FOR THE FISCAL YEAR ENDED JUNE 30, 2005

2005

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FAIRFAX COUNTY EMPLOYEES' RETIREMENT SYSTEM

A PENSION TRUST FUND OF FAIRFAX COUNTY, VIRGINIA

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FAIRFAX
COUNTY

V I R G I N I A

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

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

September 1, 2005

Dear Members of the Board of Trustees:

I am pleased to submit to you the annual report of the Fairfax County Employees' Retirement System (System) for the fiscal year ended June 30, 2005. This annual report is provided as an aid to understanding the structure and evaluating the status of the System. The System's management is responsible for the accuracy of financial information contained herein.

The annual report for fiscal 2005 consists of five sections: (1) an Introductory Section that contains this transmittal letter along with the organization structure and review of plan provisions; (2) a Financial Section that contains the opinion of the independent auditors, management's discussion and analysis, the financial statements of the System and required supplementary information; (3) an Investment Section that contains investment results; (4) an Actuarial Section that includes the independent actuary's certification letter, a summary of the results of the actuarial valuation, and actuarial procedures and assumptions; and (5) a Statistical Section that contains information regarding the System membership.

History

The Fairfax County 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 14,457 active members and 4,889 retirees participating in the System as of June 30, 2005.

Benefit Provisions

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

Capital Markets and Economic Conditions

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

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

The diversified fund of the Employees' Retirement System returned 13.2% for fiscal 2005, after management fees. This return placed the fund in the 3rd percentile of the Russell/Mellon public fund universe. The returns for the total fund exceeded the policy benchmark for the year by 2.0%. The fund's relative performance over longer periods has also been outstanding with the returns for the three, five and ten-year periods all in the top ten percent of the public funds universe.

After accounting for all cash flows, including contributions, expenses and benefit payments, the market value of the System's assets increased 11.6%, from $2.068 billion on June 30, 2004 to $2.307 billion on June 30, 2005.

Major Initiatives

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

An ordinance amendment approved in May added a Deferred Retirement Option Program (DROP) to be effective July 1, 2005. Employees who are eligible for normal service retirement will have the option to enter DROP and continue to work for a period of three years. While in DROP, the employee will accrue a lump sum benefit in lieu of continuing to accrue years of service credit and any increase in retirement annuity benefits. Staff conducted a major communication and education effort at the end of the fiscal year and eligible employees began to enroll in DROP at the beginning of FY 2006.

Another change in the plan that occurred at the end of the fiscal year was the adoption of an ordinance amendment that moved public safety communications positions from the Employees' Retirement System to the Uniformed Retirement System. As of July 1, all new employees in the designated positions will be members of the Uniformed System. Current employees who are members of the Employees' Retirement System are being given the option to remain in their current System or transfer to the Uniformed System.

With respect to the investment program and strategy, the U.S. Large-cap Equity portion of the fund was restructured. The TCW growth portfolio was replaced with two firms, Enhanced Investment Technologies (INTECH) and Sands Capital Management. Also, DePrince, Race & Zollo was hired to manage a Large-cap Value portfolio.

Internal and Budgetary Controls

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

Funded Status

An actuarial valuation of the System to determine funding requirements is performed annually. The System's funding policy provides for periodic employer contributions at actuarially determined rates which will remain relatively level over time as a percentage of payroll and will accumulate sufficient assets to meet the costs of benefit payments when due. The valuation of the System performed as of July 1, 2004 indicated that the ratio of assets accumulated by the System to total actuarial accrued liabilities for benefits decreased from 84.6% to 84.2%. The actuarial section contains further information on the results of the July 1, 2004 valuation.

Based on the July 1, 2004 actuarial valuation, the employer contribution rate increased from 8.08% to 8.15%. With the two ordinance changes mentioned earlier (creation of DROP and the change in public safety communication position membership) that occurred after the valuation, the final employer contribution rate for FY 2006 will be 8.24%.

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 has worked hard throughout the year to provide service to our members and to ensure the successful operation of the System. This report is intended to provide complete and reliable information for determining the financial status of the System. It is being submitted to the Board of Supervisors and other interested parties and is available to the public via the County's website located at www.fairfaxcounty.gov/retbrd/.

Respectfully submitted,

Laurnz A. Swartz
Executive Director

BOARD OF TRUSTEES

Robert C. Carlson
Chairman
Board of Supervisors Appointee
Term Expires: August 31, 2005

Vera L. Finberg
Vice Chairman
Elected Member Trustee
Term Expires: June 30, 2005

Gordon R. Trapnell, FSA
Board of Supervisors Appointee
Term Expires: June 30, 2007

Peter J. Schroth
Fairfax County Human Resources Director
Ex officio Trustee

Thomas M. Stanners
Board of Supervisors Appointee
Term Expires: July 31, 2008

Robert L. Mears
Treasurer
Fairfax County Director of Finance
Ex officio Trustee

Cynthia Simpson
Coordinator, Benefit Processing
Fairfax County Public Schools
Ex officio Trustee

Frank M. Alston
Board of Supervisors Appointee
Term Expires: July 31, 2006

Kevin L. North
Fairfax County Public Schools
Elected Member Trustee
Term Expires: June 30, 2007

John Yeatman
Elected Retiree Trustee
Term Expires: December 31, 2006

ADMINISTRATIVE ORGANIZATION

ADMINISTRATIVE STAFF

Laurnz A. Swartz
Executive Director

Vacant
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

Julius Baer Investment Management
New York, NY

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

DePrince, Race & Zollo, Inc.
Orlando, FL

DSI International Management, Inc.
Norwalk, CT

Enhanced Investment Technologies, LLC
(INTECH)
Palm Beach Gardens, FL

JP Morgan Fleming Investment Management, Inc.
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

Sands Capital Management
Arlington, VA

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

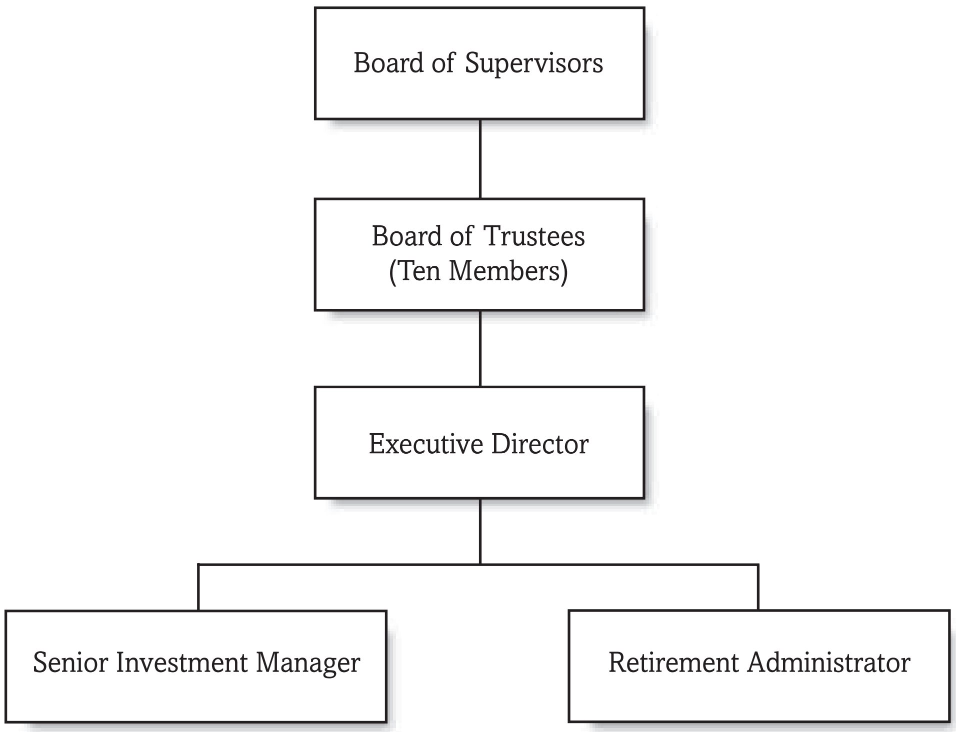
Robert E. Torray & Co., Inc.
Bethesda, MD

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 follow:

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.

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%.

SUMMARY OF PLAN PROVISIONS *(continued)*

Service-Connected Disability Retirement:

is available for members, regardless of their length of service, who become disabled as a result of a job-related illness or injury. Benefits are 66⅔% of average final compensation.

Ordinary Disability Retirement:

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 — A refund of any of the member's contributions and interest not already paid in benefits will be payable to the named beneficiary(ies) unless the member has elected the irrevocable Joint and Last Survivor Option which provides a benefit to the member's spouse for life. At retirement, the member may choose to have his or her spouse receive 50%, 66⅔%, 75% or 100% of the member's reduced annuity upon the member's death. The member's annuity is reduced by a percentage based on the difference in age between the member and his or her spouse. If the spouse pre-deceases the member, the annuity is restored to what it would have been if this option had not been elected.

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% 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 statement of plan net assets of the Fairfax County Employees' Retirement System (the System), a pension trust fund of the County of Fairfax, Virginia, as of June 30, 2005 and the related statement of changes in plan net assets for the year then ended. These basic financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the plan net assets as of June 30, 2005 and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The management's discussion and analysis on pages 13 through 14 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

FINANCIAL

KPMG

Other required supplementary information on pages 23 through 24 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. Other required supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

KPMG LLP

September 14, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's discussion and analysis of the Fairfax County Employees Retirement System's ("System" or "plan") financial performance and provides an overview of the financial activities for the fiscal year ended June 30, 2005. The information in this section should be reviewed in conjunction with the letter of transmittal provided in the Introductory Section of this report.

Overview of Financial Statements and Accompanying Information

Basic Financial Statements.

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

Notes to Financial Statements.

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

Required Supplementary Information.

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

Financial Analysis

Summary of Plan Net Assets.

As indicated in the following Summary Statement of Plan Net Assets, the net assets held by the System increased $239.8 million or 11.6% during fiscal 2005. This change is primarily due to increases in fair value of investments during fiscal 2005.

Return on Investments.

The System's return on investments net of investment management fees for fiscal 2005 is 13.2%. The System's domestic equities had a 5.2% return. The international developed equity portfolios returned 22.1%. Emerging markets returned 33.3% for the year. The System's fixed income investments returned 10.4%. The System's REIT portfolio returned 39.1% for the year. Alternative investments returned 29.6%. 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, fiscal 2005 experienced an overall increase due to investment income. Investment performance was very good in relative terms during the year. The System's return on investments ranked in the third percentile in the universe of public funds for fiscal 2005.

