Fairfax County Uniformed Retirement System

A Pension Trust Fund of Fairfax County Virginia

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2001

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FAIRFAX COUNTY
VIRGINIA

BOARD OF TRUSTEES
UNIFORMED RETIREMENT SYSTEM
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April 15, 2002

Dear Members of the Board of Trustees:

I am pleased to submit to you the annual report of the Fairfax County Uniformed Retirement System ("System") for the fiscal year ended June 30, 2001. 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 year 2001 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, the financial statements of the System and required supplementary information; (3) an Investment Section that contains investment results; (4) the 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) the Statistical Section that contains information regarding the System membership.

History

The Fairfax County Uniformed Retirement System was established on July 1, 1974, as a public employee retirement system providing defined benefit pension plan coverage for uniformed or sworn employees of the Fire and Rescue Department, helicopter pilots, the Sheriff's Department, the Department of Animal Control and certain park police officers. There were 1,620 active members and 636 retirees participating in the System as of June 30, 2001.

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 the benefits at the early or normal service retirement date.

Capital Markets and Economic Conditions

Fiscal year 2001 saw a reversal of the trend experienced in the capital markets during the previous decade. Prices of domestic and international equities fell substantially. The Standard & Poors 500 Index declined by 14.8% for the year and the international equity indices fell by over 20%. Equity valuations in the technology sector lead the decline with large capitalization U.S. growth stocks declining by 32%. Returns on fixed income investments were relatively strong with the Lehman Brothers Aggregate Index up 11.2%, helping to moderate the impact of the decline in the equity markets.

In this difficult environment, the System's investments earned a return of -2.9% for the year, net of investment management fees. While the total return was negative and well below those of recent years, the System did well in relative terms, as the -2.9% was within the top quartile of public funds.

After accounting for all cash flows, including contributions, expenses, and benefit payments, the market value of the System's net assets declined 1.9%, from $656.5 million on June 30, 2000 to $644.2 million on June 30, 2001.

Major Initiatives

During the year, we reviewed our strategic asset allocation and modified our strategy to include 5% target allocations in both private equity and real estate. Commitments were made to invest in three private equity fund of funds products.

With respect to benefit provisions, proposals were presented to enhance benefits in line with the results of a county-wide review of retirement benefits. These proposals are under consideration by the County.

With the System in a fully funded status at June 30, 2000, we began a review of the current actuarial funding policy. In anticipation of increased volatility in future employer contribution rates due to the size of the System's assets relative to contributions and a funding ratio at or near 100%, alternatives to the current funding methodology were reviewed. This review will continue during the next year.

Financial Highlights

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 generally accepted accounting principles. We believe the internal controls in effect during the fiscal year ended June 30, 2001, adequately safeguard the System's assets and provide reasonable assurance regarding the proper recording of financial transactions. In addition, the budget for the System is annually presented to and approved by the Board of Trustees and the County's Board of Supervisors.

Additions

The primary sources of additions for the System include member and employer contributions as well as net investment income. Total contributions and net investment income for fiscal year 2001 totaled $6.6 million, a decrease of $48.1 million versus fiscal year 2000.

Table 1. Contributions and Investment Income

	FY 2001 (millions)	FY 2000 (millions)	Increase/ (Decrease) Amount	Increase/ (Decrease) Percentage
Employer Contributions	$18.8	$16.5	$2.3	13.9%
Member Contributions	6.5	6.0	0.5	8.3%
Net Investment (Loss) Income	(18.8)	32.1	(50.9)	(158.6)%
	$6.5	$54.6	$(48.1)	(88.1)%

Contributions

Contributions from Fairfax County increased 13.9% over the prior year . The increase in employer contributions was attributable to an increase in payroll and an increase in employer contribution rate from 18.75% of payroll in FY 2000 to 20.11% in FY 2001. Member contributions increased 8.3% over the prior year, also due to the higher payroll base.

Investments

The net investment income portion of total additions decreased by $50.9 million, declining from a positive $32.1 million in FY 2000 to a negative $18.8 million in FY 2001. Dividend and interest income declined by $0.4 million or 2.0%. Realized and unrealized losses on investments totalled $36.3 million compared to gains in FY 2000 of $14.6 million. Investment expenses declined by $0.3 million or 14.5%. The market value of net assets increased to $644.2 million from $656.5 million.

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. Deductions for fiscal year 2001 totaled $18.9, an increase of $2.3 million or 13.9% over the prior fiscal year.

Table 2. Deductions by Type

	FY 2001 (millions)	FY 2000 (millions)	Increase/ (Decrease) Amount	Increase/ (Decrease) Percentage
Benefits	$18.4	$15.7	$2.7	17.2%
Refunds and Other Expenses	0.5	0.9	(0.4)	(44.4)%
	$18.9	$16.6	$2.3	13.9%

The increase in benefit payments to $18.4 million was due both to an increase in the number of retirees and growth in the average benefit payment. The number of retirees and beneficiaries increased to 636 at June 30, 2001 from 589 a year earlier. Retirees also received a 4.1% cost-of-living increase effective July 1, 2000. Included in refunds and other expenses for fiscal 2001 and 2000 are unusual losses due to a possible misappropriation. The losses are expected to be recovered by future insurance claims and are subject to an ongoing investigation.

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, 2000 indicated that the ratio of assets accumulated by the System to total actuarial accrued liabilities for benefits declined from 105.3% to 101.6%. The Actuarial Section contains further information on the results of the July 1, 2000 valuation.

Investment Policies and Strategies

The Board of Trustees has an adopted Statement of Investment Objectives and Policy. This Statement establishes the investment goals, guidelines, constraints and performance standards the Board of Trustees will use 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 §51.1-124.30.C.

