P 500 Index rose 19.1% during fiscal 2004, while the smaller-capitalization Russell 2000 Index advanced 33.4%. International equity returns also exceeded 30% for the fiscal-year period. Bonds were flat on the year as the Federal Reserve made clear that it was planning to return short-term interest rates to higher, more normalized levels. With the market rally, the Employees' Retirement System fund returned 18.2% for 2004, after management fees. This return placed the fund in the 22nd percentile of the Russell/Mellon public fund universe and the fund's three-year return placed it in the 8th percentile. The returns for the total fund exceeded the policy benchmark for the year, and, except for non-U.S. Equities, the returns of each major asset class exceeded the relevant indices.

After accounting for all cash flows, including contributions, expenses and benefit payments, the market value of the System's assets increased 16.1%, from $1.780 billion on June 30, 2003 to $2.068 billion on June 30, 2004.

Major Initiatives

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

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

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

As a result of the Board of Trustees' decision to allocate 5% of the portfolio to alternative investments, Bridgewater Associates was hired to manage an "All Weather" portfolio. The international equity asset class was reviewed and restructured during the fiscal year by replacing the single Lazard International account with a diversified approach by hiring Julius Baer and LSV for growth and value mandates and by funding a BGI Global Ascent account as an overlay on international equity index exposure.

Internal and Budgetary Controls

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

Funded Status

An actuarial valuation of the System to determine funding requirements is performed annually. The System's funding policy provides for periodic employer contributions at actuarially determined rates which will remain relatively level over time as a percentage of payroll and will accumulate sufficient assets to meet the costs of benefit payments when due. The valuation of the System performed as of July 1, 2003 indicated that the ratio of assets accumulated by the System to total actuarial accrued liabilities for benefits decreased from 90.4% to 84.6%. The Actuarial Section contains further information on the results of the July 1, 2003 valuation.

Investment Policies and Strategies

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

The Board receives quarterly reporting from staff to ensure compliance with its stated objectives and policy. Staff also monitors 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 Employees' Retirement System was prepared by the System's staff under the leadership of the Board of Trustees. I would like to thank the entire staff who have worked hard throughout the year to provide service to our members and to ensure the successful operation of the System. This report is intended to provide complete and reliable information for determining the financial status of the System. It is being submitted to the Board of Supervisors and other interested parties and is available to the public via the County's internet site located at www.fairfaxcounty.gov/retbrd/.

Respectfully submitted,

Laurnz A. Swartz
Executive Director

BOARD OF TRUSTEES

ADMINISTRATIVE ORGANIZATION

Administrative Staff

Laurnz A. Swartz
Executive Director

Thomas H. Weaver
Senior 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

Bridgewater Associates, Inc.
Westport, CT

The Clifton Group
Minneapolis, MN

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

DSI International Management, Inc.
Norwalk, CT

JP Morgan Fleming Investment Management, Inc.
New York, NY

Julius Baer Investment Management
New York, NY

LSV Asset Management
Chicago, IL

MacKay Shields LLC
New York, NY

Peregrine Capital Management
Minneapolis, MN

Post Advisory Group LLC
Los Angeles, CA

Shenkman Capital Management
New York, NY

Standish Mellon Asset Management
Pittsburgh, PA

Trust Company of the West
Los Angeles, CA

Thomson Horstmann & Bryant, Inc.
Saddle Brook, NJ

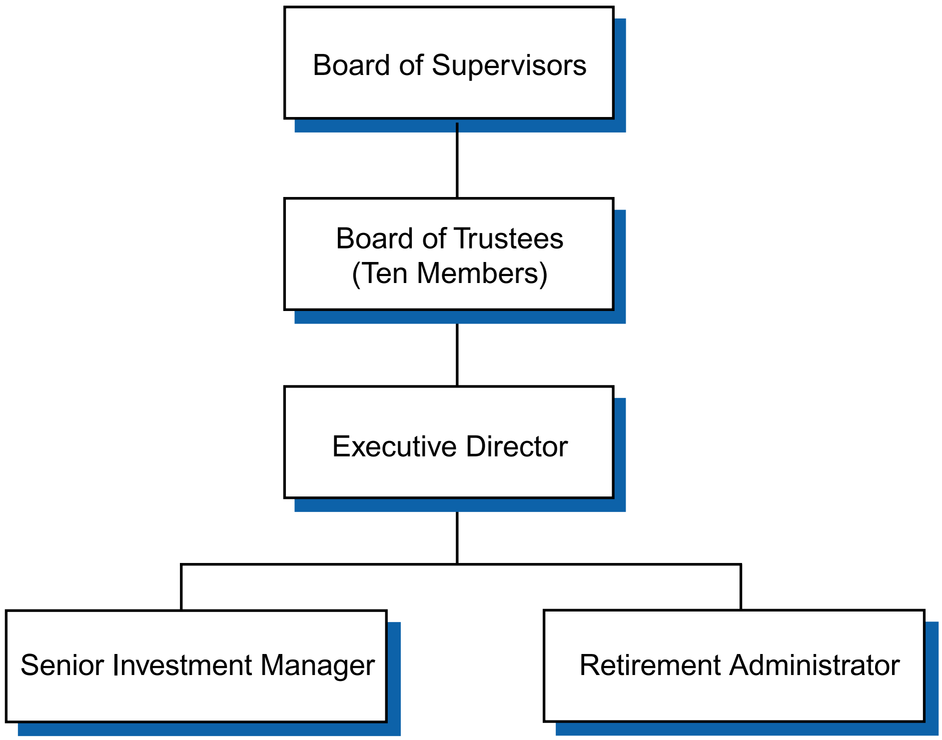
Robert E. Torray & Co., Inc.
Bethesda, MD

Wanger Asset Management, L.P.
Chicago, IL

Custodial Bank

Mellon Global Securities Services
Pittsburgh, PA

ORGANIZATIONAL CHART



SUMMARY OF PLAN PROVISIONS

Membership in the Fairfax County Employees' Retirement System includes most County employees working at least 20 hours per week as well as part-time and support staff employees from the Fairfax County Public Schools. The System consists of two Plans, Plan A and Plan B which have slightly different employee contribution rates and slightly different benefits. In all other respects, the plans are identical. The employee has the option to enroll in either plan within 30 days of employment. This choice is irrevocable. Employees who make no election default to retirement Plan A.

The general provisions of the Employees' Retirement System are as follows:

Plan A

Contribution Rate:

4% of base salary up to the maximum Social Security wage base plus 5.333% of base salary over the wage base.

Benefit:

1.8% of average final compensation (highest consecutive three years) up to the Social Security Breakpoint times creditable service plus 2% of average final compensation which exceeds the Social Security Breakpoint times creditable service. The total benefit is then increased by 3%. The Social Security Breakpoint is an average of Social Security wage bases for the last 35 years before a member reaches age 65.

In addition, at the time of normal service retirement, a Pre-Social Security Benefit is payable at the rate of 1% of average final compensation up to the Social Security Breakpoint times creditable service. This benefit will be payable until the member reaches the age of eligibility for unreduced Social Security benefits. The total benefit is then increased by 3%.

Plan B

Contribution Rate:

5.333% of base salary.

Benefit:

2% of average final compensation (highest consecutive three years) times creditable service. The total benefit is then increased by 3%.

In addition, at the time of normal service retirement, a Pre-Social Security Benefit is payable at the rate of 1% of average final compensation up to the Social Security Breakpoint times creditable service. This benefit will be payable until the member reaches the age of eligibility for unreduced Social Security benefits. The total benefit is then increased by 3%.

Both Plans

Normal Retirement:

is either age 65 with at least 5 years of service or at least age 50 when the member's age plus creditable service (including sick leave) totals 80 or more.

SUMMARY OF PLAN PROVISIONS

(Continued)

Early Retirement:

is at age 50 or older when the member's age plus creditable service totals 75 or more. Reduction factors are applied to the basic formula for early retirement and no Pre-Social Security Benefit is payable.

Deferred Vested Retirement:

is available for vested members (vesting is at 5 years of creditable service) who leave their contributions in the System when they terminate. These members are entitled to their normal retirement benefit based on service with the County at age 65 or a reduced benefit earlier when they reach age 50 and age plus years of creditable service equal 75. This benefit is then increased by 3%.

Service-Connected Disability Retirement:

is available for members, regardless of their length of service, who become disabled as a result of a job-related illness or injury. Benefits are $66^2/_3$% of average final compensation.

Ordinary Disability Retirement:

is available for vested members who become disabled due to an injury or illness that is not job-related. Benefits are 2% of average final compensation (highest consecutive three years) times creditable service. The total benefit is then increased by 3%.

Death Benefits:

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 — Refund of any of the member's contributions and interest not already paid in benefits will be payable to the named beneficiary(ies) unless the member has elected the irrevocable Joint and Last Survivor Option which provides a benefit to the member's spouse for life. At retirement, the member may choose to have his or her spouse receive 50%, $66^2/_3$%, 75% or 100% of the member's reduced annuity upon the member's death. The member's annuity is reduced by a percentage based on the difference in age between the member and his or her spouse. If the spouse pre-deceases the member, the annuity is restored to what it would have been if this option had not been elected.

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.

Cost of Living Benefit:

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

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

The Board of Supervisors
County of Fairfax, Virginia

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

We have audited the statements of plan net assets of the Fairfax County Employees' Retirement System (the System), a pension trust fund of the County of Fairfax, Virginia, as of June 30, 2004 and 2003, and the related statements of changes in plan net assets for the years then ended. These basic financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the plan net assets as of June 30, 2004 and 2003, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 12 through 14 and the required supplementary information on pages 22 and 23 are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

KPMG LLP

September 24, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Overview of Financial Statements and Accompanying Information

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

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

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

Financial Analysis

Summary of Plan Net Assets. As indicated in the following Summary Statement of Plan Net Assets, the net assets held in the System increased $287.4 million or 16.1% during fiscal 2004 and $63.2 million or 3.7% during fiscal 2003. These changes are primarily due to increases in fair value of investments during fiscal 2004 and 2003.

Return on Investments. The System's return on investments net of investment management fees for fiscal 2004 and 2003 were 18.2% and 5.6%, respectively. The System's domestic equities had a 23.4% return for fiscal 2004 and a 0.3% total return in fiscal 2003. The international developed equity portfolios returned 18.4% for fiscal 2004 after a 3.1% decline for fiscal 2003. The emerging markets equity portfolios returned 33.5% for fiscal 2004 and 1.1% for fiscal 2003. The System's fixed income investment portfolios returned 6.1% for fiscal 2004 and 11.9% for fiscal 2003. The System's REIT investment portfolio returned 30.7% for fiscal 2004 and 4.1% for fiscal 2003. Additional investment market commentary is provided in the Investment Section of this document.

Summary of Additions and Deductions. As presented in the Summary of Additions and Deductions (also included in this section), both fiscal 2004 and 2003 experienced overall increases due to investment income. Investment performance was very good in relative terms during both years. The System's return on investments ranked in the top quartile of public funds during both fiscal 2004 and 2003.