Additions.

Total additions decreased $36.0 million from fiscal 2004 to 2005 primarily due to investment returns. Employer contributions increased $12.5 million or 36.4% from fiscal 2004 to 2005. This increase is attributable to an increase in the employer contribution rate in 2005 and an increase in the covered payroll base during the year. The System experienced net investment gains during fiscal 2005. The net appreciation in the fair value of investments was $207.3 million during the fiscal year. Interest and dividend income was $74.4 million during fiscal 2005. Investment activity expense increased $789 thousand during the fiscal year due to investment management fees computed on the increasing investment values. Net securities lending income increased $212 thousand or 6.6% from fiscal 2004 to 2005.

Deductions.

Benefit payments increased 9.8% during fiscal 2005. 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 1.9% as of July, 2004. Refunds and other expenses increased 57.5% from fiscal 2004 to 2005. The amount of refunds varies from year to year based on changes in employee turnover rates and decisions of former employees.

The actuarial valuation performed as of July 1, 2004 showed the System's funded status at 84.2%, a decrease of 0.4 percentage points from the July 1, 2003 funded percentage of 84.6%.

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

Contacting the System's Financial Management

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

SUMMARY STATEMENT OF PLAN NET ASSETS

	2005 *(in thousands)*	2004 *(in thousands)*	Difference *(in thousands)*
Assets			
Total cash and investments	$2,517,715	$2,194,426	$323,289
Total receivables	69,176	47,211	21,965
Total Assets	2,586,891	2,241,637	345,254
Liabilities	279,569	174,122	105,447
Net Assets	$2,307,322	$2,067,515	$239,807

SUMMARY OF ADDITIONS AND DEDUCTIONS

	2005 *(in thousands)*	2004 *(in thousands)*	Difference *(in thousands)*
Additions			
Contributions			
Employer	$ 46,958	$ 34,418	$ 12,540
Plan members	27,564	26,594	970
Other income	-	1,122	(1,122)
Net investment income	271,340	319,742	(48,402)
Total Additions	345,862	381,876	(36,014)
Deductions			
Benefit payments	98,494	89,675	8,819
Refunds and other	7,562	4,800	2,762
Total Deductions	106,056	94,475	11,581
Net Change	$239,806	$287,401	$ (47,595)

FINANCIAL STATEMENTS

STATEMENT OF PLAN NET ASSETS

as of June 30, 2005

Assets		
Cash and short-term investments		
Equity in County's pooled cash and temporary investments	$ 6,132,581	
Cash collateral received for securities on loan	215,474,689	
Short-term investments	191,661,856	
Total cash and short-term investments		$ 413,269,126
Receivables		
Contributions	1,901,936	
Accrued interest and dividends	8,999,608	
Securities sold	58,274,250	
Total receivables		69,175,794
Investments, at fair value		
U.S. Government obligations	111,773,462	
Alternative investments	133,981,594	
Asset-backed securities	170,135,555	
Corporate bonds	201,286,828	
Pooled and mutual funds	463,502,312	
Common and preferred stock	1,023,766,118	
Total investments		2,104,445,869
Total assets		2,586,890,789
Liabilities		
Cash collateral received for securities on loan	215,474,689	
Purchase of investments	61,141,231	
Accounts payable and accrued expenses	2,953,266	
Total liabilities		279,569,186
Net assets held in trust for pension benefits		$2,307,321,603

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

See accompanying notes to financial statements.

FINANCIAL STATEMENTS *(continued)*

STATEMENT OF CHANGES IN PLAN NET ASSETS

For the Year Ended June 30, 2005

Additions		
Contributions		
Employer	$ 46,958,113	
Plan members	27,563,754	
Total contributions		$ 74,521,867
Investment income from investment activities		
Net appreciation in fair value of investments	207,286,811	
Interest	52,324,115	
Dividends	22,088,783	
Total investment income	281,699,709	
Investment activity expense		
Management fees	10,104,958	
Custodial fees	231,722	
Consulting fees	48,500	
Allocated administration expense	507,993	
Total investment expense	10,893,173	
Net income from investment activities		270,806,536
From securities lending activities		
Securities lending income	3,837,949	
Securities lending expenses		
Borrower rebates	3,077,579	
Management fees	226,279	
Total securities lending activities expense	3,303,858	
Net income from securities lending activities		534,091
Total net investment income		271,340,627
Total additions		345,862,494
Deductions		
Annuity benefits	90,329,194	
Disability benefits	6,005,930	
Survivor benefits	2,159,306	
Refunds	6,545,800	
Administrative expense	1,015,986	
Total deductions		106,056,216
Net increase		239,806,278
Net assets held in trust for pension benefits		
Beginning of fiscal year		2,067,515,325
End of fiscal year		$2,307,321,603

See accompanying notes to financial statements.

Notes to the Financial Statements

For the year ended June 30, 2005

The Fairfax County Employees' Retirement System is considered part of the County of Fairfax, Virginia's ("County") reporting entity and its financial statements are included in the County's basic financial statements as a pension trust fund.

A. Summary of Significant Accounting Policies

Basis of Accounting.

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

Method Used to Value Investments.

Short-term investments are reported at cost, which approximates fair value. All other investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Asset-backed securities are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The System records investment purchases and sales as of 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 management fee, on a daily basis to the System based on the System's average daily balance of equity in pooled cash. As of June 30, 2005 the bank balance of the County's public deposits was either insured by the Federal Deposit Insurance Corporation or through the State Treasury Board pursuant to the provisions of the Security for Public Deposit Act.

B. Plan Description and Contribution Information

Membership.

At July 1, 2004, the date of the latest actuarial valuation, membership in the System consisted of:

Retirees and beneficiaries receiving benefits	4,619
Terminated plan members entitled to but not yet receiving benefits	398
Active plan members	14,330
Total	19,347

Plan Description.

The System is a cost-sharing multiple-employer defined benefit pension plan which covers employees of the County and its component units. The plan covers full-time and certain part-time County, Public Schools, Economic Development Authority and Fairfax County Redevelopment and Housing Authority employees who are not covered by other plans of the County or the Virginia Retirement System. Benefit provisions are established and may be amended by County ordinance. All benefits vest at five years of service. To be eligible for normal retirement, an individual must meet the following criteria: (a) attain the age of 65 with five years of service, or (b) attain the age of 50 with age plus years of service being greater than or equal to 80. The normal retirement is calculated using average final compensation (i.e., the highest consecutive three years) and years, or partial years, of service at date of termination. The plan provides that unused sick leave credit may be used in the calculation of average final compensation by projecting the final salary during the unused sick leave period. The benefit for early retirement is actuarially reduced and payable at early termination.

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

Contributions.

The contribution requirements of the System members are established and may be amended by County ordinances. Members may elect to join Plan A or Plan B. Plan A requires member contributions of 4 percent of compensation up to the social security wage base and 5.33 percent of compensation in excess of the wage base. Plan B requires member contributions of 5.33 percent of compensation. The County is required to contribute at an actuarially determined rate; the rate for the year ended June 30, 2005 was 8.08 percent of annual covered payroll.

Deductions.

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

C. Investments

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

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

The System has adopted the Employees' Retirement System Investment Policy Statement to provide a well-managed investment program to meet the long-term needs of the System. Investment decisions for these assets are made by the Board of Trustees or investment managers selected by the Board. The overall investment policies do not address specific levels of credit risk, interest rate risk or foreign currency risk. The Board's investment policy addresses risks that can be managed, but not eliminated by establishing constraints on the investment portfolio and by properly monitoring the investment markets, the System's asset allocation and the investment managers hired by the System. Each individual investment portfolio is managed by an investment management firm selected by the Board. Each investment manager has a specific benchmark and investment guidelines appropriate for the type of mandate they are managing and that fits within the total risk tolerance of the fund. The interest rate risk for the fixed income accounts is controlled by limiting the credit quality of the securities held and the duration of the portfolio against the duration of the benchmark. While the System is not subject to the provisions of the Employment Retirement Income Security Act (ERISA), the Board wishes to comply with the spirit of ERISA to the extent that it does not conflict with the Code of Virginia. The investment policy states that the securities of any one issuer shall not exceed 10% at market value. At June 30, 2005 the System did not have investments (other than U.S. Government and U.S. Government guaranteed obligations) in any one organization that represented 5 percent or more of net assets available for benefits. All investments, except for the mutual funds, short-term investment fund and a short-term collateral investment pool are held by an unaffiliated custodian. There is no custodial credit risk since the custodian's records establish the System's interest in the securities.

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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

Investment type	Fair Value	Ratings	Percent of fixed
U.S. Government Obligations	$ 95,681,030	AAA	19.8%
	16,092,432	unrated	3.3%
Corporates and others	7,526,110	AAA	1.6%
	1,617,754	BBB	0.3%
	16,128,970	BB	3.3%
	110,326,233	B	22.8%
	54,612,605	CCC	11.3%
	142,931	D	0.0%
	10,932,225	unrated	2.3%
Asset-backed	163,747,249	AAA	33.9%
	2,759,196	BBB	0.6%
	3,629,110	CCC	0.8%
Total fixed income	483,195,845	A	100.0%
Short-term	191,661,856	AA	
Fixed pooled funds	172,203,358	AA	
Alternative investments	133,981,594	AA	
Cash collateral received for securities on loan	215,474,689	AA	
Equity in County's pooled cash	6,132,581	N/A	
Common and preferred stock	1,023,766,118	N/A	
Equity mutual funds	291,298,954	N/A	
Total investments	$2,517,714,995		

As of June 30, 2005 the fixed income portfolio excluding pooled funds exhibited an overall credit quality rating of "A", and approximately 23% of the total fixed income portfolio was invested in below-investment grade securities.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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