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 mutual funds and a short-term investment fund are held by State Street Bank and Trust Company, as agent, in the System's name. State Street Boston 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

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

Acknowledgements

The annual report of the Uniformed Retirement System was prepared by the System's staff under the leadership of the Board of Trustees. I would like to thank the staff who have worked hard throughout the year 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.

Respectfully submitted,

Laurnz A. Swartz
Executive Director

BOARD OF TRUSTEES

ADMINISTRATIVE ORGANIZATION

Administrative Staff

Laurnz A. Swartz
Executive Director

Jeffrey A. Willison
Investment Manager

Retirement Administrator

Professional Services

Actuary

Milliman & Robertson, Inc.
Actuaries
Vienna, VA

Auditor

KPMG LLP
Certified Public Accountants
Washington, DC

Investment Managers

Credit Suisse Asset Management
New York, NY

Lazard Asset Management
New York, NY

Payden & Rygel Investment Counsel
Los Angeles, CA

Schroder Capital Management
International, Inc.
London, England

Barclays Global Investors
San Francisco, CA

J. L. Kaplan Associates
Boston, MA

Marathon-London
London, England

State Street Global Advisors
Boston, MA

JP Morgan Investment Management, Inc.
New York, NY

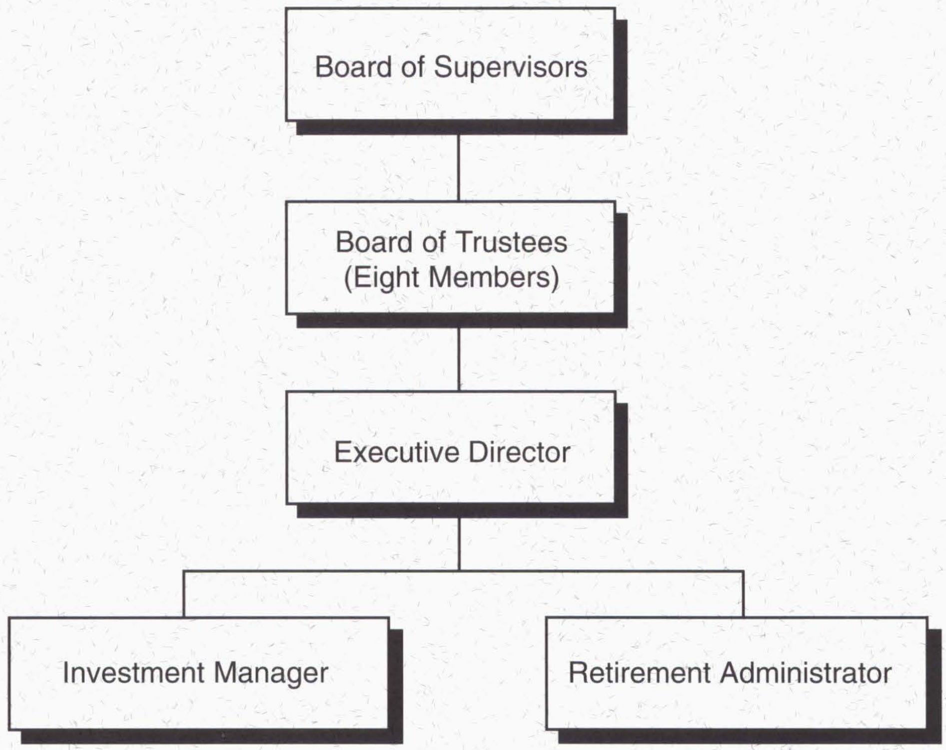
Investment Consultant

BARRA RogersCasey
Darien, CT

Custodial Bank

State Street Bank and Trust Company
Boston, MA

ORGANIZATIONAL CHART



SUMMARY OF PLAN PROVISIONS

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

The general provisions of the Uniformed Retirement System are as follows:

All Plans

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

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

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 55.

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

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

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

After Retirement — Refunds of any of the member's contributions and interest not already paid out in benefits will be paid to the named beneficiary (ies) unless the member has elected the irrevocable Joint and Last Survivor Option which provides a benefit to the member's spouse for life. At retirement, the member may choose to have his 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.

SUMMARY OF PLAN PROVISIONS
(Continued)

Normal Retirement Benefit: (Plan A or Plan B) 2.0% 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 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, a supplemental benefit is payable up to age 62 (and in some cases longer). The basic amount of the supplemental benefit is based on the primary Social Security benefit the member would have been entitled to if the member were 65 on the date of retirement. For members hired on or after July 1, 1976, this basic amount is equal to a percentage of the Social Security benefit. That percentage is determined by dividing the member's creditable service by 25. The exact amount of this benefit also depends on the member's age and Plan (see below). The benefit is then increased by 3%.

For Plan C and Plan D members, normal retirement benefits are calculated at 2.5% of average final compensation (highest consecutive three years). The benefit is then increased by 3%. No supplemental benefits are payable under plans C or D.

Cost of Living Benefit: Annual cost-of-living adjustments are provided to retirees and beneficiaries equal to the lesser of 4 percent or the percentage increase in the Consumer Price index for the Washing ton Consolidated Metropolitan Statistical Area.

Plan A

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

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

Plan B

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

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

Plan C

Contribution Rate: 4% of creditable compensation.

Plan D

Contribution Rate: 7.08% of creditable compensation.

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KPMG

2001 M Street, N.W.
Washington, DC 20036

Independent Auditors' Report

The Board of Supervisors
County of Fairfax, Virginia

The Board of Trustees
of the Fairfax County Uniformed
Retirement System:

We have audited the financial statements of the Fairfax County Uniformed Retirement System (System), a pension trust fund of the County of Fairfax, Virginia, as of and for the years ended June 30, 2001 and 2000, as listed in the accompanying table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the System as of June 30, 2001 and 2000, and changes in plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on pages 19 and 20 is required by the Governmental Accounting Standards Board. Such information has been subjected to the auditing procedures applied in the audits 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.