Additions. Total additions increased $235.0 million from fiscal 2003 to 2004 and $166.6 million from fiscal 2002 to 2003. These increases were due primarily to increases in investment returns. Employer contributions increased $2.4 million or 7.5% from fiscal 2003 to 2004 and $0.9 million or 2.9% from fiscal 2002 to 2003. These increases are attributable to increases in the covered payroll base during the two years and an increase in the employer contribution rate in 2004. Plan member contributions

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

increased during both years as a result of the increase in covered payroll. The System experienced net investment gains during both fiscal years. The fair value of investments increased $258.6 million during fiscal 2004 and $25.0 million during fiscal 2003. Interest and dividend income was $70.9 million during fiscal 2004, and $71.9 million during fiscal 2003. Investment activity expense increased $2.4 million, due to investment management fees computed on the increasing investment values. Net securities lending income increased $1.4 thousand in fiscal 2004 compared with the same period a year ago.

Deductions. Benefit payments increased 12.9% from fiscal 2003 to 2004 and 12.4% from fiscal 2002 to 2003. The number of retirees and beneficiaries collecting benefits and the amount of the average benefit increased in both years and were responsible for the increase in the expense. Retirees received cost of living increases of 3.6% as of July 1, 2003 and 3.0% as of July 1, 2002. Refunds and other expenses increased 12.4% from fiscal 2003 to 2004 and 6.8% from fiscal 2002 to 2003. The amount of refunds varies from year to year based on changes in employee turnover rates and decisions of terminated employees.

The actuarial valuation performed as of July 1, 2003, showed the System's funded status at 84.6%, a decrease of 4.2 percentage points from the July 1, 2002 funded percentage of 90.4%.

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 financial information, contact the Fairfax County Retirement Administration Agency, 10680 Main Street, Suite 280, Fairfax, Virginia 22030. This report can also be found on the County's internet site at www.fairfaxcounty.gov/retbrd/.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Summary Statement of Plan Net Assets

	2004	2003	Difference	2002	Difference
Assets					
Total cash and investments	$2,194,426,651	$1,904,782,300	$289,644,351	$1,877,949,208	$ 26,833,092
Total receivables	47,210,706	23,626,194	23,584,512	75,173,098	(51,546,904)
Total Assets	2,241,637,357	1,928,408,494	313,228,863	1,953,122,306	(24,713,812)
Liabilities	174,122,032	148,294,754	25,827,278	236,186,735	(87,891,981)
Net Assets	$2,067,515,325	$1,780,113,740	$287,401,585	$1,716,935,571	$ 63,178,169

Summary of Additions and Deductions

	2004	2003	Difference	2002	Difference
Additions					
Contributions					
Employer	$ 34,418,051	$31,983,708	$ 2,434,343	$ 31,083,805	$ 899,903
Plan members	26,594,161	25,467,082	1,127,079	24,217,436	1,249,646
Other income	1,122,434	-	1,122,434	-	-
Net investment income	319,741,487	89,440,289	230,301,198	(75,059,747)	164,500,036
Total Additions	381,876,133	146,891,079	234,985,054	(19,758,506)	166,649,585
Deductions					
Benefit payments	89,675,104	79,442,356	10,232,748	70,703,828	8,738,528
Refunds and other	4,799,444	4,270,554	528,890	4,582,471	(311,917)
Total Deductions	94,474,548	83,712,910	10,761,638	75,286,299	8,426,611
Net Change	$287,401,585	$63,178,169	$224,223,416	$(95,044,805)	$158,222,974

STATEMENTS OF PLAN NET ASSETS

as of June 30, 2004 and 2003

Assets	2004	2003
Cash and short-term investments		
Equity in County's pooled cash and temporary investments	$ 2,753,768	$ 4,360,347
Cash collateral received for securities on loan	126,574,500	125,085,313
Short-term investments	123,726,493	114,640,946
Total cash and short-term investments	253,054,761	244,086,606
Receivables		
Contributions	1,317,036	914,714
Accrued interest and dividends	8,471,463	7,932,458
Securities sold	37,422,207	14,779,022
Total receivables	47,210,706	23,626,194
Investments, at fair value		
U.S. Government obligations	57,485,270	53,984,312
Asset-backed securities	167,189,063	137,563,371
Corporate bonds	194,038,238	191,559,760
Common and preferred stock	919,829,490	737,668,112
Pooled and mutual funds	602,829,829	539,920,139
Total investments	1,941,371,890	1,660,695,694
Total assets	2,241,637,357	1,928,408,494
Liabilities		
Cash collateral received for securities on loan	126,574,500	125,085,313
Purchase of investments	44,452,470	20,393,272
Accounts payable and accrued expenses	3,095,062	2,816,169
Total liabilities	174,122,032	148,294,754
Net assets held in trust for pension benefits	**$2,067,515,325**	**$1,780,113,740**

(A schedule of funding progress is presented on page 22.)

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN PLAN NET ASSETS

For the Years Ended June 30, 2004 and 2003

Additions	**2004**	**2003**
Contributions		
Employer	$ 34,418,051	$ 31,983,708
Plan members	26,594,161	25,467,082
Other income	1,122,434	-
Total contributions	62,134,646	57,450,790
Investment income from investment activities		
Net appreciation in fair value of investments	258,633,682	24,969,994
Interest	51,434,136	52,881,972
Dividends	19,455,494	18,986,056
Total investment income	329,523,312	96,838,022
Investment activity expense		
Management fees	9,284,587	6,983,778
Custodial fees	225,055	214,131
Consulting fees	86,000	98,500
Allocated administration expense	508,655	422,393
Total investment expense	10,104,297	7,718,802
Net income from investment activities	319,419,015	89,119,220
From securities lending activities		
Securities lending income	1,755,436	1,662,248
Securities lending expenses		
Borrower rebates	1,284,259	1,204,713
Management fees	148,705	136,466
Total securities lending activities expenses	1,432,964	1,341,179
Net income from securities lending activities	322,472	321,069
Total net investment income	319,741,487	89,440,289
Total additions	381,876,133	146,891,079
Deductions		
Annuity benefits	81,795,303	71,933,909
Disability benefits	5,905,127	5,553,041
Survivor benefits	1,974,674	1,955,406
Refunds	3,780,390	3,425,017
Administrative expense	1,019,054	845,537
Total deductions	94,474,548	83,712,910
Net increase	287,401,585	63,178,169
Net assets held in trust for pension benefits		
Beginning of fiscal year	1,780,113,740	1,716,935,571
End of fiscal year	**$2,067,515,325**	**$1,780,113,740**

See accompanying notes to financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

The Fairfax County Employees' Retirement System ("System" or "plan") 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 the trade date. These transactions are not finalized until the settlement date, which occurs approximately three business days after the trade date. The amounts of trade receivables and payables are shown as receivables and payables on the Statements of Plan Net Assets. Cash received as collateral on securities lending transactions and investments made with such cash are reported as assets along with a related liability for collateral received.

Equity in County's pooled cash and temporary investments. The System maintains cash with the County, which invests cash and allocates interest earned, net of a management fee, on a daily basis to the System based on the System's average daily balance of equity in pooled cash. As of June 30, 2004 and 2003 the bank balance of the County's public deposits was either insured by the Federal Deposit Insurance Corporation or through the State Treasury Board pursuant to the provisions of the Security for Public Deposit Act.

B. Plan Description and Contribution Information

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

Retirees and beneficiaries receiving benefits	4,388
Terminated plan members entitled to but not yet receiving benefits	396
Active plan members	14,065
Total	**18,849**

Plan Description. The System is a cost-sharing multiple-employer defined benefit pension plan which covers employees of the County and its component units. The plan covers full-time and certain part-time County, Public Schools, Economic Development Authority and Fairfax County Redevelopment and Housing Authority employees who are not covered by other plans of the County or the Virginia Retirement System. Benefit provisions are established and may be amended by County ordinance. All benefits vest at five years of service. To be eligible for normal retirement, an individual must meet the following criteria: (a) attain the age of 65 with five years of service, or (b) attain the age of 50 with

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

age plus years of service being greater than or equal to 80. 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. The benefit for early retirement is actuarially reduced and payable at early termination.

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

Contributions. The contribution requirements of the System members are established and may be amended by County ordinances. Members may elect to join Plan A or Plan B. Plan A requires member contributions of 4 percent of compensation up to the social security wage base and 5.33 percent of compensation in excess of the wage base. Plan B requires member contributions of 5.33 percent of compensation. The County is required to contribute at an actuarially determined rate; the rates for the fiscal years ended June 30, 2004 and 2003 were 6.13 percent and 6.00 percent of annual covered payroll, respectively.

Deductions. The deductions from the System include the payment of retiree and beneficiary benefits, 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 51.1-803 of the Code authorizes fiduciaries of the System to purchase investments *with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with the same aims. Such investments shall be diversified so as to minimize the risk of large losses unless under the circumstances it is clearly prudent not to do so.*

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

Derivative Financial Instruments. As permitted by the Code described above, the System holds off-financial-statement derivatives in the form of exchange-traded financial futures contracts and swap contracts in accordance with Board of Trustees' policy.

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. Exchange-traded financial futures contracts are used to adjust asset class exposures to achieve target allocations to U.S. and foreign equities and fixed income in the form of U.S. Treasury securities. Futures provide a means to achieve these exposures in a more efficient way and at lower transaction costs. To achieve the U.S. equity exposure, S&P 500 and Russell 2000 futures contracts are purchased and sold. To obtain the target level of exposure to foreign equities, multiple foreign stock index and

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

currency contracts are purchased and sold. To maintain the target level of exposure to fixed income, three U.S. Treasury futures contracts are purchased and sold. At June 30, 2004 the S&P 500 and Russell 2000 futures contract notional value was a net of $104,188,700, the foreign equity futures notional contract value was $56,894,758, the foreign currency futures notional value was $49,194,669 and the net U.S. Treasury notional value was $(25,695,810). Hang Seng futures contracts, which have a notional value of $3,466,544, mature in July, 2004. The remaining futures all mature in September, 2004. At June 30, 2003 the S&P 500 and Russell 2000 futures contract notional value was a net of $125,238,875, the foreign equity futures notional contract value was $28,610,732, the foreign currency futures notional value was $26,518,748 and the net U.S. Treasury notional value was $(41,292,317). Hang Seng futures contracts, which had notional value of $1,413,352, matured in July, 2003. The remaining futures all matured in September, 2003. 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 indexes.

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. Total return interest rate swap contracts are held by one investment manager to replicate the benchmark set for that manager, which is a customized Lehman Brothers U.S. inflation linked index customized to the duration of the Lehman Brothers U.S. Treasury Index. Under the swap, the System pays the counterparty a floating rate payment based on 3-month U S Dollar-LIBOR-British Bankers' Association. In addition, a total return amount is paid or received based on the total return of the underlying security. The effective date of the swap is June 2, 2004 and the swap matures on January 31, 2005. Payment occurs upon termination on February 3, 2005. The fair and notional values of the swap at June 30, 2004 were $(283,342) and $51,518,926, respectively. 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 or loss to be realized. The market risk is equivalent to holding exposure to the index.