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

Investment type	Fair value	Effective duration in years	Percentage of fixed
US Government obligations	$ 27,499,775	0.0 - 1.9	5.7%
	18,435,423	1.0 - 4.9	3.8%
	65,838,264	10.0 - 19.9	13.6%
Corporate and other	59,675,025	0.0 - 0.9	12.4%
	116,185,081	1.0 - 4.9	24.0%
	24,310,759	5.0 - 9.9	5.0%
	1,115,963	unrated	0.2%
Asset-backed	11,448,430	< 0.0	2.4%
	63,182,509	0.0 - 0.9	13.1%
	28,756,172	1.0 - 4.9	6.0%
	16,960,747	5.0 - 9.9	3.5%
	16,679,107	10.0 - 19.9	3.5%
	33,108,590	> 20	6.9%
Total fixed income	483,195,845	4.0	100.0%
Fixed pooled funds	172,203,358	7.7	
Short-term investments	191,661,856	0.0	
Alternative investments	133,981,594	20.1	
Cash collateral received for securities on loan	215,474,689	0.1	
Equity in County's pooled cash	6,132,581	N/A	
Equity mutual funds	291,298,954	N/A	
Common and preferred stock	1,023,766,118	N/A	
Total investments	$2,517,714,995		

As of June 30, 2005 the System's overall fixed income portfolio excluding pooled funds duration was a slightly conservative 4.0 compared with the longer 4.2 duration of the Lehman Brothers Aggregate Bond Index.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the investment. The System investments at June 30, 2005 held in the currencies are as follows:

	Equity	Fixed Income	Short-term and other	Total
International securities				
European currency unit	$ 56,008,467	$ 8,852,560	$ (4,842,010)	$ 60,019,017
Japanese Yen	26,661,738		15,264,592	41,926,330
British pound sterling	30,789,661	3,013,247	855,456	34,658,364
Canadian dollar	2,042,699	3,298,692	6,340,803	11,682,194
Swiss franc	9,448,339		184,947	9,633,286
Polish zloty	3,164,191	5,059,491	(629,823)	7,593,859
Australian dollar	6,124,164	8,258,737	(8,230,259)	6,152,642
Swedish krona	5,837,210		34,370	5,871,580
Singapore dollar	410,881	4,002,061	66,112	4,479,054
Brazil real	533,713	399	3,850,538	4,384,650
Other currencies	14,751,344	6,207,277	(3,541,415)	17,417,206
International mutual funds and similar securities	-	-	168,897,525	168,897,525
Total international	155,772,407	38,692,464	178,550,836	373,015,707
Securities held in US dollars	867,993,711	444,503,381	610,594,926	1,923,092,018
Total investments	$1,023,766,118	$483,195,845	$789,145,762	$2,296,107,725

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, and interest rate swaps 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 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 to foreign equities, multiple foreign stock index and currency contracts are purchased and sold. To maintain the target level of exposure to fixed income, U.S. Treasury futures contracts are purchased and sold. As of June 30, 2005 the System held the following futures contracts.

Type	Notional Value	Maturity
S&P500 and Russell 2000	$122,301,240	September-05
Foreign equity	68,286,439	September-05
Foreign currency	66,912,911	September-05
U S Treasury	15,038,282	September-05

The System also holds swaps which are binding agreements 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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

set for that manager. Under the swap, the System pays the counterparty a floating rate payment based on a three-month US dollar LIBOR British Bankers' Association. A total return amount is paid or received based on the total return of the underlying security. The swaps in effect at June 30, 2005 have an effective date of April 18, 2005 and a maturity date of July 31, 2005. The fair and notional values of the swap at June 30, 2005 were $109,685 and $52,594,201, respectively. The counterparty credit risk is equal to the amount of profit or loss that had not yet been realized. The risk is controlled by the System's investment guidelines and limited by periodic resets to the swap that allowed 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 and international securities of 105 percent of fair value. The custodian receives cash or securities as collateral from the borrower. All securities loans can be terminated on demand by either the System or the borrower. Cash collateral is invested in the lending agents' collective collateral investment pool, which at June 30, 2005 had a weighted average maturity of 31 days. The relationship between the maturities of the investment pool and the System's loan is affected by the maturities of securities loans made by other plan entities that invest cash collateral in the investment pool.

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

Securities Lent	Underlying Securities	Securities Collateral Value	Cash Collateral Investment Value
Lent for cash collateral			
Short-term investments	$ 5,709,076		$ 5,790,787
U.S. Government obligations	87,713,171		89,319,022
Asset-backed securities	11,486,846		11,715,581
Corporate and other bonds	27,272,929		27,986,887
Common and preferred stock	77,386,558		80,662,412
Lent for other collateral			
Short-term investments	219,585	$ 223,977	
U.S. Government obligations	23,958,960	24,508,972	
Corporate and other bonds	5,671,872	5,887,950	
Common and preferred stock	1,381,958	1,439,260	
Total	$240,800,955	$32,060,159	$215,474,689

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

D. Income Taxes

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

REQUIRED SUPPLEMENTARY INFORMATION

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

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets *(in thousands)* (a)	Actuarial Accrued Liability-AAL Entry Age *(in thousands)* (b)	Unfunded AAL-UAAL *(in thousands)* (b-a)	Funded Ratio (a/b)	Covered Payroll *(in thousands)* (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/1999	$1,523,311	$1,467,044	$ (56,267)	103.84%	$399,732	-14.08%
7/1/2000	1,694,416	1,690,538	(3,878)	100.23%	449,232	-0.86%
7/1/2001	1,807,813	1,857,802	49,989	97.31%	476,327	10.49%
7/1/2002	1,854,089	2,051,677	197,588	90.37%	507,905	38.90%
7/1/2003	1,903,970	2,251,187	347,217	84.58%	530,216	65.49%
7/1/2004	2,030,539	2,411,135	380,596	84.22%	552,738	68.86%

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

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2000	$27,133,595	100%
2001	29,960,984	100%
2002	31,083,805	100%
2003	36,408,121	88%
2004	51,992,031	66%
2005	49,688,676	69%

Notes To Required Supplementary Information

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

Valuation date	July 1, 2004
Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	Weighted average of 13.6 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.

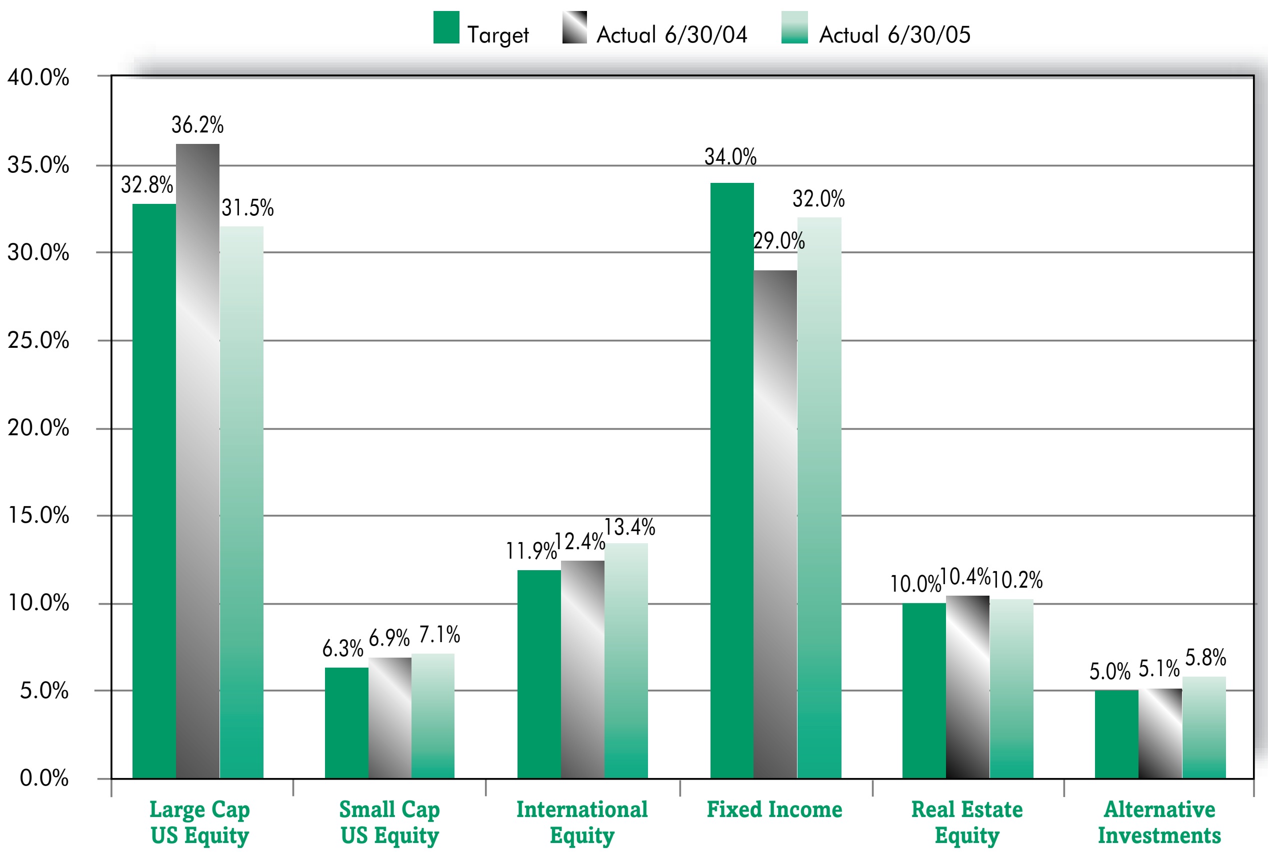
The rate of employer contributions to the plan is composed of normal cost, amortization of the unfunded actuarial accrued liability and an allowance for administrative expenses. The normal cost is a level percent of payroll cost which, along with the member contributions, will pay for projected benefits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

The actuarial valuation performed as of July 1, 2004 resulted in a contribution rate of 12.29% for fiscal 2006 per the GASB methodology, an increase of 0.59% over the fiscal 2005 rate of 11.20% per the GASB methodology. Beginning with fiscal 2003, the funding policy was revised to further stabilize the contribution rate. The methodology now in place sets the employer contribution rate equal to the normal cost and allowance for administrative expense. Amortization of the unfunded liability is included in the contribution rate only for benefit changes or if the actuarial funding ratio falls outside a corridor of 90% and 120%. Use of the corridor method results in an adopted rate of 8.24% for fiscal 2006, an increase of 0.07% over the fiscal 2005 adopted rate of 8.08%.

OVERVIEW

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

The Board has established its asset class strategic target allocations which it believes will achieve the return requirements of the fund at an appropriate level of risk and maintain a comfortable risk tolerance. Further, a disciplined rebalancing policy was adopted to ensure that market movements do not cause asset class weightings to unintentionally stray too far from the target percentages. The actual asset allocation at market is reviewed weekly and if asset class weightings fall outside the "no rebalancing range", transfers between asset classes are initiated to rebalance the asset allocations to within the target ranges. The following graph shows the target and actual asset allocations as of June 30, 2005 and 2004.