We did not audit the information included in the introductory, investment, actuarial, and statistical sections, and accordingly, express no opinion thereon.

KPMG LLP

October 4, 2001

STATEMENTS OF PLAN NET ASSETS

as of June 30, 2001 and 2000

Assets	**2001**	**2000**
Equity in County's pooled cash and temporary investments	$5,384,723	$1,199,159
Accrued interest and dividends receivable	3,104,237	2,950,028
Receivable from sale of investments	23,784,190	50,184,282
Investments, at fair value		
U.S. Government obligations	37,137,613	24,991,501
Asset-backed securities	107,414,471	114,271,778
Corporate bonds	110,035,401	78,147,782
Common and preferred stock	91,492,426	117,010,627
Mutual funds	305,444,217	302,570,574
Short-term investments	42,343,345	92,705,012
Cash collateral received under securities lending agreements	56,031,249	54,210,104
Total investments	749,898,722	783,907,378
Total assets	782,171,872	838,240,847
Liabilities		
Payable for collateral received under securities lending agreements	56,031,249	54,210,104
Payable for purchase of investments	81,341,064	126,851,890
Accounts payable and accrued expenses	618,499	675,794
Total liabilities	137,990,812	181,737,788
Net assets held in trust for pension benefits	**$644,181,060**	**$656,503,059**

(A schedule of funding progress is presented on page 19.)

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN PLAN NET ASSETS

For the Years Ended June 30, 2001 and 2000

Additions	**2001**	**2000**
Contributions		
Employer	$18,818,351	$16,489,406
Plan members	6,525,647	6,002,735
Total contributions	25,343,998	22,492,141
Investment income		
From investment activities		
Net (depreciation) appreciation in fair value of investments	(36,257,291)	14,609,027
Interest	17,191,540	16,516,456
Dividends	1,681,950	2,778,666
Other	60,348	32,115
Total income (loss) from investment activities	(17,323,453)	33,936,264
Less investment activity expenses		
Management fees	1,366,475	1,642,166
Custodial fees	118,590	114,288
Consultant	118,930	136,614
Allocated administrative expense	90,194	87,683
Total investment activity expenses	1,694,189	1,980,751
Net (loss) income from investment activities	(19,017,642)	31,955,513
From securities lending activities		
Securities lending income	3,507,945	3,115,002
Securities lending expenses		
Borrower rebates	3,123,932	2,841,708
Management fees	134,415	95,663
Total securities lending expenses	3,258,347	2,937,371
Net income from securities lending activities	249,598	177,631
Total net investment (loss) income	(18,768,044)	32,133,144
Total additions	6,575,954	54,625,285
Deductions		
Annuity benefits	12,521,546	10,217,461
Disability benefits	5,505,280	5,215,548
Survivor benefits	314,838	263,412
Refunds and other expenses	556,289	870,105
Total deductions	18,897,953	16,566,526
Net (decrease) increase	(12,321,999)	38,058,759
Net assets held in trust for pension benefits		
Beginning of fiscal year	656,503,059	618,444,300
End of fiscal year	**$644,181,060**	**$656,503,059**

See accompanying notes to financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2001 and 2000

The Fairfax County Uniformed Retirement System ("System" or "plan") is considered part of the County of Fairfax, Virginia's ("County") financial reporting entity and is included in the County's general purpose financial statements as a pension trust fund. The accompanying financial statements present only the operations of the System in conformity with accounting principles generally accepted in the United States of America. They are not intended to present fairly the financial position and results of operations of the entire County.

A. Summary of Significant Accounting Policies

Basis of accounting. The System's financial statements have been prepared under the accrual basis of accounting. 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. Other investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Asset-backed securities are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The System records investment purchases and sales as of trade date. These transactions are not finalized until settlement date, which occurs approximately three business days after the trade date. The amount 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 its cash with the County, which invests cash and allocates interest earned, net of a management fee, on a daily basis to the System based on the System's average daily balance of equity in pooled cash. As of June 30, 2001 and 2000, 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, 2000, the date of the latest actuarial valuation, membership in the System consisted of:

Retirees and beneficiaries receiving benefits	589
Terminated plan members entitled to but not yet receiving benefits	20
Active plan members	1,570
Total	**2,179**

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Plan Description. The System is a single-employer defined benefit pension plan. The plan covers uniformed employees including non-clerical employees of the Fire and Rescue Department and Office of Sheriff, Park Police, Helicopter Pilots, Animal Wardens and Game Wardens who are not covered by other plans of the County or the Virginia Retirement System. Benefit provisions are established and may be amended by County ordinances. To be eligible for normal retirement an individual must meet the following criteria: (a) attain the age of 55 with six years of service, or (b) complete 25 years of service. The normal retirement benefit is calculated using average final compensation 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. To be eligible for early retirement, employees must have 20 years of service. 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 System members are established and may be amended by County ordinances. Plan A members were given the opportunity to join Plan B as of July 1, 1981 and to enroll in Plan C as of April 1, 1997. From July 1, 1981, until March 31, 1997, all new hires were enrolled in Plan B. Plan B members were given the opportunity to enroll in Plan D as of April 1, 1997. From April 1, 1997, forward, all new hires are enrolled in Plan D. Plan A requires member contributions of 4 percent of compensation up to the Social Security wage base and 5.75 percent of compensation in excess of the wage base. Plan B requires member contributions of 7.08 percent of compensation up to the Social Security wage base and 8.83 percent of compensation in excess of the wage base. Plan C requires member contributions of 4 percent of compensation. Plan D requires contributions of 7.08 percent of compensation. The County is required to contribute at an actuarially determined rate; the rates for the fiscal years ended June 30, 2001 and 2000 were 20.11 percent and 18.75 percent of annual covered payroll, respectively.