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

The System did not impose any restrictions during fiscal 2004 or 2003 on the amounts of loans the lending agent made on its behalf. The custodian provides full indemnification to the System for any losses that might occur in the program due to the failure of a broker/dealer to return a borrowed security or failure to pay the System for income earned on the securities while on loan. Securities on loan for securities collateral are classified in the following schedule of investments according to the category of the collateral received. Securities on loan at each year-end for cash collateral are unclassified as the cash collateral is invested in a collective collateral investment pool. At each year end, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts the borrowers owed the System.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

As of June 30, 2004 and 2003, the market values of securities on loan were $128,530,533 and $112,111,173, respectively. Cash received as collateral and the related liabilities of $126,574,500 as of June 30, 2004 and $125,085,313 as of June 30, 2003 are shown on the Statements of Plan Net Assets. Securities received as collateral are not reported as assets since the System does not have the ability to pledge or sell the collateral absent borrower default.

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

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

Category 1 Investments *(Held by System's agent in System's name)*	***2004***	***2003***
Short-term investments		
Repurchase agreements	$ 46,568,893	$ 53,448,991
Commercial paper	21,407,686	-
Asset-backed securities		
Not on securities loan	8,057,961	11,023,504
On securities loan for other collateral	195,213	-
U.S. Government bonds	18,890,531	12,286,622
Corporate bonds	25,683,148	9,432,246
Certificates of deposit	-	22,000,000
Subtotal	120,803,432	108,191,363
U.S. Government Obligations		
Not on securities loan	8,070,105	9,017,376
On securities loan for other collateral	122,032	1,104,312
Asset-backed securities	167,189,063	135,147,680
Corporate and other bonds		
Not on securities loan	157,713,869	161,254,811
On securities loan for other collateral	8,386,662	-
Common and preferred stock		
Not on securities loan	879,294,266	709,344,710
On securities loan for other collateral	3,157,403	159,262
Total Category 1 Investments	**$1,344,736,832**	**$1,124,219,514**

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

	2004	2003
Not Subject to Classification		
Mutual funds	$ 602,829,829	$ 539,920,139
Short-term investment fund	862,498	349,388
Cash collateral for securities on loan	126,574,500	125,085,313
Investments held by broker-dealers under securities loans with cash collateral		
Short-term investments	2,060,563	6,100,195
U.S. Government obligations	49,293,133	43,862,624
Common and preferred stock	37,377,821	28,164,140
Corporate and other bonds	27,937,707	30,304,949
Asset-backed securities	-	2,415,691
Total Uncategorized Investments	**846,936,051**	**776,202,439**
Total Investments	**$2,191,672,883**	**$1,900,421,953**

Reconciliation to Investments on Statement of Plan Net Assets

	2004	2003
Total above	$2,191,672,883	$1,900,421,953
Less: short-term investments		
Cash collateral for securities on loan	(126,574,500)	(125,085,313)
Short-term investments not on loan for cash collateral	(120,803,432)	(108,191,363)
Short-term investments on loan for cash collateral	(2,060,563)	(6,100,195)
Short-term investment fund	(862,498)	(349,388)
Investments on Statement of Plan Net Assets	**$1,941,371,890**	**$1,660,695,694**

D. Income Taxes

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

REQUIRED SUPPLEMENTARY INFORMATION

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

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability - AAL Entry Age (b)	Unfunded AAL- UAAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/1998	$1,324,132,857	$1,334,468,657	$ 10,335,800	99.23%	$381,220,936	2.71%
7/1/1999	1,523,310,967	1,467,043,776	(56,267,191)	103.84%	399,732,318	(14.08%)
7/1/2000	1,694,416,094	1,690,537,763	(3,878,331)	100.23%	449,231,705	(0.86%)
7/1/2001	1,807,813,497	1,857,801,915	49,988,418	97.31%	476,327,250	10.49%
7/1/2002	1,854,088,532	2,051,677,465	197,588,933	90.37%	507,905,310	38.90%
7/1/2003	1,903,970,061	2,251,187,396	347,217,335	84.58%	530,215,933	65.49%

Analysis of the dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing plan net assets as a percentage of the actuarial accrued liability provides one indication of the System's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the system. Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the system's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the system.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
1999	$24,143,832	100%
2000	27,133,595	100%
2001	29,960,984	100%
2002	31,083,805	100%
2003	36,408,121	88%
2004	51,992,031	66%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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

Valuation date	July 1, 2003
Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	Weighted average of 14 years
Asset valuation method	3-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases*	4.5%
*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 the normal cost, amortization of the unfunded actuarial accrued liability and an allowance for administrative expenses. The normal cost is a level percent of payroll cost which, along with the member contributions, will pay for projected benefits at retirement for the average plan participant. The actuarial accrued liability is that portion of the present value of projected benefits that will not be paid by future employer normal costs or member contributions. The difference between this liability and the funds accumulated as of the same date is the unfunded actuarial accrued liability. The allowance for administrative expenses is based upon the plan's actual administrative expenses.

Some effect of investment losses from fiscal 2001 and 2002 are impacting the employer contribution rate developed during the July 1, 2003 valuation. The impact of these losses resulted in the computation of a contribution rate of 11.70% for fiscal 2005, per the GASB methodology, an increase of 2.44% over the GASB computed rate of 9.26% for fiscal 2004. Beginning with fiscal 2003, the funding policy was revised to further stabilize the contribution rate. The methodology now in place sets the employer contribution rate equal to the normal cost and allowance for administrative expense. Amortization of the unfunded liability is included in the contribution rate only for benefit changes or if the actuarial funding ratio falls outside a corridor of 90% and 120%. Use of the corridor method results in an adopted rate of 8.08% for fiscal 2005, an increase of 1.95% over the fiscal 2004 adopted rate of 6.13%.

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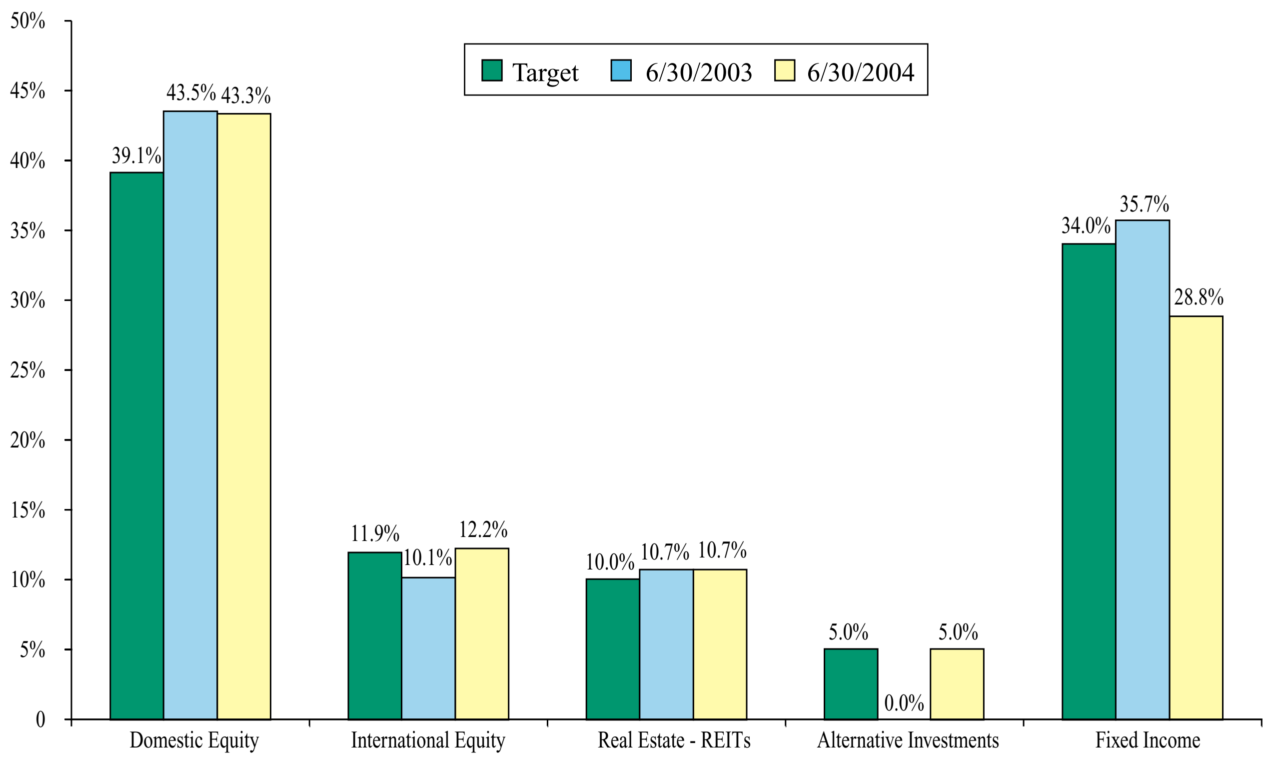
OVERVIEW

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

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. In addition, a tactical asset allocation program is in place. As part of the tactical program, equities may be overweighted by up to 6%. As of June 30, 2004, equities were overweighted by 3.5%. The following graph shows the target and actual asset allocations as of June 30, 2004 and 2003.



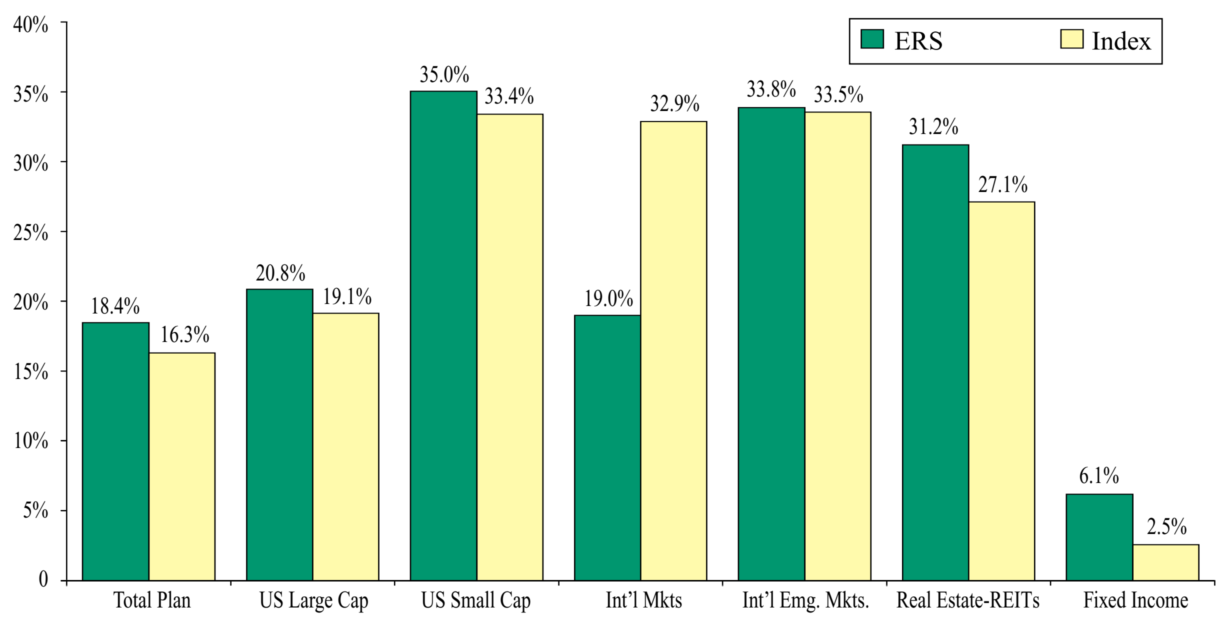
The Board of Trustees hires investment management firms and provides each firm with a mandate, and benchmark index or a blend of indices against which the performance of the account is measured. Each managed account has its own investment guidelines outlining the nature of the investments to be held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