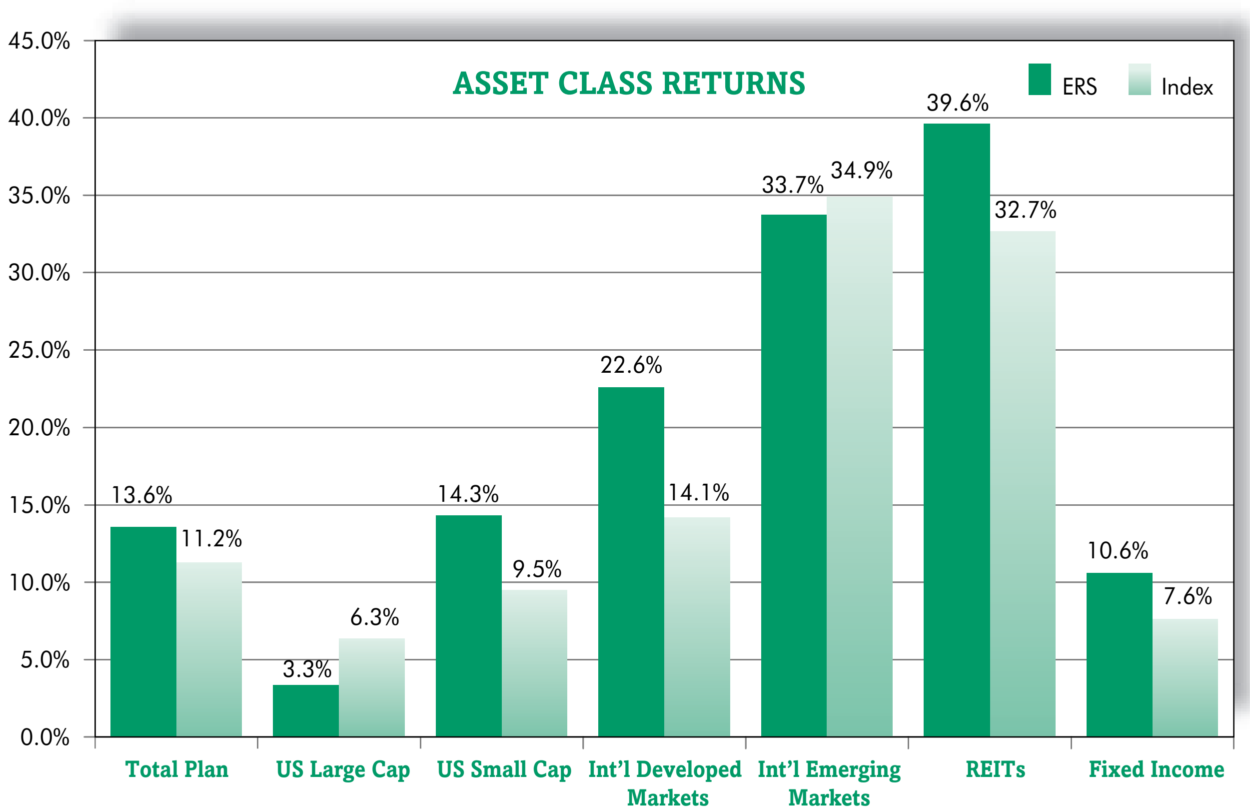
The Board of Trustees hires investment management firms and provides each firm with a specific investment mandate, and assigns a benchmark index or a blend of indices against which the performance of the account is measured. Each managed account has its own investment guidelines outlining the nature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

INVESTMENT

CAPITAL MARKETS AND ECONOMIC CONDITIONS

Financial and Economic Summary

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



CAPITAL MARKETS AND ECONOMIC CONDITIONS *(continued)*

Equity Markets

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

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

Fixed Income

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

Real Estate

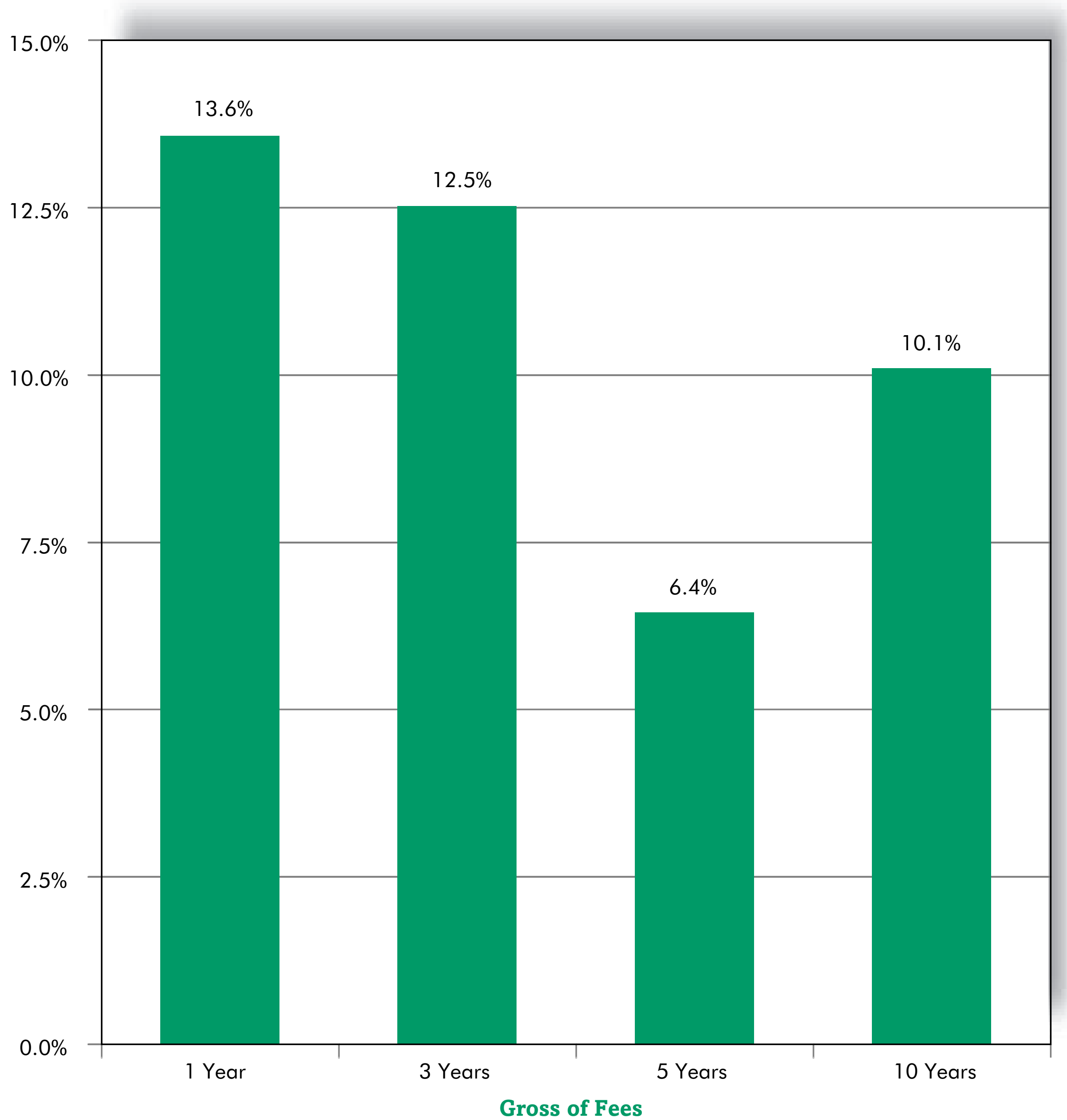
The public real estate market had another outstanding year as measured by the 32.7% return of the NAREIT Equity REIT Index. In an environment of low coupon yields, access to inexpensive financing, and improving real estate fundamentals, the 5% - 6% payouts offered by REITs proved irresistible to investors.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

System

The 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.

CAPITAL MARKETS AND ECONOMIC CONDITIONS *(continued)*

COMPOUND ANNUAL RETURN ON INVESTMENT PORTFOLIO



On a market value basis, the total net assets held in trust rose from $2,067.5 million at June 30, 2004 to $2,307.3 million at June 30, 2005. For fiscal 2005, investments provided a return of +13.2%, net of fees, reflecting an expansionary economic environment. The System's annualized rate of return, net of fees, was +12.2% over the last three years and +6.1% over the last five years. These System returns ranked in the top decile of a universe of public plans for the last 1, 3 and 5-year fiscal periods. The Employees' Retirement System's annualized ten-year net return of 9.8% has handily surpassed the 7.5% long-term threshold return used for actuarial purposes.

ASSET ALLOCATION BY CATEGORY AND INVESTMENT MANAGER

June 30, 2005

ASSET CLASS Manager	**Investment Style**	**Total Assets**	**% of Total Net Assets**
DOMESTIC EQUITIES			
Wanger Asset Management	Small Cap Core	$ 126,163,927	5.5%
DSI International Management	Enhanced S&P 500 Index	120,000,822	5.2%
Enhanced Investment Technologies (INTECH)	Large Cap Growth	108,480,580	4.7%
DePrince, Race & Zollo	Large Cap Value	106,540,142	4.6%
Robert E. Torray	Large Cap Value	103,989,029	4.5%
BGI Equity Index*	Large Cap Index	72,983,825	3.2%
Thomson, Horstman & Bryant	Small Cap Value	58,812,890	2.5%
JP Morgan US Smartindex *	Enhanced S&P 500 Index	50,440,299	2.2%
Sands Capital Management	Large Cap Growth	36,894,485	1.6%
INTERNATIONAL EQUITIES			
BGI Emerging Markets Fund *	Emerging Markets Index	97,906,072	4.2%
LSV Asset Management	Developed Market Value	73,214,884	3.2%
Julius Baer Int'l Equity	Developed Market Growth	72,235,275	3.1%
BGI Global Ascent Fund *	Int'l Equity and Currency	69,968,757	3.0%
ALTERNATIVE INVESTMENTS			
Bridgewater Assoc. All-Weather *	Multi-Asset Real Return	133,981,594	5.8%
CORE FIXED INCOME			
Bridgewater Assoc. TIPS +	Enhanced TIPS Index	135,852,172	5.9%
Trust Company of the West	Mortgage-Backed Securities	122,690,164	5.3%
Peregrine Capital	Duration Management	109,962,665	4.8%
JP Morgan Fleming *	Core Investment-Grade	103,906,518	4.5%
Brandywine Asset Management	Global Bonds	71,309,709	3.1%
HIGH YIELD FIXED INCOME			
MacKay Shields	High Yield Bonds	56,874,075	2.5%
Post Advisory	High Yield Bonds	56,634,995	2.5%
Shenkman Capital	High Yield Bonds	54,748,935	2.4%
REAL ESTATE			
Cohen & Steers	Real Estate Investment Trusts	238,418,708	10.3%
SHORT-TERM			
Standish Mellon Enhanced STIF Fund Portion	Short-Term Cash Management	120,118,398	5.2%
Cash Held at County Treasurer	Short-Term Cash Management	6,132,581	0.3%
Net Assets		$2,308,261,501	100.0%