Deductions. The deductions from the System include the payment of retiree and beneficiary benefits, the refund of employee contributions to former members and other expenses. Included in refunds and other expenses for fiscal 2001 and 2000 are unusual losses due to a possible misappropriation. The losses are expected to be recovered by future insurance claims and are subject to an ongoing investigation.

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 the System to purchase investments *with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with the same aims. Such investments shall be diversified so as to minimize the risk of large losses unless under the circumstances it is clearly prudent not to do so.*

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Derivative financial instruments. As permitted by the Code described above, the System invests in derivative instruments on a limited basis in accordance with the Board of Trustees' policy. Derivative instruments are financial contracts whose value depends on the values of one or more of the underlying assets, reference rates or financial indexes. They include futures, forwards and options or swap contracts. In addition, some traditional securities can have derivative-like characteristics. These include structured notes in which the return may be linked to one or more indexes, and asset-backed securities such as collateralized mortgage obligations which are sensitive to changes in interest rates and prepayments. Futures, forwards, options and swaps are generally not recorded on the financial statements, whereas structured notes and asset-backed investments generally are reported.

Futures contracts are contracts to deliver or receive financial instruments at a specified future date and at a specified price or yield. Futures contracts are traded on organized exchanges and require initial margin collateral in the form of cash or marketable securities. The net change in the value of futures contracts is settled daily with the exchanges. Holders of futures contracts look to the exchange for performance under the contract and not to the entity holding the offsetting futures position. Futures contracts are purchased for the opportunity to gain market exposure to the S&P 500, Russell 2000 and the US Treasury indexes in a more efficient way and at lower transaction costs. Market risks arise from adverse changes in market prices and interest rates, the same risks that arise from holding any security. The System has indirect exposure to market and credit risk through its ownership in certain mutual funds which hold futures contracts. At June 30, 2001 and 2000 the notional values of the System's prorated holdings in futures contracts held by the mutual funds were $2,484,677 and $1,732,604, respectively. The System did not hold any futures contracts directly during fiscal 2001 or 2000.

The System also purchases forward currency contracts to effect settlement of securities trades in currencies other than US dollars and to protect the base currency (US dollars) from fluctuations in the exchange rates of foreign currencies. The credit risk of the forward currency contracts lies with the counterparty to the transaction and is usually equal to the unrealized profit on the contracts. Market risk in forward currency contracts is related to adverse movements in currency exchange rates. During the year ended June 30, 2001, the System sold forward currency contracts with a market value of $217,582,934 and purchased forward currency contracts with a market value of $214,590,415. During the year ended June 30, 2000, the System sold forward currency contracts with a market value of $101,196,194 and purchased forward currency contracts with a market value of $73,197,698.

In the area of on-financial statement instruments with derivative-like characteristics, the System invests in various asset-backed securities such as collateralized mortgage obligations, principal only and interest only strips. These securities were purchased to increase earnings, provide exposure to portions of the mortgage market or to control duration within the portfolio. The credit risk of these investments results from the creditworthiness of the counterparties to the contracts. There is an additional credit risk related to the creditworthiness of the related consumers or mortgagees.
The market risk of these securities is dependent on changes in interest rates and the level of the underlying prepayments, i.e., when the underlying principal and interest are repaid to the mortgagors.

At June 30, 2001 and 2000 the System held $2,467,108, or 0.4% of the fair value of investments, and $1,411,865 or 0.2% of the fair value of investments in on-financial statement instruments with derivative-like characteristics.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Securities Lending. Board of Trustees' policies permit the System to lend its securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The System's custodian is the agent in lending the plan's domestic securities for collateral of 102 percent and international securities for collateral of 105 percent. The custodian receives cash or securities as collateral. All securities loans can be terminated on demand by either the System or the borrower. Cash collateral is invested in the lending agent's collective collateral investment pool, which at June 30, 2001 had a weighted average duration of 75 days and a weighted average maturity of 548 days; and at June 30, 2000 had a weighted average duration of 74 days and a weighted average maturity of 485 days. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of securities loans made by other plan entities that invest cash collateral in the investment pool.

The System did not impose any restrictions during fiscal 2001 or 2000 on the amounts of loans the lending agent made on its behalf, and the agent indemnifies the System by agreeing to purchase replacement securities, or return the cash collateral thereof, in the event a borrower fails to return loaned securities or pay distributions thereon. There were no such failures by any borrower during either fiscal year, nor were there any losses resulting from a default of the borrower or lending agent.

Securities on loan for securities are classified in the following schedule of investments according to the category of the collateral received. Securities on loan at each year-end for cash collateral are unclassified as the cash collateral is invested in a collective collateral investment pool. At each year end, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts the borrowers owed the System.

As of June 30, 2001 and 2000 the market values of securities on loan were $55,948,486 and $51,528,718. Cash received as collateral and the related liabilities of $56,031,249 as of June 30, 2001 and $54,210,104 as of June 30, 2000 are shown on the Statements of Plan Net Assets. Securities received as collateral are not reported as assets since the System does not have the ability to pledge or sell the collateral securities absent borrower default.