CAPITAL MARKETS AND ECONOMIC CONDITIONS

Financial and Economic Summary

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

One-Year Asset Class Returns



CAPITAL MARKETS AND ECONOMIC CONDITIONS

(Continued)

Equity Markets

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

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

Bond Markets

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

CAPITAL MARKETS AND ECONOMIC CONDITIONS
(Continued)

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

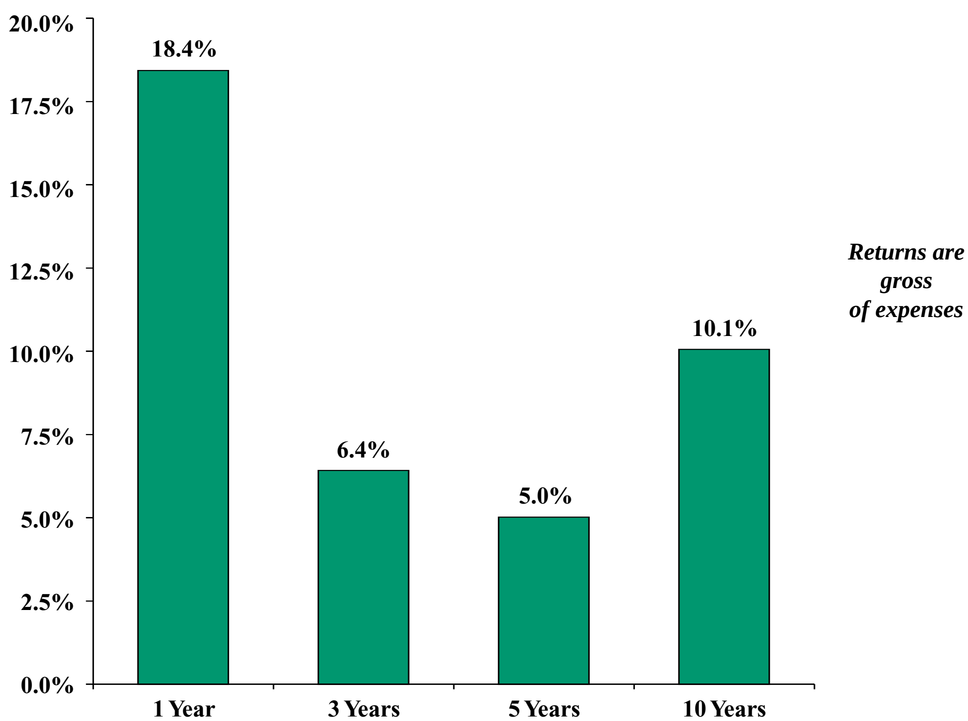
Real Estate

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

System

The Employees' Retirement System operates a sound and diversified investment program with disciplined asset re-balancing to achieve strategic long-term goals. That disciplined investment process has been effective in achieving a long-term record of consistent asset growth.

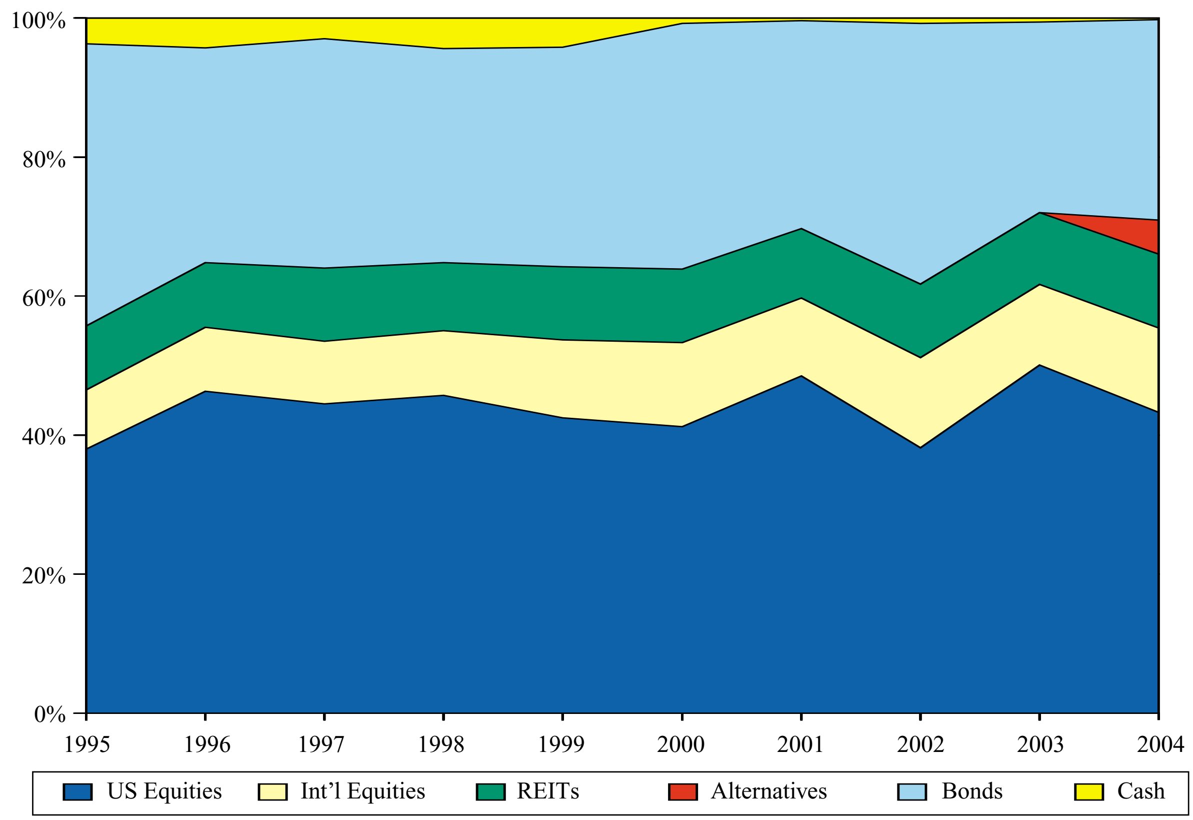
Compound Annual Return on Investment Portfolio



CAPITAL MARKETS AND ECONOMIC CONDITIONS
(Continued)

On a market value basis, the total net assets held in trust rose from $1,780.1 million at June 30, 2003 to $2,067.5 million at June 30, 2004. For fiscal 2004, investments provided a return of +18.2%, net of fees, reflecting a sharply improved economic environment. The System's annualized rate of return, net of fees, was +6.1% over the last three years and +4.7% over the last five years. These System investment returns ranked in the top quartile of a universe of public plan sponsors during fiscal 2004 and 2003, and were in the top third of public funds in 2002. The Employees' Retirement System's annualized net return over the last five years has trailed the rate of 7.5%, the long-term return used for actuarial purposes. At year-end 2004, the System's assets were allocated by manager mandate as follows: domestic equities – 43%; international equities – 12%; fixed income securities – 29%; real estate – 10%; alternative investments – 5%; and cash equivalents – 1%.

Asset Allocation 1995 - 2004



ASSET ALLOCATION BY CATEGORY AND INVESTMENT MANAGER

June 30, 2004

Asset Class / Manager	Investment Style	Total Assets	% of Total Net Assets
Domestic Equities			
Trust Company of the West	Large Cap Growth	$ 177,970,885	8.6%
Robert E. Torray	Large Cap Value	141,729,492	6.8%
DSI International Management	Enhanced S&P 500 Index	113,108,121	5.5%
Wanger Asset Management	Small Cap Core	109,185,860	5.3%
BGI Equity Value Fund*	Large Cap Value Index	92,867,393	4.5%
BGI Equity Growth Fund*	Large Cap Growth Index	62,236,710	3.0%
Thomson Horstmann & Bryant	Small Cap Value	53,971,993	2.6%
JP Morgan US Smartindex*	Enhanced S&P 500 Index	47,126,169	2.3%
International Equities			
BGI Emerging Markets Fund*	Emerging Markets Index	78,154,476	3.8%
LSV Asset Management	Developed Market Value	62,165,946	3.0%
Julius Baer Investment Mgt.	Developed Market Growth	61,221,254	3.0%
BGI Global Ascent Fund*	International Equity & Currency	54,567,977	2.6%
Alternative Investments			
Bridgewater Assoc. All-Weather*	Multi-Asset Real Return	103,359,379	5.0%
Real Estate			
Cohen & Steers	Real Estate Investment Trusts	226,321,110	10.9%
Core Fixed Income			
Bridgewater Assoc. TIPS+	Enhanced TIPS Index	117,197,977	5.7%
Trust Company of the West	Mortgage-Backed Securities	108,239,702	5.2%
Peregrine Capital	Duration Management	105,492,263	5.1%
JP Morgan Fleming*	Core Investment-Grade	96,850,344	4.7%
Brandywine Asset Mgt.	Global Bonds	63,462,597	3.1%
High Yield Fixed Income			
MacKay Shields	High Yield Bonds	52,063,320	2.5%
Post Advisory	High Yield Bonds	51,555,308	2.5%
Shenkman Capital	High Yield Bonds	50,361,341	2.4%
Short-term			
Standish Mellon Enhanced STIF - Fund portion	Short-Term Cash management	37,290,287	1.8%
Cash Held at County Treasurer	Short-Term Cash management	2,793,447	0.1%
Net Assets**		**$2,069,293,351**	**100.0%**

** Pooled Fund*

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

LIST OF LARGEST HOLDINGS FOR ACTIVE (Non-Pooled) ACCOUNTS

June 30, 2004

Asset Class / Manager / Security	Market Value	% of Account
Domestic Equities		
Trust Company of the West		
Progressive Corp.	$14,847,318	8.34%
Yahoo! Inc.	$13,868,400	7.79%
Amazon.com Inc.	$13,126,720	7.38%
Genentech Inc.	$12,026,800	6.76%
Ebay Inc.	$11,971,890	6.73%
Robert E. Torray		
Illinois Tool Works, Inc.	$ 6,827,368	4.82%
First Data Corp.	$ 6,148,212	4.34%
Amgen, Inc.	$ 5,860,818	4.14%
Cardinal Health, Inc.	$ 5,765,115	4.07%
AMBAC Financial Group Inc.	$ 5,610,816	3.96%
DSI International Management		
General Electric Co.	$ 3,664,440	3.24%
Microsoft Corp.	$ 3,447,192	3.05%
Exxon Mobil Corp.	$ 3,255,253	2.88%
Pfizer Inc.	$ 2,940,881	2.60%
Citigroup Inc.	$ 2,707,230	2.40%
Wanger Asset Management		
Harley Davidson Inc.	$ 2,787,300	2.55%
XTO Energy Inc.	$ 2,048,062	1.88%
Western Wireless Corp.	$ 1,734,600	1.59%
Kronos Inc.	$ 1,648,000	1.51%
First Health Group Corp.	$ 1,561,000	1.43%
Thomson Horstmann & Bryant		
R&G Financial	$ 932,292	1.73%
PFF Bancorp Inc.	$ 886,312	1.65%
Dime Community Bancorp Inc.	$ 885,799	1.65%
Open Text Corp.	$ 832,590	1.55%
Hudson United Bancorp	$ 805,098	1.50%
International Equities		
LSV Asset Management		
Toyota Motor Co.	$ 1,689,172	2.72%
UBS AG	$ 1,310,643	2.11%
Shell Transport & Trading	$ 1,304,271	2.10%
Total SA	$ 1,239,218	1.99%
Nippon Telephone & Telegraph	$ 1,068,597	1.72%
Julius Baer Investment Management		
Komercni Banka	$ 1,879,645	3.02%
British Petroleum Plc.	$ 1,549,971	2.49%
Sberbank Rossii	$ 1,237,894	1.99%
Total SA	$ 1,182,024	1.90%
Vodafone Group PLC	$ 1,166,134	1.88%