** Pooled fund*

LARGEST HOLDINGS FOR SEPARATELY MANAGED (NON-POOLED) ACCOUNTS

ASSET CLASS **Manager** Security	**Market Value**	**% of Account**
DOMESTIC EQUITIES		
DePrince, Race & Zollo		
Honeywell Int'l, Inc.	$ 2,487,177	2.34%
Verizon Communications	$ 2,370,026	2.23%
Bank of New York, Inc.	$ 2,357,168	2.22%
H.J. Heinz Co.	$ 2,353,942	2.21%
Colgate Palmolive Co.	$ 2,235,419	2.10%
DSI International		
Exxon Mobil Corp.	$ 4,183,816	3.49%
General Electric Co.	$ 3,863,475	3.22%
Citigroup Inc.	$ 2,811,709	2.35%
Microsoft Corp.	$ 2,744,820	2.29%
Pfizer Inc.	$ 2,186,818	1.82%
INTECH		
Exxon Mobil Corp.	$ 5,815,792	5.37%
General Electric Co.	$ 5,413,300	5.00%
Microsoft Corp.	$ 4,380,335	4.04%
United Parcel Service Inc.	$ 3,676,476	3.39%
United Health Group Inc.	$ 3,225,380	2.98%
Sands Capital Mgt.		
Genentech Inc.	$ 3,211,200	8.71%
Google Inc.	$ 2,794,425	7.58%
Apollo Group Inc.	$ 2,581,260	7.00%
Ebay Inc.	$ 2,574,780	6.98%
Starbucks Corp.	$ 2,376,360	6.44%
Thomson Horstmann & Bryant		
PFF Bancorp Inc.	$ 1,081,353	1.84%
UTI Worldwide Inc.	$ 974,680	1.66%
Energy Partners Ltd.	$ 849,204	1.44%
MAF Bancorp Inc.	$ 844,074	1.44%
ESCO Technologies Inc.	$ 836,640	1.42%
Robert E. Torray & Co.		
Franklin Resources Inc.	$ 5,111,472	4.94%
First Data Corp.	$ 4,242,798	4.10%
AMBAC Financial Group Inc.	$ 3,941,440	3.81%
General Electric Co.	$ 3,801,105	3.68%
Amgen Inc.	$ 3,790,842	3.67%

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

ASSET CLASS / **Manager** / Security	**Market Value**	**% of Account**
DOMESTIC EQUITIES		
Wanger Asset Mgt.		
Chico's Fashion Inc.	$ 2,742,400	2.18%
Western Wireless Corp.	$ 1,903,500	1.51%
American Tower Corp.	$ 1,891,800	1.50%
Pride Int'l Inc.	$ 1,799,000	1.43%
Americredit Corp.	$ 1,785,000	1.42%
INTERNATIONAL EQUITIES		
Julius Baer Investment Mgt.		
Total SA	$ 1,312,579	1.82%
British Petroleum PLC	$ 1,169,195	1.62%
Roche Holdings AG	$ 1,064,283	1.48%
Sberbank Rossii	$ 1,029,600	1.43%
Vodafone Group PLC	$ 1,010,367	1.40%
LSV Asset Mgt.		
Shell Transport & Trading	$ 1,729,731	2.39%
Total SA	$ 1,528,990	2.11%
Toyota Motor Corp.	$ 1,493,990	2.06%
UBS AG	$ 1,451,877	2.00%
ENI	$ 1,323,486	1.82%
REAL ESTATE SECURITIES		
Cohen & Steers Capital Mgt.		
Boston Properties Inc.	$15,519,000	6.53%
Simon Property Group Inc.	$13,983,321	5.89%
Vornado Realty Trust	$11,698,200	4.93%
Prologis	$11,186,720	4.71%
Avalonbay Communities Inc.	$10,706,000	4.51%
CORE FIXED INCOME		
Brandywine Asset Mgt.		
FNMA Note, 4.0%, 5/23/2007	$ 6,582,961	9.50%
Government of Canada Treasury Bill, 1/26/2006	$ 6,484,515	9.36%
Federal Home Loan Bank Bond, 4.0%, 4/25/2007	$ 6,462,746	9.32%
Government of Poland Bond, 5.0%, 10/24/2013	$ 4,928,026	7.11%
US Treasury Bill, 12/08/2005	$ 4,165,134	6.01%
Bridgewater Associates		
US Treasury Inflation Index Note, 3.625%, 01/15/2008	$21,669,188	16.06%
US Treasury Inflation Index Bond, 3.625%, 04/15/2028	$14,387,592	10.66%
US Treasury Inflation Index Note, 3.0%, 07/15/2012	$11,769,816	8.72%
US Treasury Inflation Index Note, 3.375%, 01/15/2007	$ 5,830,587	4.32%
US Treasury Inflation Index Note, 3.875%, 01/15/2009	$ 2,711,600	2.01%

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

ASSET CLASS / **Manager** / Security	**Market Value**	**% of Account**
CORE FIXED INCOME *(continued)*		
Peregrine Capital Mgt.		
US Treasury Bond, 5.375%, 02/15/2031	$ 29,507,875	27.05%
US Treasury Bond, 6.25%, 05/15/2030	$ 19,900,499	18.24%
Federal Home Loan Bank Bond, 2.25%, 01/30/2006	$ 7,338,950	6.73%
FNMA Note, 2.4%, 04/28/2006	$ 7,221,525	6.62%
Federal Home Loan Bank Bond, 1.52%, 07/14/2005	$ 6,995,800	6.41%
TCW Asset Mgt.		
FHLMC Multiclass, 5.0%, 04/15/2033	$ 6,405,376	5.23%
FNMA Debenture, 2.375%, 12/15/2005	$ 4,972,750	4.06%
FHLMC Multiclass, Variable Rate, 10/15/2033	$ 4,005,329	3.27%
FHLMC Multiclass, Variable Rate, 05/15/2034	$ 3,688,100	3.01%
FNMA Guaranteed REMIC, Variable Rate, 08/25/2033	$ 3,668,272	3.00%
HIGH YIELD FIXED INCOME		
MacKay Shields, LLC		
LNR Property Corp. Term Loan, 5.59%, 02/03/2008	$ 981,545	1.74%
Calpine Corp. 2nd Priority 144A, 8.5%, 07/15/2010	$ 829,290	1.47%
Frontiervision Operating Partner LP, 11.0%, 10/15/2006	$ 712,850	1.26%
Cedar Brakes LLC Senior 144A, 9.875%, 09/01/2013	$ 648,020	1.15%
El Paso Production Holding Co. Sr. Note, 7.75%, 06/01/2013	$ 581,788	1.03%
Post Advisory		
Qwest Services Corp. Sr. Note, Variable Rate, 12/15/2010	$ 1,155,000	2.04%
Hovnanian Enterprises Inc. Sr. Note, 8.875%, 04/01/2012	$ 1,082,500	1.91%
NDC Health Corp. Sr. Note, 10.5%, 12/01/2012	$ 1,062,500	1.88%
Transdigm Inc. Sr. Note, 8.375%, 07/15/2011	$ 1,060,000	1.87%
Turning Stone Casino Resort, 9.125%, 12/15/2010	$ 1,057,500	1.87%
Shenkman Capital Mgt.		
Crown Castle Int'l Corp. Convertible Preferred	$ 730,725	1.34%
Brickman Group Ltd. Sr. Note, 11.75%, 12/15/2009	$ 566,250	1.03%
Encore Acquisition Co. Sr. Note, 8.375%, 06/15/2012	$ 545,000	1.00%
Gray Television Inc. Sr. Note, 9.25%, 12/15/2011	$ 543,750	0.99%
Boyd Gaming Corp. Sr. Note, 8.75%, 04/15/2012	$ 543,125	0.99%

CHEIRON Classic Values, Innovative Advice

December 23, 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, 2004. The results of the valuation are contained in this report.

Funding Objective

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

Assumptions

The actuarial assumptions used in performing the July 1, 2004 valuation were recommended by the actuary and adopted by the Board of Trustees based on the prior actuary's most recent review of the System's experience for the five year period ending June 30, 2000. The assumptions reflect our understanding of the likely future experience of the System and the assumptions as a whole represent our best estimate for the future experience of the System. The results of this report are dependent upon future experience conforming to these assumptions. To the extent that future experience deviates from these assumptions, the true cost of the System could vary from our results. 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.

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

ACTUARIAL

December 23, 2005
Fairfax County Employees' Retirement System
Page 2

Supporting Schedules
We are responsible for all supporting schedules to be found in the Actuarial Section.
We are responsible for the 2003 and 2004 information in the Schedule of Funding Progress, Schedule of Employer Contributions and Notes to Trend Data shown in the Financial Section.

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

Although there is no formal procedure for making this comparison, we compared the least valuable rate under the 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 CHERION. I am also a member of the American Academy of Actuaries and meet their Qualification Standards to render the actuarial opinion contained herein.

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

Sincerely,
CHEIRON

Fiona E. Liston

Fiona E. Liston, FSA
Consulting Actuary

CHEIRON

SUMMARY OF VALUATION RESULTS

Overview

This report presents the results of the July 1, 2004 actuarial valuation of the Fairfax County 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 2006;

★ Provide specific information and documentation required by the Governmental Accounting Standards Board (GASB).

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

★ The actuary's comments;

★ The prior year's experience of the System's assets, liabilities, contributions, and membership;

★ A series of graphs which highlight key trends experienced by the System; and

★ A summary of all principal results from this year's valuation, compared to last year's, in a single table, intended for quick reference purposes.