Categorization. The System's investments are categorized to give an indication of the level of risk assumed by the System at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by a counterparty or its trust department or agent, but not in the System's name. All of the Systems's investments meet the criteria of Category 1, except investments in mutual funds, a short-term investment fund, a short-term collateral investment pool and those securities on loan for which the cash collateral is invested in the collateral investment pool. These investments by their nature are not required to be categorized.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

A schedule of investments as of June 30, 2001 and 2000 follows:	2001	2000
Categorized investments		
Short-term investments		
Corporate bonds	$4,100,000	$24,368,563
Asset-backed securities	2,396,300	15,371,475
Total short-term investments	6,496,300	39,740,038
U.S. Government obligations	7,553,733	4,863,777
Asset-backed securities	99,368,416	104,350,913
Corporate bonds	107,880,891	75,005,179
Common and preferred stock		
Not on securities loan	75,328,385	98,673,101
On securities loan for securities collateral	2,294,372	535,173
Total categorized investments	298,922,097	323,168,181
Uncategorized investments		
Mutual funds	305,444,217	302,570,574
Short-term investment fund	35,847,045	52,964,974
Securities lending short-term collateral investment pool	56,031,249	54,210,104
Investments held by broker dealers under securities loans with cash collateral:		
U.S. Government obligations	29,583,880	20,127,724
Asset-backed securities	8,046,055	9,920,865
Corporate bonds	2,154,510	3,142,603
Common and preferred stock	13,869,669	17,802,353
Total uncategorized investments	450,976,625	460,739,197
Total investments	**$749,898,722**	**$783,907,378**

D. Income Taxes

The Internal Revenue Service issued a determination letter on February 23, 1995, 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. In the opinion of the plan administrator, the System and its underlying trust have operated within the terms of the System and are qualified under the applicable provisions of the Internal Revenue Code.

REQUIRED SUPPLEMENTARY INFORMATION

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

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/95	$ 307,481,896	$ 335,741,130	$ 28,259,234	91.58%	$ 64,457,370	43.84%
7/1/96	374,013,792	396,666,197	22,652,405	94.29%	69,133,414	32.77%
7/1/97	432,367,343	446,505,759	14,138,416	96.83%	71,957,919	19.65%
7/1/98	487,989,565	491,142,845	3,153,280	99.36%	74,685,099	4.22%
7/1/99	560,044,161	531,788,754	(28,255,407)	105.31%	78,622,337	(35.94%)
7/1/00	624,297,885	614,242,665	(10,055,230)	101.64%	87,943,499	(11.43%)

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

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
1996	$14,580,237	100%
1997	16,111,378	100%
1998	16,565,155	100%
1999	15,645,845	100%
2000	16,489,406	100%
2001	18,818,351	100%

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, 2000
Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	Weighted average of years
Asset valuation method	3-Year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.5%
Projected salary increases*	4.1%-6.1%
*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 1996.

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

Investment gains, offset by plan benefit enhancements, have resulted in a negative unfunded liability as of the valuation date. The impact of investment gains and the plan enhancements during fiscal 2000 resulted in the adoption of an employer contribution rate of 18.93% for the fiscal year ending June 30, 2002, an decrease of 1.18% from the fiscal 2001 rate of 20.11%.

CAPITAL MARKETS AND ECONOMIC CONDITIONS

Financial and Economic Summary

Fiscal-year 2001, ending June 30, proved to be a turbulent year for equity markets, ending the string of 12 consecutive fiscal years of positive returns for the S&P 500 Index. The S&P 500 Index, which had averaged a compound annual gain of 15% for the previous 10 years, declined 14.8% in 2001. Following an extraordinary 10-year period of rapid expansion, the US economy slowed sharply in fiscal 2001. Corporate America slashed production and capital spending in response to bulging inventories and eroding profitability. Weakness in Europe, Asia and Latin America failed to provide much demand for US goods. Rising costs of energy, escalating unemployment, a falling "wealth effect", and a rise in labor costs exacerbated the slowdown, draining the purchasing power of both businesses and consumers. About the only good news on the economic front was that inflation remained under control, and consumers continued to outspend their incomes. As interests rates started falling, housing and automobiles sales were able to remain at very high levels through the year.

In a determined effort to stimulate a re-growth of economic expansion, the Federal Reserve Board cut the Fed Funds rate six times in the last six months of fiscal 2001, reducing short term interest rates by 2.75 points to 3.75 percent, the lowest level in seven years.

After reaching record levels in early 2000, fueled by the boom in technology, media and telecommunications (TMT), equity markets fell into a sharp tailspin, bringing an abrupt end to the longest, strongest bull market in the post-World War II era. The technology-heavy NASDAQ Composite Index declined 45.5% during the fiscal year, and was off nearly 60% from its March 2000 peak. During fiscal 2001, investors bailed out of TMT sectors, rotating into "defensive" sectors that possessed reasonable valuations and consistent earnings. For example, the Russell 3000 Value Index outperformed its growth-style counterpart by an incredible 46.9 percentage points — the largest margin advantage in the 23-year history of the two indexes. Small-and mid-cap stocks significantly outperformed large cap stocks as markets broadened over the fiscal year.

The healthy performance achieved by international equities in the prior year did not carry over into fiscal-year 2001. International companies were hurt by the slowdown in the US economy as well as the continued strength of the dollar. Similar to the US experience, international growth stocks in the technology, media and telecommunications sectors were the hardest impacted. The primary international benchmark covering 21 developed nations, the Morgan Stanley Capital International Europe, Australia, Far East Index (MSCI EAFE) declined 23.6% in dollar terms during fiscal-year 2001.The world's emerging markets once-again underperformed developed markets as the MSCI Emerging Markets Free Index fell 25.8% for the fiscal year.

Real estate, after lagging the general markets for two years, became the best performing sector during fiscal 2001. Strong revenue and dividend growth fueled the rebound in real estate shares as other corporate earnings faltered. REIT (Real Estate Investment Trust) shares out-performed virtually all other asset classes, as evidenced by the NAREIT (National Association of Real Estate Investment Trusts) Equity REIT Index return of 25.4% for the year ended June 30, 2001.