Asset Class / Manager / Security	Market Value	% of Account
Real Estate - REITs		
Cohen & Steers		
Prologis	$13,500,492	5.99%
Boston Properties, Inc.	$13,331,296	5.92%
Vornado Realty Trust	$12,775,507	5.67%
Avalonbay Communities, Inc.	$10,654,020	4.73%
Rouse Co.	$ 9,010,750	4.00%
Core Fixed Income		
Bridgewater Associates TIPS+		
U S Treasury Inflation Indexed Note, 3.625%, 1/15/2008	$21,118,640	17.93%
U S Treasury Inflation Indexed Note, 3.00%, 7/15/2012	$ 5,936,400	9.31%
U S Treasury Inflation Indexed Bond, 3.625%, 4/15/2028	$ 5,294,587	6.98%
U S Treasury Inflation Indexed Note, 3.375%, 1/15/2007	$ 5,138,868	6.58%
U S Treasury Inflation Indexed Note, 4.25%, 1/15/2010	$ 4,972,728	1.95%
Trust Company of the West		
FHLMC, 8.00%, 5/15/2030	$ 7,297,607	6.67%
FHLMC, 7.50%, 6/15/2030	$ 5,833,451	5.33%
FHLMC, 5.00%, 4/15/2033	$ 5,092,226	4.65%
FHLMC, 5.00%, 10/15/2032	$ 4,996,129	4.56%
GSR Mortgage Loan Trust, Variable rate, 9/25/2032	$ 4,129,746	3.77%
Peregrine Capital		
FHLMC Note, 2.70%, 4/28/2006	$ 7,372,620	7.01%
Federal Home Loan Bank Bond, 2.25%, 1/30/2006	$ 7,348,940	6.99%
FNMA Note, 2.50%, 4/28/2006	$ 7,248,535	6.90%
FNMA Note, 2.40%, 4/28/2006	$ 7,236,855	6.88%
Federal Home Loan Bank Bond, 1.55%, 7/14/2005	$ 6,959,215	6.62%
Brandywine Asset Management		
Kingdom of Sweden Bond, 5.00%, 1/28/2009	$ 4,752,896	7.64%
Kingdom of Norway Bond, 5.75%, 11/30/2004	$ 4,092,068	6.58%
Government of Poland, 5.75%, 6/24/2008	$ 3,877,706	6.24%
U.S. Treasury Bill, 9/23/2004	$ 3,832,437	6.16%
Government of Canada Treasury Bill, 9/9/2004	$ 3,303,751	5.31%
High Yield Fixed Income		
MacKay Shields		
Frontiervision Operating Partner LP, 11.00%, 10/15/2006	$ 646,600	1.26%
Cedar Brakes, 9.875%, 9/1/2013	$ 588,659	1.15%
Columbia/HCA Healthcare, 7.50%, 11/15/2095	$ 580,726	1.13%
LSI Logic Corp., 4.00%, 11/1/2006	$ 542,512	1.06%
Qwest Services Corp. 144A, 14.00%, 12/15/2014	$ 528,277	1.03%
Post Advisory		
PG&E Gas Transport Northwest, 7.80%, 6/1/2005	$ 1,485,000	2.84%
Borden Inc., 7.875%, 2/15/2023	$ 1,395,000	2.67%
Horseshoe Gaming LLC, 8.625%, 5/15/2009	$ 1,303,125	2.50%
Qwest Services Corp. 144A, 13.50%, 12/15/2010	$ 1,162,500	2.23%
Interline Brands Inc., 11.50%, 5/15/2011	$ 1,105,000	2.12%
Shenkman Capital		
DEX Media East LLC, 12.125%, 11/15/2012	$ 583,750	1.18%
RH Donnelley Financial Corp. 144A, 10.875%, 12/15/2012	$ 580,000	1.17%
Brickman Group Ltd., 11.75%, 12/15/2009	$ 575,000	1.16%
KB Homes, 9.50%, 2/15/2011	$ 551,250	1.12%
Magnum Hunter Resources Inc., 9.60%, 3/15/2012	$ 550,000	1.11%

CHEIRON Classic Values, Innovative Advice

April 29, 2004

Fairfax County Employees'
Retirement System
10680 Main Street, Suite 280
Fairfax, Virginia 22030-3812

Dear Members of the Board:

At your request, we have conducted our annual actuarial valuation of the Fairfax County Employees' Retirement System as of July 1, 2003. The results of the valuation are contained in this report.

Funding Objective

The funding objective of the System is to establish contribution rates which, over time, will remain level as a percent of payroll. In order to achieve a more stable contribution rate the County implemented a Corridor Funding Method on July 1, 2001. Under this approach the contribution rate is based on the normal cost rate and expense rate on July 1, 2001 and will remain at this level as long as the actuarial funded ratio remains within a corridor of 90% to 120%. Furthermore any plan changes are amortized over 15 years. This funding objective is currently being realized.

Assumptions

The actuarial assumptions used in performing the July 1, 2003 valuation were recommended by the actuary and adopted by the Board of Trustees based on the prior actuary's most recent review of the System's experience for the five year period ending June 30, 2000. The assumptions reflect our understanding of the likely future experience of the System and the assumptions as a whole represent our best estimate for the future experience of the System. The results of this report are dependent upon future experience conforming to these assumptions. To the extent that future experience deviates from these assumptions, the true cost of the System could vary from our results. No assumption changes were made since the prior valuation.

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

Reliance on Others

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

Supporting Schedules

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

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

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

Fairfax County Employees' Retirement System
Page 2

Compliance with Code of Virginia §51.1-800

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

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

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

Certification

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

I hereby certify that, to the best of my knowledge, this report is complete and accurate and 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

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

SUMMARY OF VALUATION RESULTS

Overview

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

- Measure and disclose, as of the valuation date, the financial condition of the Plan;
- Indicate trends in the financial progress of the Plan;
- Determine the contribution rate to be paid by the County for Fiscal Year 2005;
- Provide specific information and documentation required by the Governmental Accounting Standards Board (GASB).

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

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

Actuary's Comments

Fairfax County's annual contribution to this System is determined by using a Corridor Funding Method. Under this funding approach, the County's contribution rate is based on the normal cost rate plus expense rate determined as of the implementation date of the corridor method (July 1, 2001), 5.85% of payroll plus an expense rate currently 0.15% 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 Finding Method benefit changes have added 0.13% to the contribution rate, for a total Corridor Funding Contribution of 6.13% of payroll. The normal cost rate and actuarial accrued liability will continue to be measured using the entry age funding method. If the funded status falls outside the corridor, a credit (if above 120%) or charge (if below 90%) will be established based on a 15-year amortization equal to the amount necessary to re-enter the corridor. Once the funded status is within the corridor, the contribution rate will return to the normal cost rate plus expense rate.

The valuation as of July 1, 2003 shows that the actuarial funded ratio of this plan (including a credit for the amortization piece of prior benefit increases) has fallen out of the corridor and there is a required increase in the rate at this time of 1.95% of payroll.

The County's contribution rate for FY 2005 will increase from 6.13% of payroll to 8.08% of payroll.

Trends

The financial markets performed below expectation during the fiscal year ending in 2003, which again produced actuarial losses on the asset side of the System. The actual return on a market value basis was approximately 5.25%. On an actuarial value basis, the assets returned 4.14% compared with an assumed rate of return of 7.5%. The loss recognized for funding purposes was $61.9 million.

The measurement of liabilities also produced a loss this year in the amount of $75.8 million. This loss was largely due to increases in pay which exceeded those assumed. Part of the loss was attributable to a retiree COLA in excess of the 3% assumed and a data inconsistency with prior year's valuations.

SUMMARY OF VALUATION RESULTS
(Continued)

A third 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 $15.8 million in apparent loss.

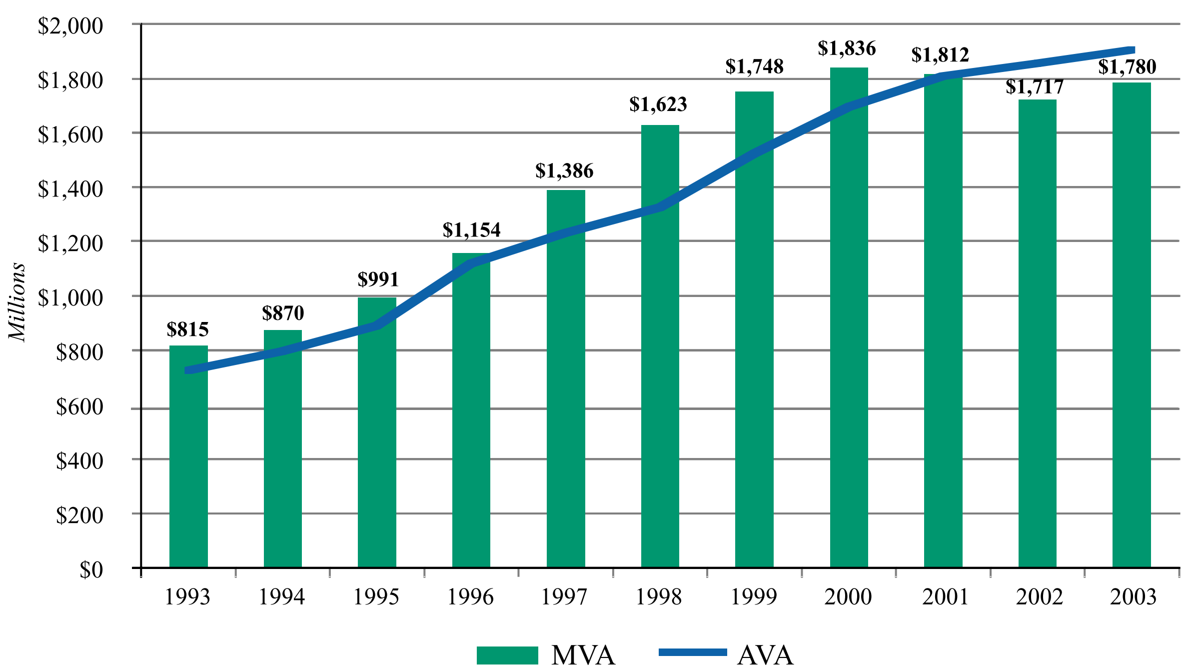
The combination of these three components over the last year produced deterioration in the System's funding ratio (actuarial value of assets over actuarial accrued liability) from 90.4% at July 1, 2002 to 84.6% at July 1, 2003. For purposes of measuring whether the System remains within the funding corridor, an adjusted funding ratio is used. In this ratio there is an additional asset recognized in the amount of the Unfunded Actuarial Liability (UAL) payments being made by the County to pay for benefit increases. On this basis, the System's actuarial funded ratio also decreased from 90.8% at July 1, 2002 to 84.9% at July 1, 2003.