Actuary's Comments

Fairfax County's annual contribution to this System is determined by using a Corridor Funding Method. Under this funding approach, the County's contribution rate is based on the normal cost rate plus expense rate determined as of the implementation date of the corridor method (July 1, 2001) 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. The total Corridor Funding Contribution is currently 6.13% of payroll. The additional 0.13% is being paid to fund a 2002 ad hoc COLA increase. The normal cost rate and actuarial accrued liability will continue to be measured using the entry age funding method. If the funded status falls outside the corridor, a credit (if above 120%) or charge (if below 90%) will be established based on a 15-year amortization equal to the amount necessary to re-enter the corridor. Once the funded status is within the corridor, the contribution rate will return to the normal cost rate plus expense rate.

The valuation as of July 1, 2004 shows that the actuarial funded ratio 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 2.02% of payroll.

The County's contribution rate for FY 2006 will increase from 8.08% to 8.15% of payroll.

Trends

The financial markets performed above expectation during the fiscal year ending in 2004, which produced an actuarial gain on the asset side of the System. The actual return on a market value basis was approximately 18.20%. On an actuarial value basis, the assets returned 8.48% compared with an assumed rate of return of 7.5%. The gain recognized for funding purposes was $18 million.

The measurement of liabilities produced a loss this year in the amount of $27 million. This loss was largely due to increases in pay which exceeded those assumed (loss of $8 million), past service for new hires (loss of $3 million), demographic experience (loss of $31 million), and offset by a base retiree COLA less than 3% (gain of $15 million).

Another component of loss came from the corridor method contribution not being sufficient to pay the amortization component of the underlying calculation. This amounted to an additional $30 million in apparent loss.

The combination of these components over the last year produced a deterioration in the System's funding ratio (actuarial value of assets over actuarial accrued liability) from 84.6% at July 1, 2003 to 84.2% at July 1, 2004. For purposes of measuring whether the System remains within the funding corridor, an adjusted funding ratio is used. In this ratio there is an additional asset recognized in the amount of the Unfunded Actuarial Liability (UAL) payments being made by the County to pay for benefit increases. On this basis, the System's

SUMMARY OF VALUATION RESULTS *(continued)*

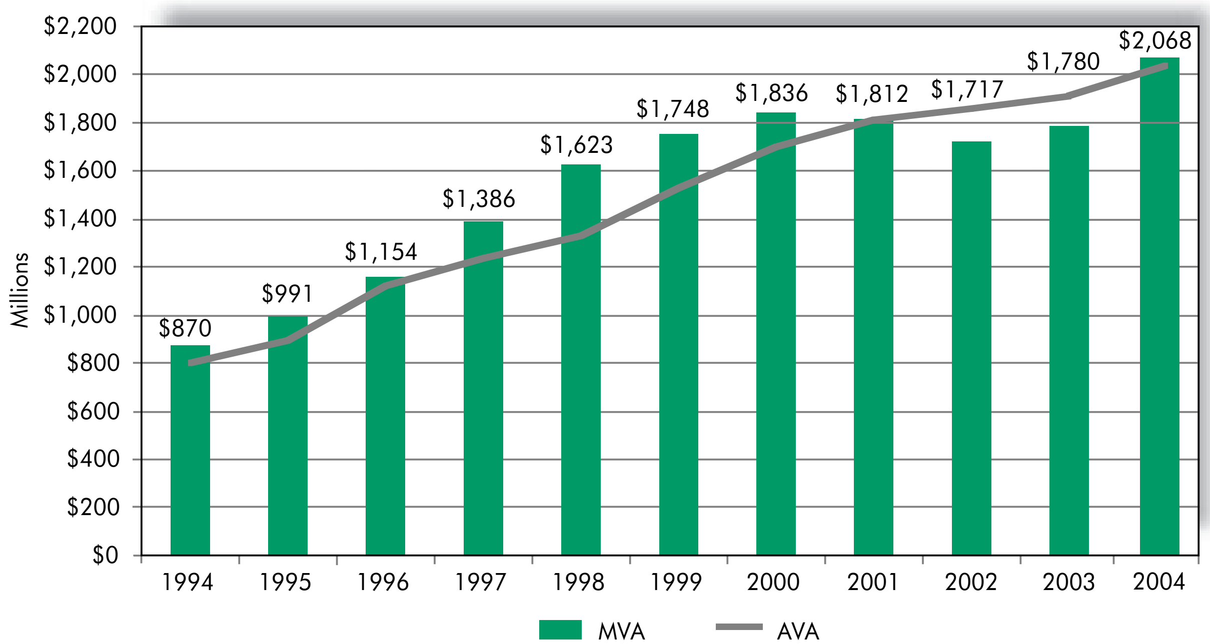
actuarial funded ratio also decreased from 84.9% at July 1, 2003 to 84.5% at July 1, 2004.

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

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

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

GROWTH IN ASSETS

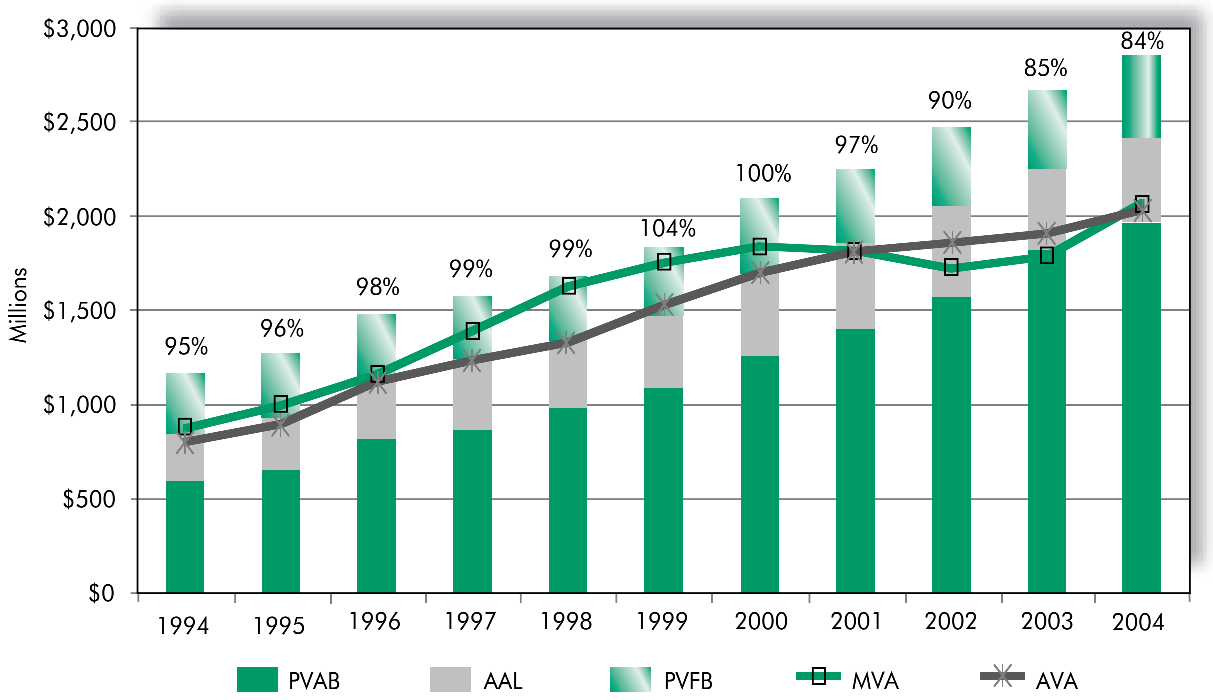


The positive growth in the market value of assets (MVA) continued with a substantial return of over 18%. Due to the asset smoothing method in place, the actuarial value of assets (AVA) increased by a lesser amount due to continued recognition of prior years' losses.

Over the period July 1, 1994 to June 30, 2004 the System's assets returned approximately 9.3% per year measured at Market Value, compared to a valuation assumption of 7.5% per year.

SUMMARY OF VALUATION RESULTS *(continued)*

ASSETS AND LIABILITIES

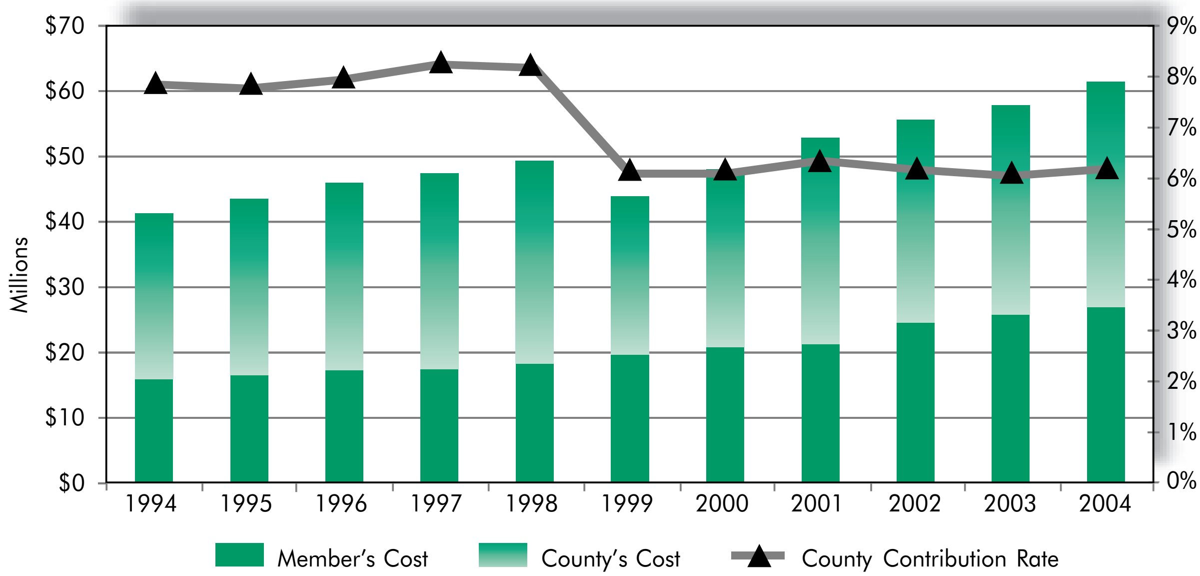


The three colored bars represent the three different measures of liability mentioned in this report. For funding purposes, the target amount is represented by the top of the gray bar. We compare the actuarial value of assets to this measure of liability in developing the funded percent. These are the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

As you can see, the System had its highest funded percentage (104%) at July 1, 1999, before a combination of benefit improvements and the 2000 market slide. The amount represented by the top of the light green bars, the Present Value of Future Benefits (PVFB), is the amount needed to provide all benefits for the current participants and their beneficiaries. If the System had assets equal to the PVFB no contributions would, in theory, be needed for the current members.