In contrast to the turbulence in the broad equity markets, the fixed-income markets benefited from the slowdown in the US economy. The US bond market generated double-digit gains for the 2001 fiscal year, supported by Federal Reserve interest rate cuts, the absence of any serious inflation threat, and the turmoil in the equity markets. With the bursting of the dot-com bubble and the impact of the slowing economy on corporate earnings, investors fled from high yielding corporate bonds to high quality Treasuries and investment-grade credit securities. The broad Lehman Brothers Aggregate Bond Index was positive in all four quarters of the fiscal year, and finished 2001 with a strong gain of 11.2%. Due to slowing international economies, international bonds were up modestly for the year when measured in local currencies, but these returns turned negative to US investors after translating for the strong US dollar.

System

The Uniformed Retirement System operates a sound and diversified investment program with disciplined asset re-balancing to achieve strategic long-term goals. That disciplined investment process has been effective in achieving a long-term record of consistent asset growth. The investment program's cost effectiveness as measured by the expense ratio was 30 basis points and included investment office administrative expenses, consultant fees, money manager fees and master custodian fees. Any short-run downturn in the bond and equity markets would not have a material effect on the funded status of the System.

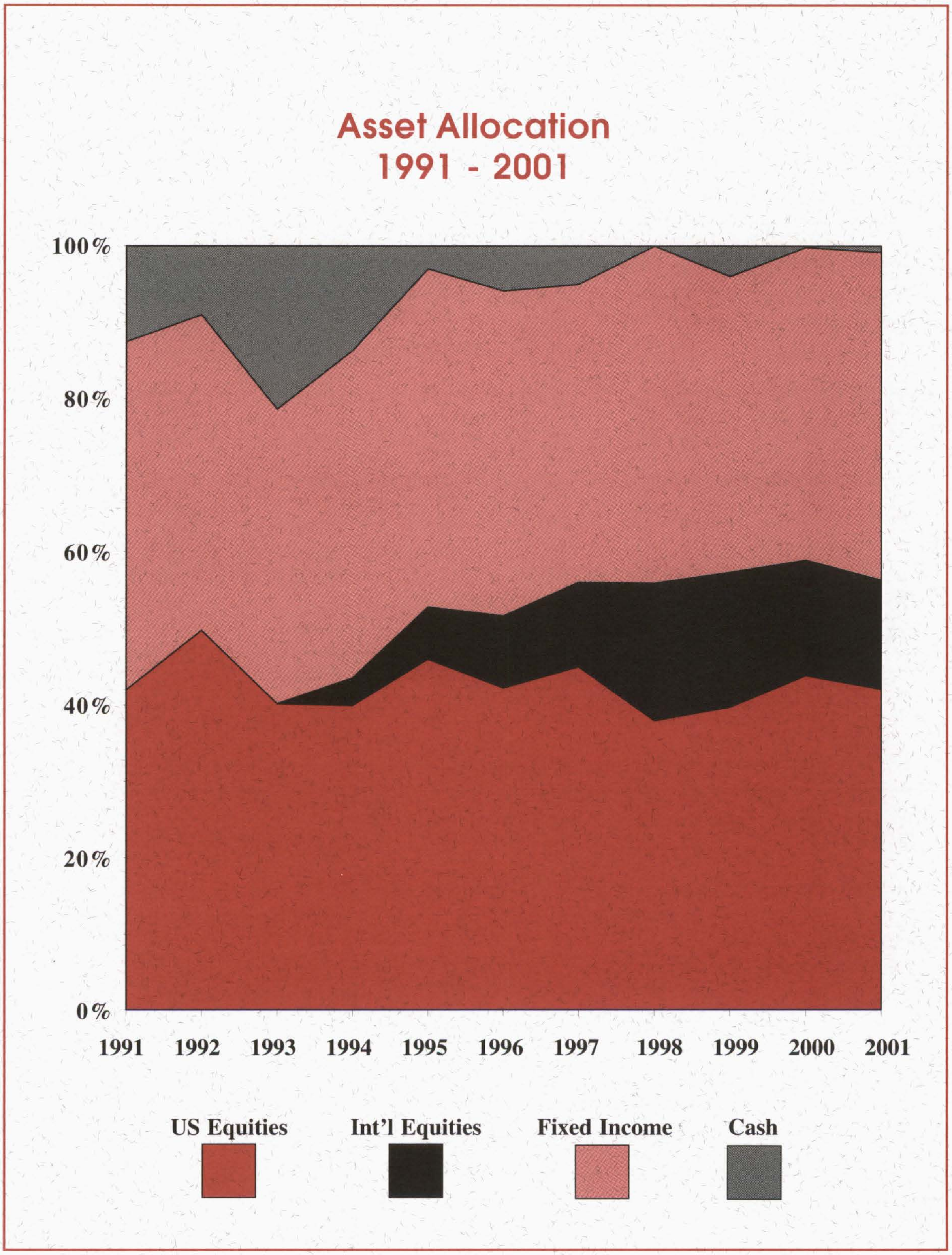
On a market value basis, the total net assets held in trust declined from $656.5 million at June 30, 2000, to $644.2 million at June 30, 2001. For the fiscal year 2001, investments provided a return of -2.9%, net of fees, reflecting market conditions throughout the year. While these investment returns were disappointing in an absolute sense, this return ranked in the top quartile of all public plan sponsors. The System's annualized rate of return, net of fees, was 3.8% over the last three years and 8.8% over the last 5 years. The Uniformed Retirement System's annualized net return over the last five years has outperformed the actuarially assumed rate of 7.5%. At year-end 2001, the System's assets were allocated by manager mandate as follows: Domestic and international equities — 56.8%; and Fixed income securities — 43.2%.