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

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

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

Growth in Assets



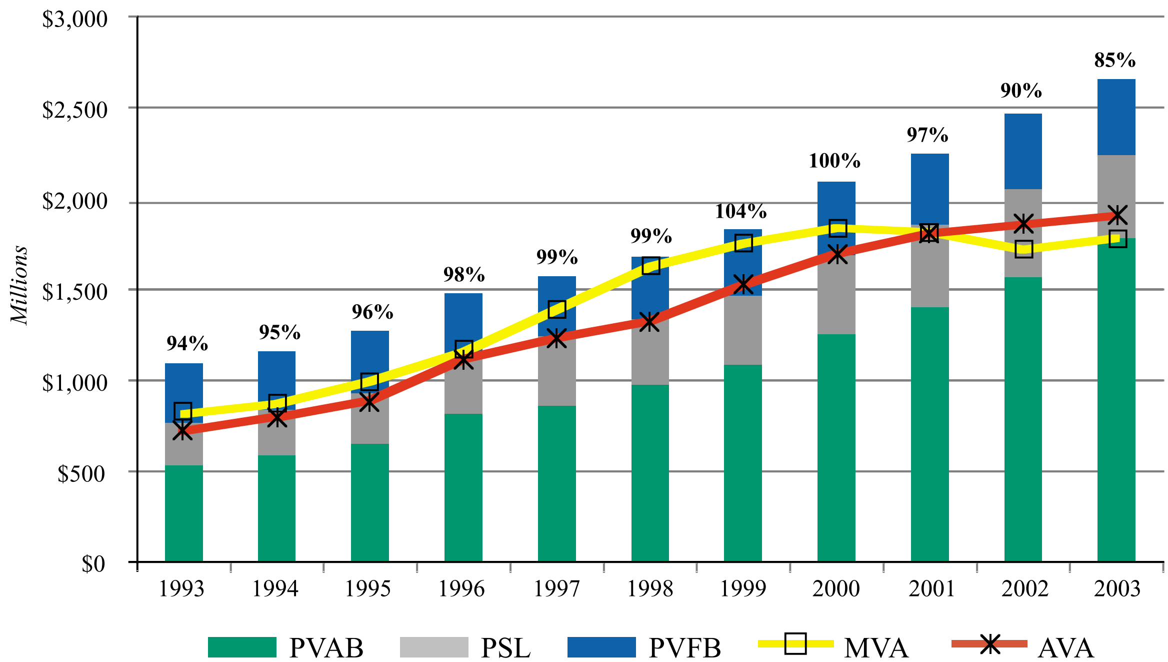
The upward trend in market value of assets was reversed over the last two years as the equity bull market turned into a bear market. Due to the asset smoothing method in place, the actuarial value of assets did increase slightly over the year.

SUMMARY OF VALUATION RESULTS

(Continued)

Over the period July 1, 1993 to June 30, 2003 the System's assets returned approximately 9.09% per year measured at Market Value, compared to a valuation assumption of 7.5% per year.

Assets and Liabilities

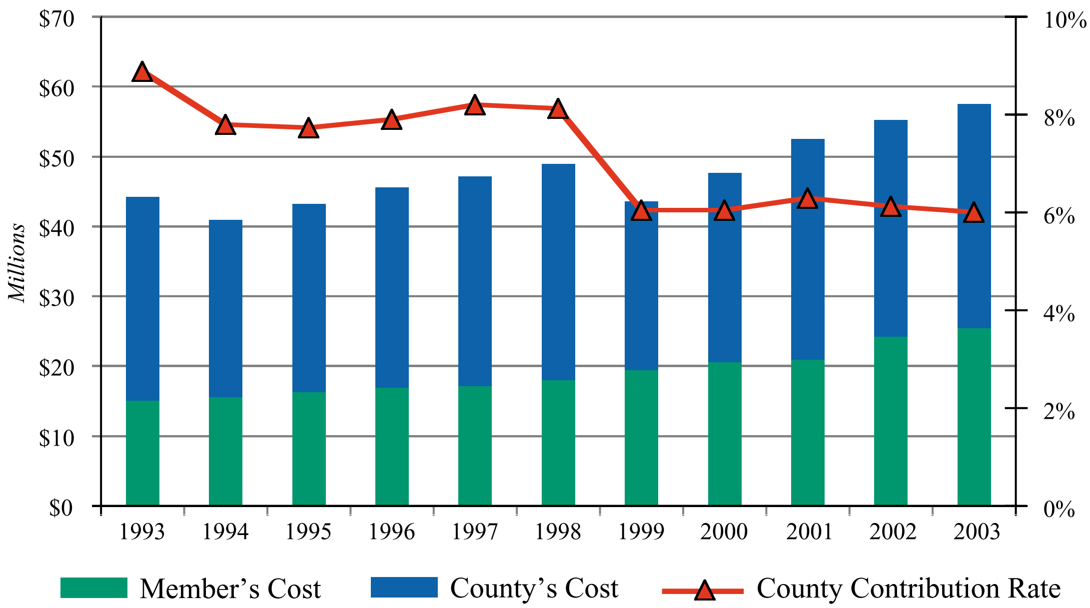


The three-colored bars represent the three different measures of liability mentioned in this report. For funding purposes, the target amount is represented by the top of the gray bar. We compare the actuarial value of assets to this measure of liability in developing the funded percent. These are the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

As you can see, the System had its highest funded percentage (104%) at July 1, 1999, before a combination of benefit improvements and the recent slide in the market. The amount represented by the top of the blue bars, the Present Value of Future Benefits (PVFB), is the amount needed to provide all benefits for the current participants and their beneficiaries. If the System had assets equal to the PVFB no contributions would, in theory, be needed for the current members.

SUMMARY OF VALUATION RESULTS
(Continued)

Contribution Rates

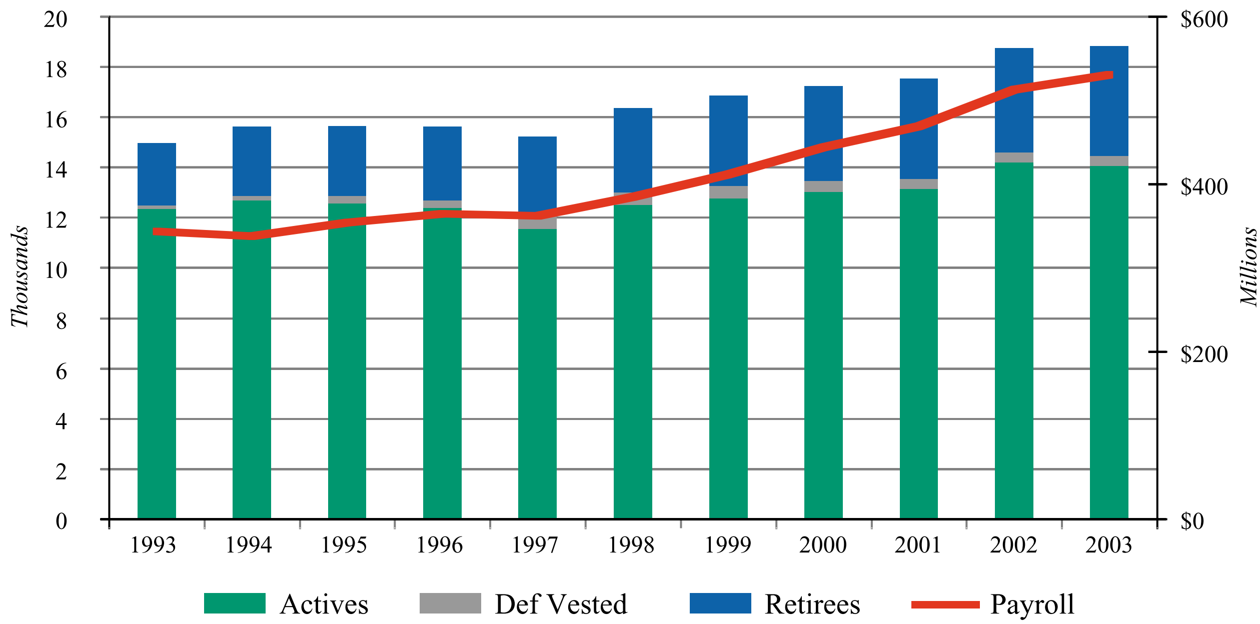


The stacked bars in this graph show the contributions made by both the County and the members in dollar terms. The line shows the County contribution rate as a percent of payroll.

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

SUMMARY OF VALUATION RESULTS
(Continued)

Participant Trends



As with many funds in this country, there has been a steady growth in the number of retired members as the System has matured.

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

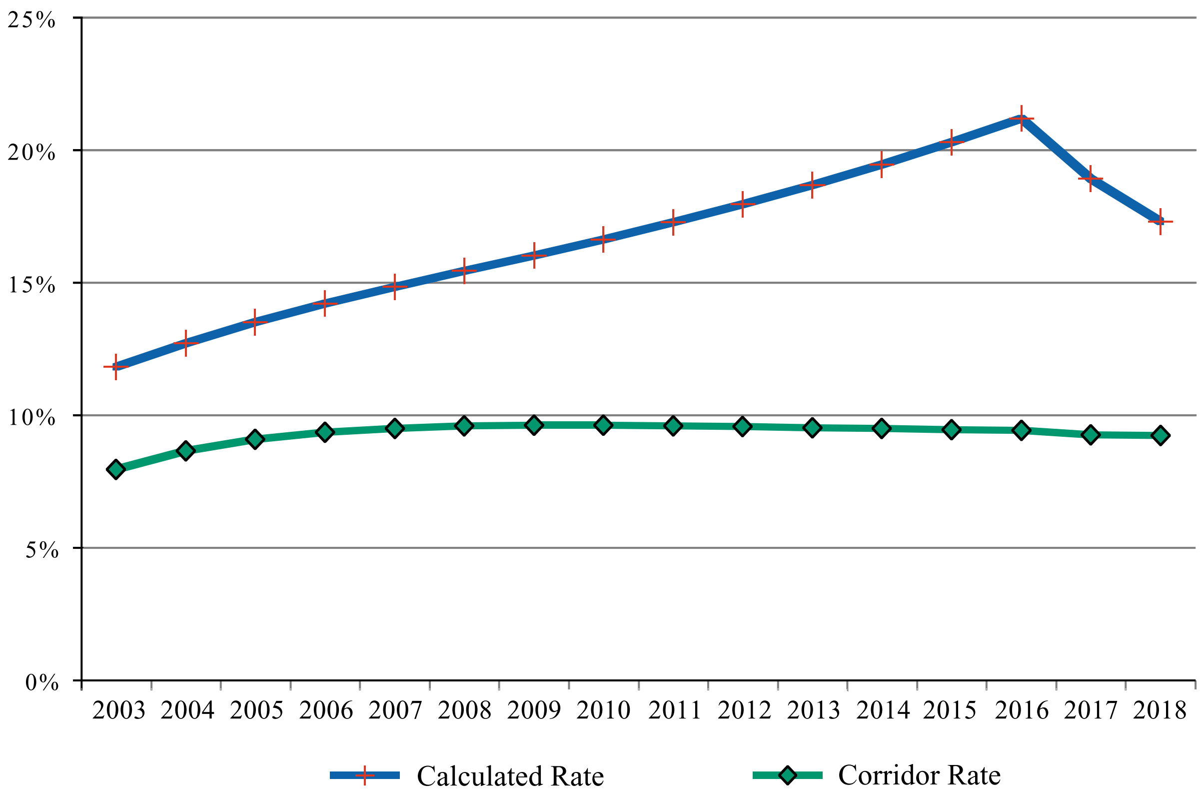
SUMMARY OF VALUATION RESULTS
(Continued)

Future Outlook

Base Line Projections

The following charts show the expected progress of the plan over the next 15 years assuming the System's assets earn 7.5% on their *market value.* The chart entitled "Plan Funding" shows the system not re-entering the corridor (if all other actuarial assumptions are met as well as the 7.5% interest rate). The blue line shows the actuarially calculated rate if the corridor were not in place.