SUMMARY OF VALUATION RESULTS *(continued)*

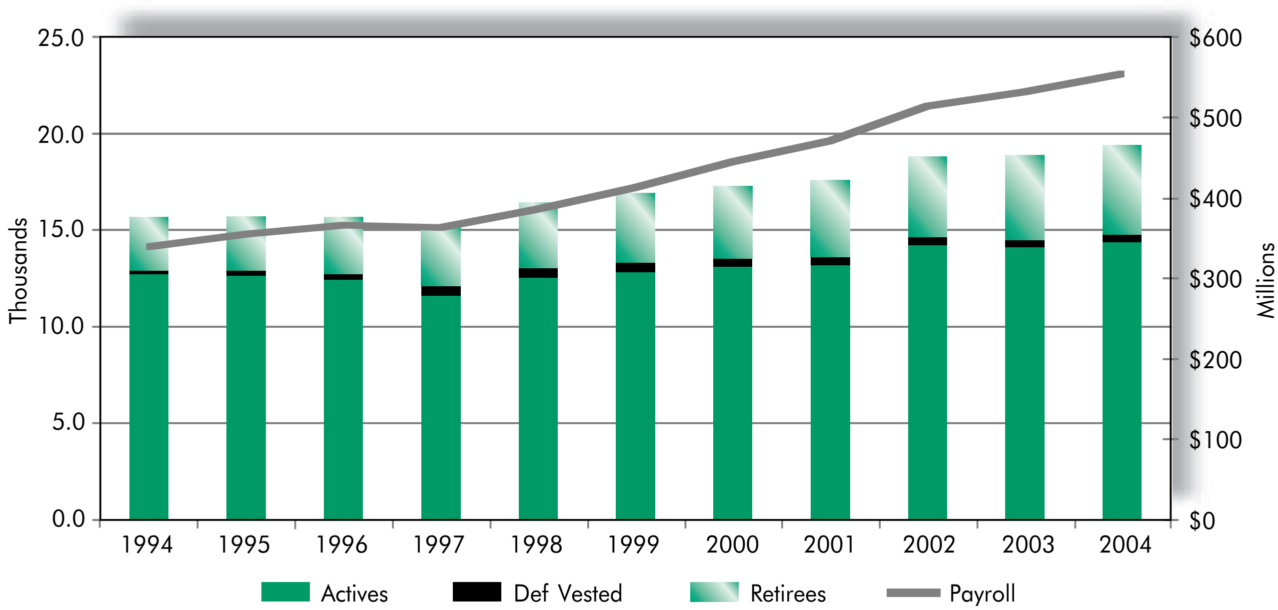
CONTRIBUTION RATES



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

The member contribution rate is set by the County Ordinance, depending on which plan the member participates in. The County contribution rate is set by the actuarial process, as constrained by the Corridor Method. Please note there is a lag in the rate shown. For example, the 2004 value is the rate prepared by the 2002 valuation and implemented for the period July 1, 2003 to June 30, 2004.

PARTICIPANT TRENDS



As with many funds in this country, there has been a steady growth in the number of retired members as the System has matured. The active-to-inactive ratio has decreased from 4.6 actives to each inactive in 1994 to 3.1 actives for each inactive today. While this would be an alarming trend in a pay-as-you-go system, the pool of invested assets has been established in anticipation of this development.

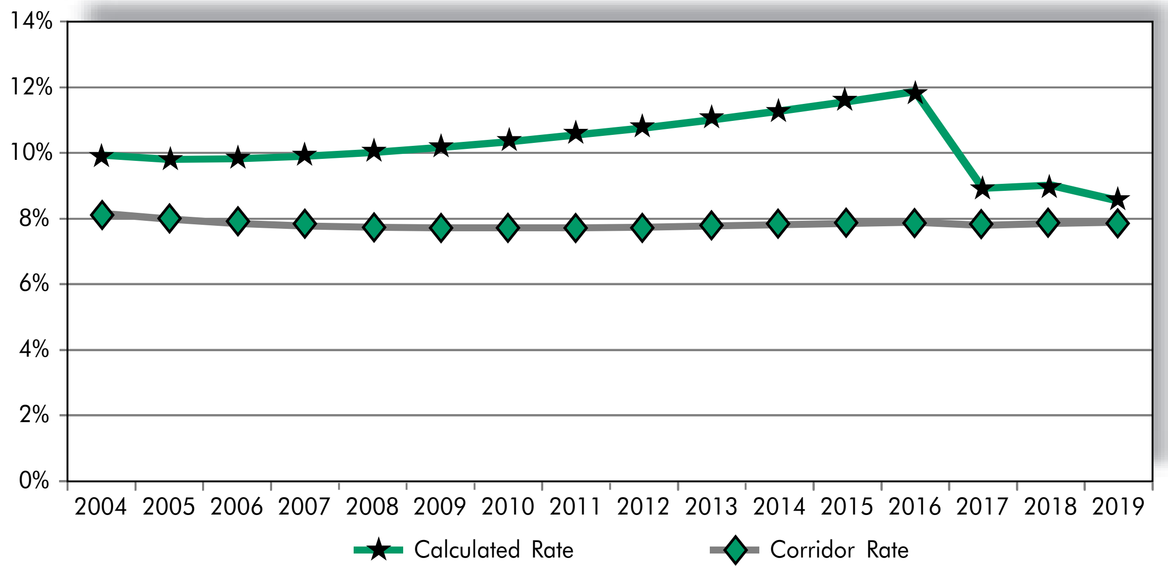
SUMMARY OF VALUATION RESULTS *(continued)*

Future Outlook

Base Line Projections

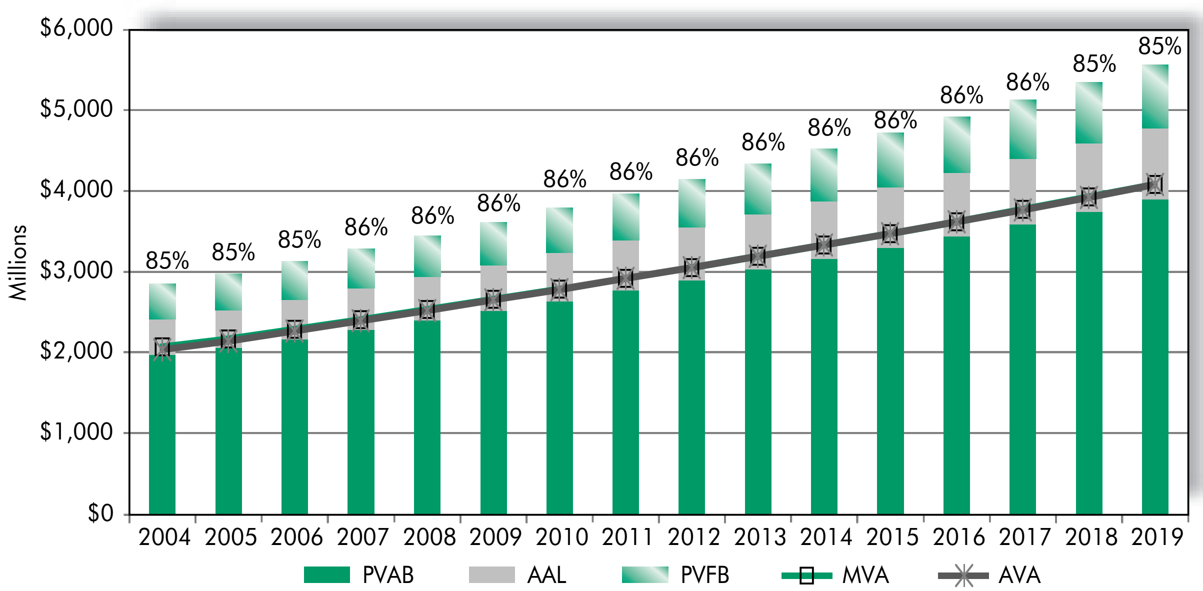
The two graphs below show the expected progress of the plan over the next 15 years assuming the System's assets earn 7.5% on their market value. The chart entitled "Plan Funding" shows the system not re-entering the corridor (if all other actuarial assumptions are met as well as the 7.5% interest rate).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

PLAN FUNDING



The "Assets and Liabilities" graph shows the projected funding status over the next 15 years. Note that the 2004 funded level differs from that shown earlier. The ratio used here reflects the corridor method. Since last year's excellent market return has erased the prior losses, resulting in a market value slightly in excess of the actuarial value, the System's funded status is projected to increase slightly from the current level of 85%.