ASSET ALLOCATION BY CATEGORY AND INVESTMENT MANAGER

June 30, 2001

Asset Class Manager	Investment Style	Total Assets	% of Total Assets
Domestic Equities			
Barclays Global*	Enhanced Large Cap Index	$122,078,641	18.9%
SSGA S&P 500 Fund*	Large Cap Index	91,175,246	14.1%
JL Kaplan	Active Small Cap Value	35,157,397	5.5%
SSGA Russell 2000 Fund*	Small Cap Index	21,924,165	3.4%
JP Morgan Private Equity	Private Equity	654,845	0.1%
International Equities			
Schroder Capital Management*	Active Emerging Markets	31,828,415	4.9%
Marathon, London	Active Developed Markets	30,154,586	4.7%
Lazard Asset Management	Active Developed markets	30,083,542	4.7%
Fixed Income			
Credit Suisse	Active Global Core	144,533,932	22.4%
Payden & Rygel	Active Global Core	131,772,610	20.4%
Cash Held by County Treasurer	Active Short Term	5,436,180	0.8%
Net Assets**		**$644,799,559**	**100.0%**

** Pooled Fund*
*** Without deduction for accounts payable and accrued expenses*


Asset Allocation
1991 - 2001
100%
80%
60%
40%
20%
0%
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
US Equities
Int'l Equities
Fixed Income
Cash

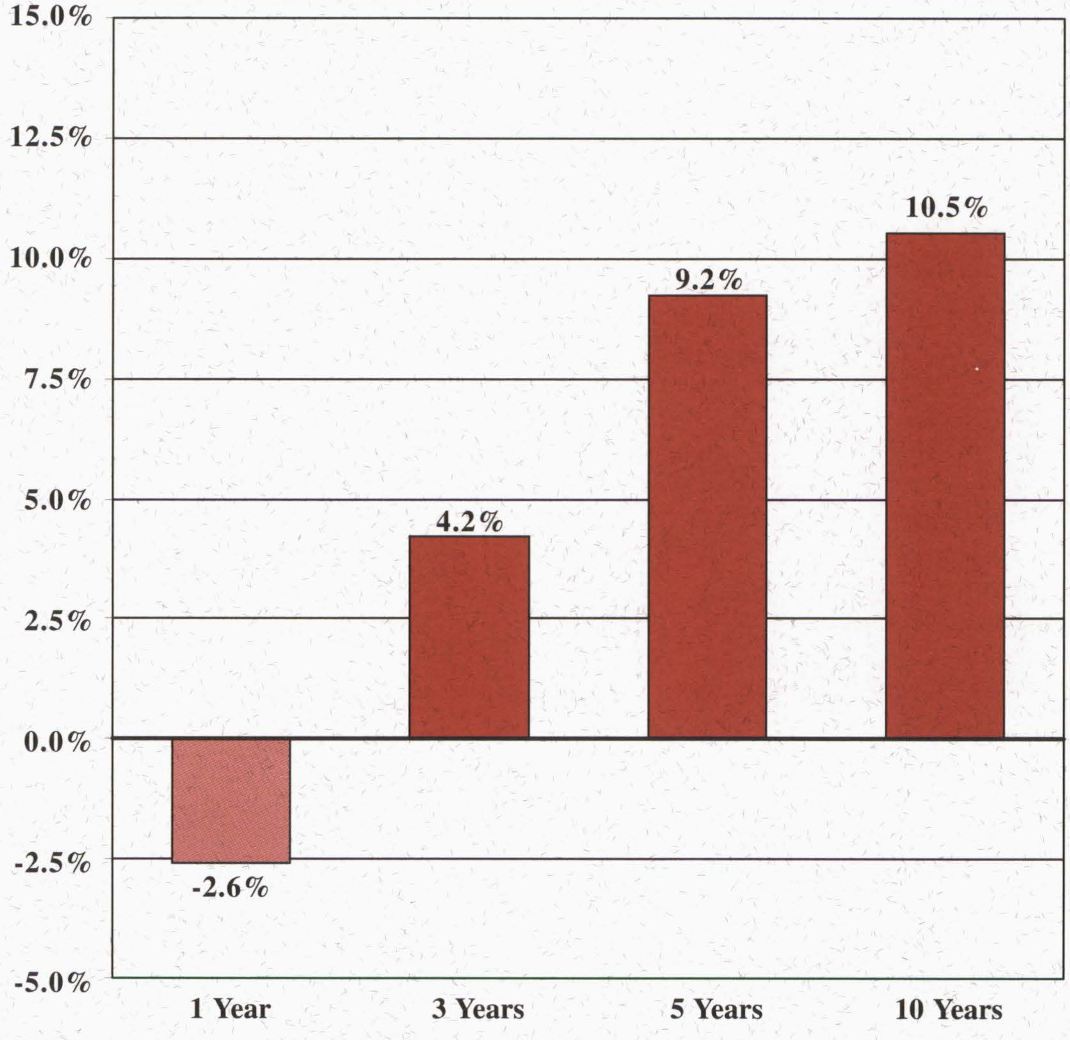
LIST OF LARGEST ASSETS HELD

June 30, 2001

Fifteen Largest Equity Holdings	Shares	Market Value
General Electric Co.	211,969	$10,333,493
Microsoft Corp.	91,250	$ 6,661,202
Citigroup, Inc.	120,074	$6,344,742
Pfizer, Inc.	150,779	$ 6,038,706
Exxon Mobil Corp.	63,264	$5,526,179
AOL Time Warner, Inc.	85,706	$4,542,402
American International Group, Inc.	52,440	$ 4,490,812
Johnson & Johnson	79,714	$3,985,738
Wal-Mart Stores, Inc.	80,299	$3,918,622
Intel Corp.	127,672	$3,734,400
International Business Machines	29,182	$ 3,297,548
Merck & Company, Inc.	48,833	$ 3,120,925
Bank America Corp.	51,954	$3,118,805
Verizon Communications	58,161	$3,111,596
Tyco International Ltd. New	48,719	$2,655,358