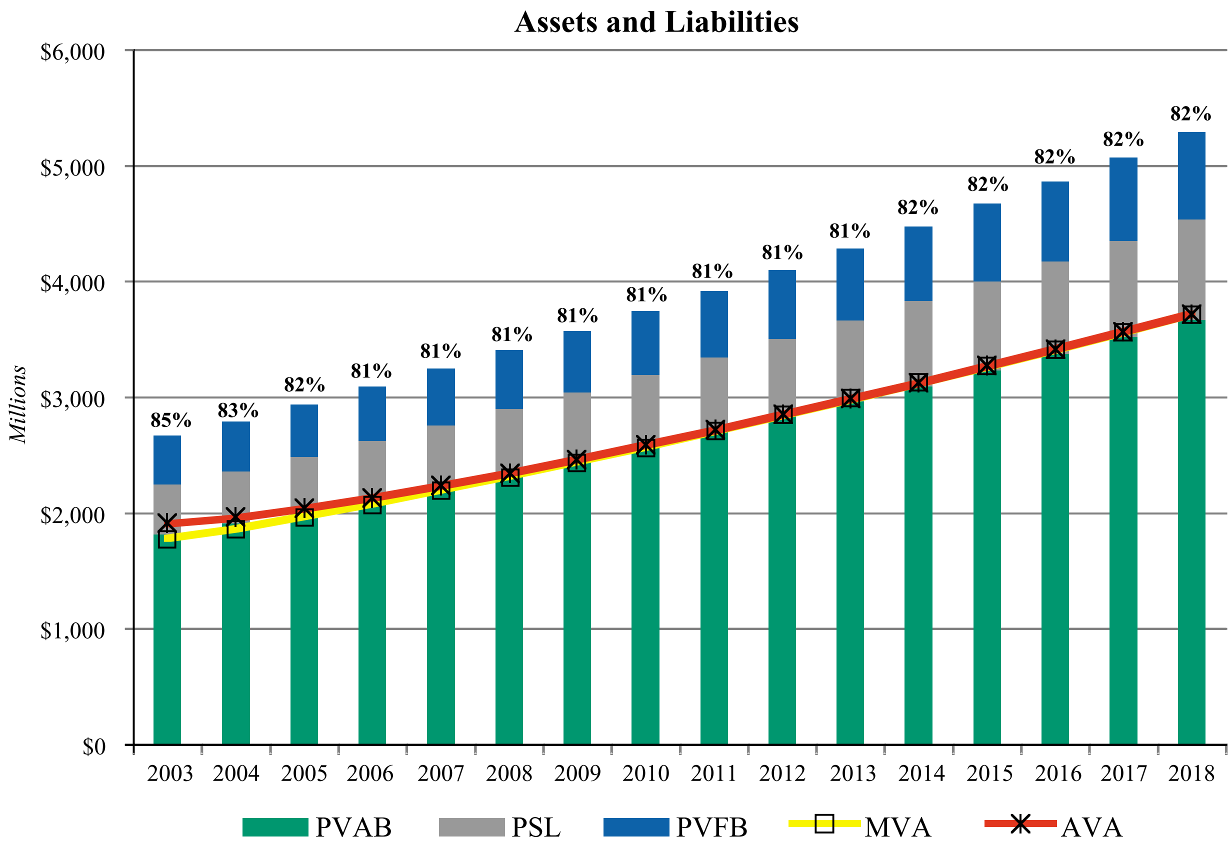
Plan Funding



SUMMARY OF VALUATION RESULTS

(Continued)

The Assets and Liabilities chart shows the projected funding status over the next decade; this is the funded status adjusted by plan improvements, which is the basis used in 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 85% down to around 82%. Each year the rate is adjusted upward in an attempt to get back into the corridor.

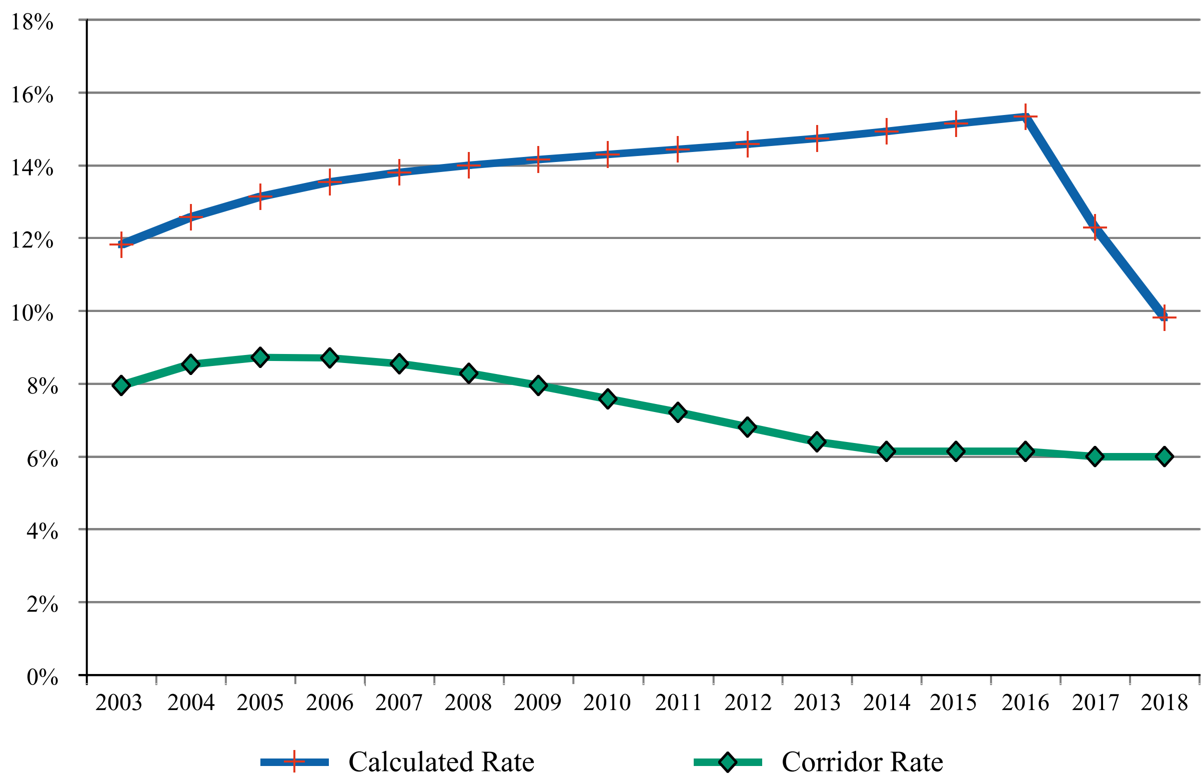


SUMMARY OF VALUATION RESULTS
(Continued)

Projections with Asset Returns of 9.0%

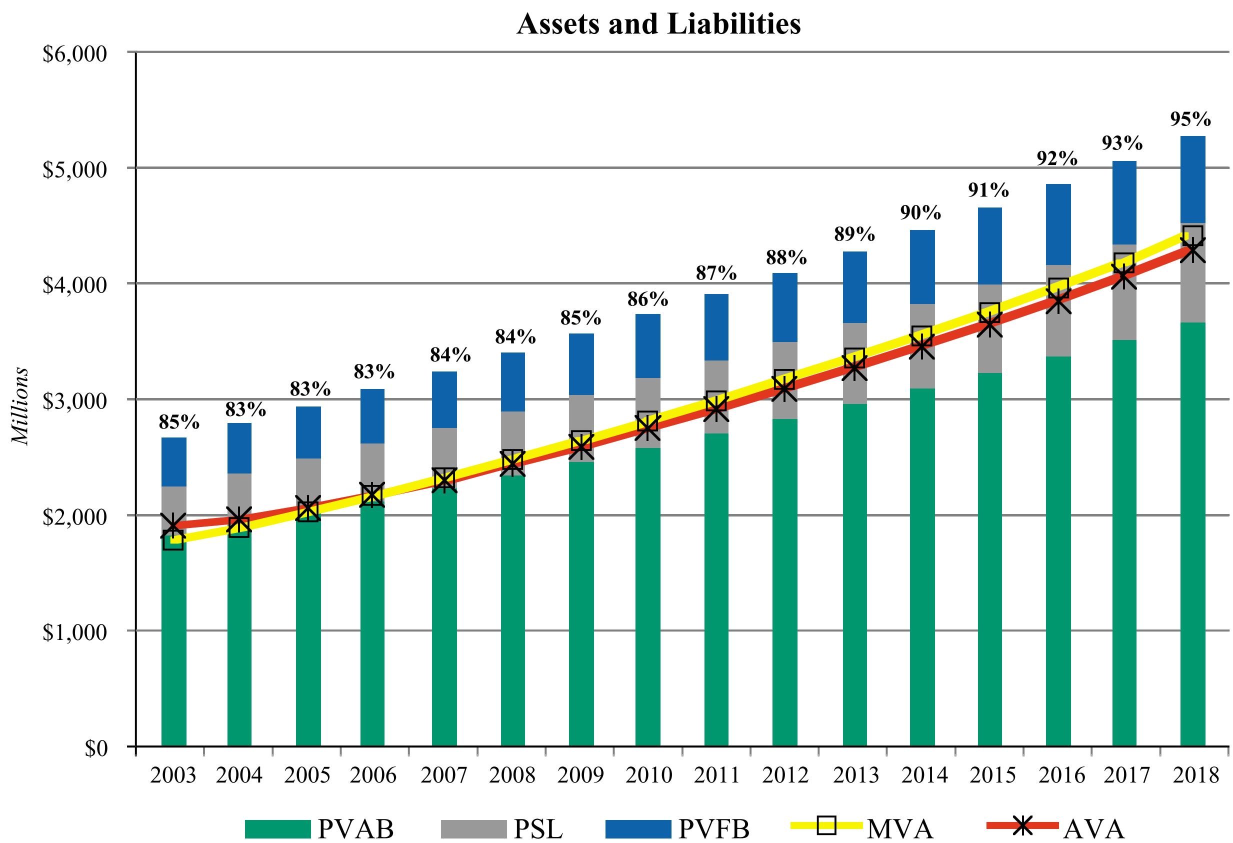
The future funding of this System will be largely driven by the investment earnings. Due to the size of assets, as compared to liabilities, the System is in a highly leveraged position. This means that relatively minor changes in the market returns can have significant effects on the System's status.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

Plan Funding



SUMMARY OF VALUATION RESULTS
(Continued)

As you can see, the system would re-enter the corridor by 2014, and would reach 95% funded by the end of the period. The contribution rate increases at first but slowly drops back down to reflect the level of the System's normal cost plus expenses by the year 2014.