ASSETS AND LIABILITIES

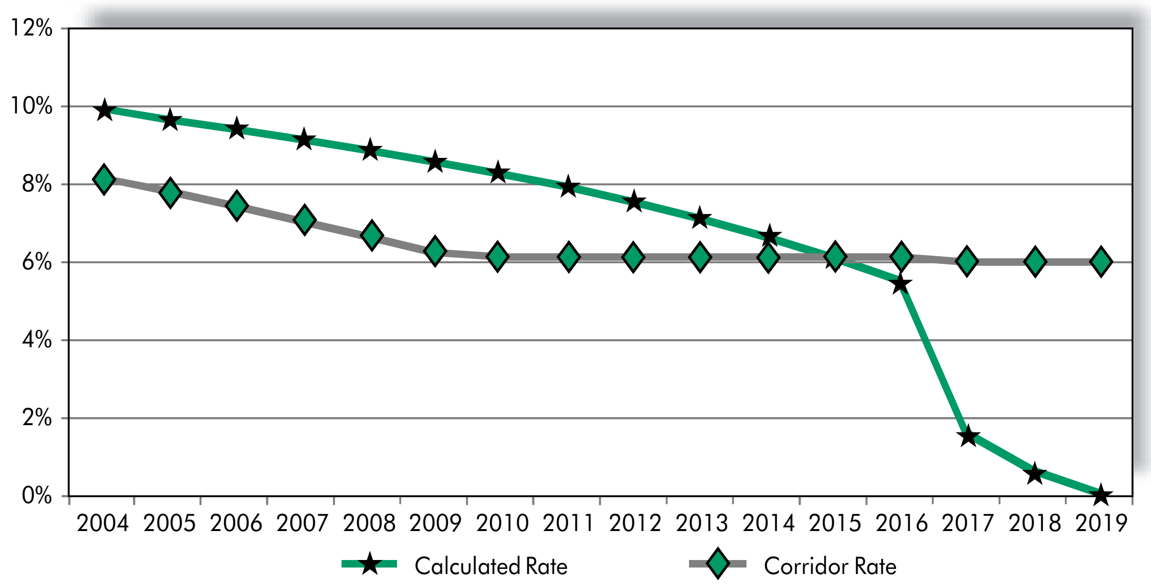


SUMMARY OF VALUATION RESULTS *(continued)*

Projections With Asset Returns of 9.0%

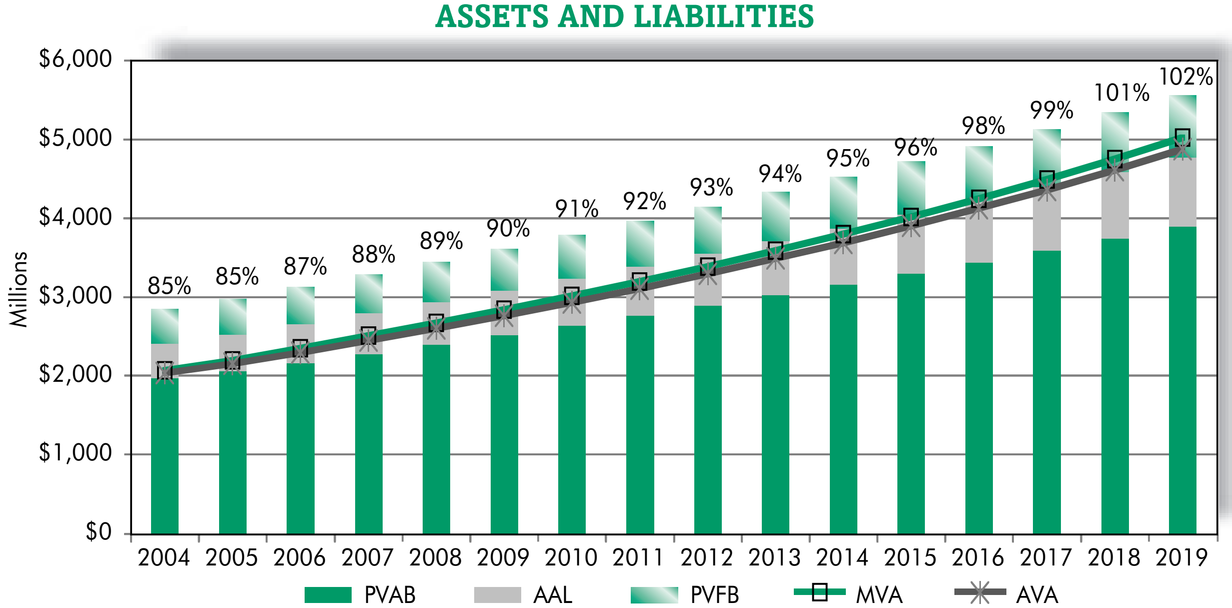
The future funding status of this System will be largely driven by the investment earnings. Due to the size of assets, as compared to liabilities, the System is in a highly leveraged position. This means that relatively minor changes in the market returns can have significant effects on the System's status. The next two charts show what the next 15 years would look like with a 9% annual return in each year.

PLAN FUNDING



As you can see, the system would re-enter the corridor by 2010, and would be fully funded by the end of the period. The contribution rate slowly drops back down to reflect the level of the System's normal cost plus expenses.

ASSETS AND LIABILITIES



SUMMARY OF VALUATION RESULTS *(continued)*

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

Participant Counts	**July 1, 2003**	**July 1, 2004**	**% Change**
Active members	14,065	14,330	1.9%
Vested former members	396	398	0.5%
Retired members and beneficiaries	4,388	4,619	5.3%
Total	18,849	19,347	2.6%
Annual salaries of active members	$ 530,215,933	$ 552,738,459	4.2%
Annual benefits for retired members and beneficiaries	$ 71,732,086	$ 78,711,773	9.7%

Assets and Liabilities	**July 1, 2003**	**July 1, 2004**	**% Change**
Total actuarial liability	$2,251,187,396	$2,411,135,460	7.1%
Assets for valuation purposes	1,903,970,061	2,030,538,870	6.6%
Unfunded actuarial liability	$ 347,217,335	$ 380,596,590	9.6%
Funded ratio	84.58%	84.22%	
Present value of accrued benefits	$1,821,149,363	$1,966,094,149	8.0%
Market value of assets	1,780,113,740	2,067,515,325	16.1%
Unfunded FASB accrued liability	$ 41,035,623	$ 0	
Accrued benefit funding ratio	97.75%	105.16%	

Contributions *(as a percentage of payroll)*	**Fiscal Year 2005**	**Fiscal Year 2006**
GASB Method:		
Employer normal cost rate	5.85%	5.85%
Unfunded actuarial liability contribution	5.70%	6.29%
Administrative expense	0.15%	0.15%
Total employer contribution — GASB method	11.70%	12.29%
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	1.95%	2.02%
Administrative expense	0.15%	0.15%
Total employer contribution — corridor method	8.08%	8.15%

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Funding Method

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

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

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

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

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

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

Actuarial Value of Assets

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

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

Changes Since Last Valuation

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

LONG-TERM ASSUMPTIONS USED
to Determine System Costs and Liabilities

Demographic Assumptions

MORTALITY

1994 Uninsured Pensioners Mortality Table

*Annual Deaths Per 1,000 Members**

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

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

1994 Uninsured Pensioners Mortality Table + 5

Annual Deaths per 1,000 Disabled Members

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

TERMINATION OF EMPLOYMENT: *(Prior to Normal Retirement Eligibility)*

Annual Termination 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

Annual Termination 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.

LONG-TERM ASSUMPTIONS USED *(continued)*

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

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

RETIREMENT

***Annual retirement 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
50	400	N/A
51	400	200
52	400	200
53	400	200
54	400	200
55	400	200
56	250	200
57	250	200
58	250	200
59	250	200
60	250	200
61	250	200
62	250	200
63	250	200
64	250	200
65	250	333
66	250	250
67	250	250
68	250	250
69	250	250
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%

FAMILY COMPOSITION

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

SICK LEAVE CREDIT

Retirees, deferred vested terminations, and deceased members are assumed to receive an additional 1.5% of service credit due to sick leave.

ECONOMIC ASSUMPTIONS

Investment Return:
7.5% compounded per annum.

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

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

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

Administrative Expenses:
0.15% of payroll.

CHANGES SINCE LAST VALUATION

There have been no changes since the last valuation.

ANALYSIS OF FINANCIAL EXPERIENCE

GAIN AND LOSS IN ACCRUED LIABILITY DURING YEARS ENDED JUNE 30

Resulting from Differences Between Assumed Experience and Actual Experience

Type of Activity	2001	2002	2003	2004
Investment Income	$ 2,083,439	$ (68,576,480)	$ (61,928,161)	$ 18,488,228
Combined Liability Experience	(25,622,128)	(70,933,718)	(91,356,217)	(57,139,063)
Gain (or Loss) During Year From Financial Experience	(23,538,689)	(139,510,198)	(153,284,378)	(38,650,835)
Non-Recurring Items	(30,509,256)	(7,877,508)	-	-
Composite Gain (or Loss) During Year	$(54,047,945)	$(147,387,706)	$(153,284,378)	$(38,650,835)

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

	Added to Rolls		*Removed From Rolls*		*On Rolls @ Yr. End*			
Year Ended June 30	**No.**	**Annual Allowance**	**No.**	**Annual Allowance**	**No.**	**Annual Allowance**	**% Increase Allowance**	**Average Allowance**
1999	334	$ 7,658,527	105	$1,831,976	3,590	$52,920,359	12.37%	$14,741
2000	285	7,669,426	118	1,807,025	3,757	58,782,760	11.08%	15,646
2001	353	9,384,327	136	1,544,050	3,974	66,623,037	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
2004	365	11,473,126	136	2,478,847	4,619	93,782,199	10.61%	20,304

SOLVENCY TEST

AGGREGATE ACCRUED LIABILITIES

Valuation Date	*Aggregate Accrued Liabilities for* (1) Active Member Contributions	(2) Retirees Terminated vested And beneficiaries	(3) Active Members (Employer Financed Portion)	Reported Assets	Portion of Accrued Liabilities Covered by Reported Assets (1)	(2)	(3)
07/01/99	$177,466,940	$ 591,682,196	$ 697,894,630	$1,523,310,967	100%	100%	108%
07/01/00	189,751,068	671,715,760	829,070,935	1,694,416,094	100%	100%	100%
07/01/01	194,412,262	731,698,653	931,691,000	1,807,813,497	100%	100%	95%
07/01/02	207,072,630	820,951,804	1,023,653,031	1,854,088,532	100%	100%	81%
07/01/03	229,276,020	945,552,585	1,076,358,791	1,903,970,061	100%	100%	68%
07/01/04	243,581,448	1,046,687,178	1,120,866,834	2,030,538,870	100%	100%	66%

SCHEDULE OF ADDITIONS BY SOURCE

Fiscal Year	Plan Member Contributions	Employer Contributions	Employer Contributions % of covered Payroll	Net Investment Income (loss)	Total Additions
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
2005	27,563,754	46,958,113	8.08%	271,340,627	345,862,494

SCHEDULE OF DEDUCTIONS BY TYPE

Fiscal Year	Benefit Payments	Refunds of Contributions	Administrative Expenses	Total Deductions
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
2005	98,494,430	6,545,800	1,015,986	106,056,216

SCHEDULE OF BENEFIT PAYMENTS BY TYPE

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Total
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
2005	90,329,194	2,748,877	3,257,053	2,159,306	98,494,430

SCHEDULE OF RETIRED MEMBERS BY BENEFIT TYPE

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Total
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
2005	4,137	167	378	207	4,889

SCHEDULE OF AVERAGE MONTHLY BENEFIT AMOUNTS

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Average
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	1,692
2005	1,932	1,401	740	939	1,780

FAIRFAX COUNTY RETIREMENT
ADMINISTRATION AGENCY

10680 MAIN STREET, SUITE 280 • FAIRFAX, VIRGINIA 22030