SUMMARY OF VALUATION RESULTS

(Continued)

SUMMARY OF PRINCIPAL RESULTS

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

Participant Counts	July 1, 2002	July 1, 2003	Percent Change
Active members	14,185	14,065	(0.8%)
Vested former members	413	396	(4.1%)
Retired members and beneficiaries	4,164	4,388	5.4%
Total	18,762	18,849	0.5%
Annual salaries of active members	$ 512,416,475	$ 530,215,933	3.5%
Annual benefits for retired members and beneficiaries *(Base amount only - not supplemental)*	$ 64,294,052	$ 71,732,086	11.6%

Assets and Liabilities	July 1, 2002	July 1, 2003	Percent Change
Total actuarial liability	$2,051,677,465	$2,251,187,396	9.7%
Assets for valuation purposes	1,854,088,532	1,903,970,061	2.7%
Unfunded actuarial liability	$ 197,588,933	$ 347,217,335	75.7%
Funded ratio	90.37%	84.58%	
Present value of accrued benefits	$1,567,199,910	$1,821,149,363	
Market value of assets	1,716,935,571	1,780,113,740	
Unfunded FASB accrued liability	$ 0	$ 41,035,623	
Accrued benefit funding ratio	109.55%	97.75%	

Contributions *(as a percentage of payroll)*	Fiscal Year 2004	Fiscal Year 2005
GASB Method:		
Employer normal cost rate	5.85%	5.85%
Unfunded actuarial liability contribution	3.26%	5.70%
Administrative expense	0.15%	0.15%
Total employer contribution - GASB method	9.26%	11.70%
Corridor Method:		
Employer normal cost rate	5.85%	5.85%
Increase due to ad-hoc COLA	0.13%	0.13%
Amortization of amount outside corridor	0.00%	1.95%
Administrative expense	0.15%	0.15%
Total employer contribution - corridor method	6.13%	8.08%

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Funding Method

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

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

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

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

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

Under the Corridor Funding Method, the County's total contribution rate is equal to the normal cost rate plus rate changes due to amendments passed since June 30, 2002 plus the expense rate as long as the System's actuarial funded status remains within a corridor of 90% to 120%. If the funded status falls outside the corridor, a credit (if above 120%) or charge (if below 90%) will be established based on a 15-year amortization equal to the amount necessary to re-enter the corridor. Once the funded status is within the corridor, the contribution rate will return to normal cost rate, plus post-2002 plan changes, plus expense rate.

Actuarial Value of Assets

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

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

Changes Since Last Valuation

There have been no changes since the last valuation.

ACTUARIAL ASSUMPTIONS AND METHODS

Long Term Assumptions Used to Determine System Costs and Liabilities

Demographic Assumptions

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

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

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

Termination of Employment: (Prior to Normal Retirement Eligibility)

Annual Terminations per 1,000 Members – Male
Years of Employment with County

Age	0-1	1-2	2-3	3-4	4-5	5 or more
20	150	150	150	191	174	80
25	150	150	150	165	150	80
30	150	150	150	135	122	66
35	150	150	150	114	103	53
40	150	150	150	99	89	42
45	150	150	150	86	78	37
50	150	150	150	77	69	33
55	150	150	150	69	64	29

ACTUARIAL ASSUMPTIONS AND METHODS
(Continued)

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

Annual Terminations per 1,000 members – Female
Years of Employment with County

Age	0-1	1-2	2-3	3-4	4-5	5 or more
20	200	200	200	158	150	132
25	200	200	200	158	150	120
30	200	200	200	158	150	102
35	200	200	200	158	150	85
40	200	200	200	158	150	70
45	200	200	200	158	150	58
50	200	200	200	158	150	50
55	200	200	200	158	150	40

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

Disability

Annual Disabilities per 10,000 Members*

Age	Male	Female
25	4	4
30	4	4
35	6	4
40	9	7
45	23	18
50	41	33
55	64	51
60	64	51

Annual Deaths per 1,000 Disabled Members

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

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

ACTUARIAL ASSUMPTIONS AND METHODS
(Continued)

Retirement

Annual retirements per 1,000 eligible members (male and female) who are eligible for unreduced benefits (age 65 with 5 years of service or age 50 with age plus service equal to at least 80).

Age	First Year	Thereafter	Age	First Year	Thereafter
50	400	N/A			
51	400	200	61	250	200
52	400	200	62	250	200
53	400	200	63	250	200
54	400	200	64	250	200
55	400	200	65	250	333
56	250	200	66	250	250
57	250	200	67	250	250
58	250	200	68	250	250
59	250	200	69	250	250
60	250	200	70	1,000	1,000

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

Age	Merit/Seniority Increase
25	0.5%
30	0.5%
35	0.5%
40	0.5%
45	0.5%
50	0.5%
55	0.5%

ACTUARIAL ASSUMPTIONS AND METHODS
(Continued)

Family Composition

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

Sick Leave Credit

It is assumed that retirees, deferred vested terminations, and deceased members receive an additional 1.5% of service credit due to sick leave.

Economic Assumptions

Investment Return: 7.50% compounded per annum.

Rate of General Wage Increase: 4.00% compounded per annum.

Rate of Increase in Cost-of-Living: 4.00% compounded per annum.
(Benefit increases limited to 4% per year. Post-retirement cost-of-living increases are assumed to be 3% per year.)

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

Administrative Expenses: 0.15% of payroll.

Changes Since Last Valuation

There have been no changes since the last valuation.

ANALYSIS OF FINANCIAL EXPERIENCE

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

Type of Activity	2000	2001	2002	2003
Investment income	$ 71,003,374	$ 2,083,439	($ 68,576,480)	($ 61,928,161)
Combined liability experience	(62,256,683)	(25,622,128)	(70,933,718)	(91,356,217)
Gain (or loss) during year from financial experience	$ 8,746,691	($23,538,689)	($139,510,198)	($153,284,378)
Non-recurring items	(62,469,217)	(30,509,256)	(7,877,508)	0
Composite gain (or loss) during year	**($53,722,526)**	**($54,047,945)**	**($147,387,706)**	**($153,284,378)**

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
1998	302	$ 5,971,265	98	$1,459,487	3,361	$47,093,808	10.60%	$14,012
1999	334	7,658,527	105	1,831,976	3,590	52,920,359	12.37%	14,741
2000	285	7,669,426	118	1,807,023	3,757	58,782,762	11.08%	15,646
2001	353	9,384,327	136	1,544,051	3,974	66,623,038	13.34%	16,765
2002	298	9,757,867	108	1,129,458	4,164	75,251,446	12.95%	18,072
2003	375	11,302,793	149	1,766,319	4,390	84,787,920	12.67%	19,314

SOLVENCY TEST

Aggregate Accrued Liabilities For

Valuation Date	(1) Active Member Contributions	(2) Retirees Vested Terms, Beneficiaries	(3) Active Members (Employer Financed Portion)	Reported Assets	Portion of Accrued Liabilities Covered by Reported Assets (1)	(2)	(3)
7/1/1998	$166,884,229	$523,288,834	$ 644,295,594	$1,324,132,857	100%	100%	98%
7/1/1999	177,466,940	591,682,196	697,894,630	1,523,310,967	100%	100%	108%
7/1/2000	189,751,068	671,715,760	829,070,935	1,694,416,094	100%	100%	100%
7/1/2001	194,412,262	731,698,653	931,691,000	1,807,813,497	100%	100%	95%
7/1/2002	207,072,630	820,951,804	1,023,653,031	1,854,088,532	100%	100%	81%
7/1/2003	229,276,020	945,552,585	1,076,358,791	1,903,970,061	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
1999	$19,413,441	$24,143,832	6.04%	$137,594,536	$181,151,809
2000	20,561,280	27,133,595	6.04%	101,648,889	149,343,764
2001	22,553,731	29,960,984	6.29%	(9,245,125)	43,269,590
2002	24,217,436	31,083,805	6.12%	(75,059,747)	(19,758,506)
2003	25,467,082	31,983,708	6.00%	89,440,289	146,891,079
2004	27,716,595	34,418,051	6.13%	319,741,487	381,876,133

SCHEDULE OF DEDUCTIONS BY TYPE

Fiscal Year	Benefit Payments	Refunds of Contributions	Administrative Expenses	Total Deductions
1999	$50,754,184	$4,404,218	$ 621,495	$55,779,897
2000	55,452,114	5,123,873	754,136	61,330,123
2001	62,431,928	4,503,567	776,563	67,712,058
2002	70,703,829	3,774,942	807,528	75,286,299
2003	79,442,355	3,425,017	845,537	83,712,909
2004	89,675,104	3,780,390	1,019,054	94,474,548

SCHEDULE OF BENEFIT PAYMENTS BY TYPE

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Total
1999	$44,877,010	$2,270,671	$2,352,826	$1,253,677	$50,754,184
2000	49,250,201	2,430,337	2,403,449	1,368,127	55,452,114
2001	55,890,164	2,469,474	2,503,087	1,569,203	62,431,928
2002	63,723,688	2,553,198	2,738,462	1,688,480	70,703,828
2003	71,933,909	2,634,434	2,918,607	1,955,406	79,442,356
2004	81,795,303	2,749,554	3,155,573	1,974,674	89,675,104

SCHEDULE OF RETIRED MEMBERS BY BENEFIT TYPE

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Total
1999	2,914	176	363	137	3,590
2000	3,075	175	360	147	3,757
2001	3,274	176	361	163	3,974
2002	3,459	174	366	165	4,164
2003	3,674	172	364	178	4,388
2004	3,888	168	375	188	4,619

SCHEDULE OF AVERAGE MONTHLY BENEFIT AMOUNTS

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Average
1999	$1,341	$1,122	$539	$804	$1,229
2000	1,420	1,173	568	838	1,304
2001	1,521	1,223	593	886	1,397
2002	1,629	1,259	680	879	1,500
2003	1,750	1,326	687	886	1,610
2004	1,840	1,333	708	915	1,728

FAIRFAX COUNTY RETIREMENT
ADMINISTRATION AGENCY

10680 MAIN STREET, SUITE 280 ★ FAIRFAX, VIRGINIA 22030