Fifteen Largest Fixed Income Holdings	Interest Rate	Maturity Date	Market Value
Commitment to purchase FNMA 30 year Single Family TBA Mortgage Pool	7.000%	July 31, 2031	$13,297,991
United States Treasury Notes	4.625%	May 15, 2006	$12,917,779
Commitment to purchase FNMA 30 year Single Family TBA Mortgage Pool	8.000%	July 31, 2031	$9,853,007
Commitment to purchase FNMA 30 year Single Family TBA Mortgage Pool	6.000%	July 31, 2031	$9,731,257
United States Treasury Notes	6.500%	Feb 15, 2010	$8,791,474
Commitment to purchase FNMA 30 year Single Family TBA Mortgage Pool	7.500%	July 31, 2031	$5,708,634
Commitment to purchase GNMA 30 year Single Family TBA Mortgage Pool	7.500%	July 31, 2031	$4,408,833
United States Treasury Notes	5.625%	May 15, 2008	$4,039,834
Commitment to purchase FNMA 15 year Single family TBA Mortgage Pool	7.000%	July 31, 2016	$3,864,144
Federal National Mortgage Assn. Mortgage Pool	6.000%	Sept 15, 2029	$ 3,684,183
Treuhandanstalt	7.125%	Jan 29, 2003	$3,526,793
United States Treasury Bonds	6.250%	Aug. 15, 2023	$3,408,056
Federal National Mortgage Association Mortgage Pool	7.125%	Feb. 15, 2005	$3,290,337
Federal National Mortgage Association Mortgage Pool	5.125%	Feb. 13, 2004	$3,014,070
MBNA Master Credit Card	5.800%	Dec. 15, 2005	$2,846,368

Compound Annual Return on Investment Portfolio



Returns are gross of expenses

MILLIMAN & ROBERTSON, INC.
Actuaries & Consultants
Internationally WOODROW MILLIMAN

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Telephone: 703/917-0143
Fax: 703/827-9266

Marh 2, 2001

Board of Trustees
Fairfax County Uniformed
Retirement System
10680 Main Street - Suite 280
Fairfax, VA 22030-3812

Dear Members of the Board:

At your request, we have performed our annual actuarial valuation of the Fairfax County Uniformed Retirement System as of July 1, 2000. 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 this, a contribution rate has been determined which will provide for current cost (i.e., normal cost expressed as a level percent of payroll) plus level percent of payroll amortizations of each layer of the unfunded liability over a 15 year period. This funding objective is currently being realized.

Assumptions

The actuarial assumptions used in this valuation have been recommended by the actuary and adopted by the Board of Trustees based upon the most recent review of the System's experience completed in 1996. We believe the assumptions used, in the aggregate, represent our best estimate of future experience of the plan.

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

Reliance on Others

In preparing our report, we relied, without audit, on information (some oral and some in writing) supplied by the System's staff. This information includes, but is not limited to, statutory provisions, employee data, and financial information. We found the data to be reasonably consistent and comparable with data used in the prior valuation.

Albany, Atlanta, Boise, Boston, Chicago, Dallas, Denver, Hartford, Houston, Indianapolis, Irvine, Los Angeles, Milwaukee, Minneapolis, New York, Omaha, Philadelphia, Phoenix, Portland, ME, Portland, OR, St. Louis, Salt Lake City, San Diego, San Francisco, Seattle, Tampa, Washington, D.C., Bermuda, Tokyo
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Board of Trustees
Fairfax County Uniformed Retirement System
March 2, 2001
Page 2

Supporting Schedules

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

We were responsible for all years of 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 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 have compared the least valuable accrual rate under the Uniformed Plan 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 accruals rates do exceed ²/₃ of the employer provided accrual rates under the VRS plan.

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

Certification

On the basis of the foregoing, we certify that, to the best of our knowledge, this report is complete and accurate and has been 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.

Respectfully submitted,

MILLIMAN & ROBERTSON, INC.

Fiona E. Liston

Fiona E. Liston, F.S.A.
Consulting Actuary

MILLIMAN & ROBERTSON, INC.

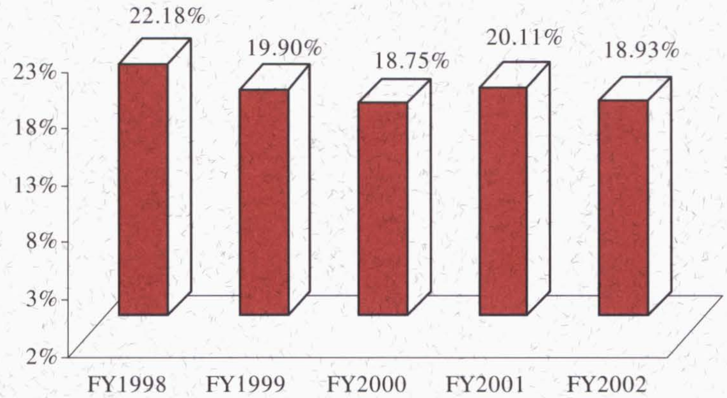
SUMMARY OF VALUATION RESULTS

Overview

This report presents the results of our July 1, 2000 actuarial valuation of the Fairfax County Uniformed Retirement System.

The major findings of the valuation are summarized in the following charts.

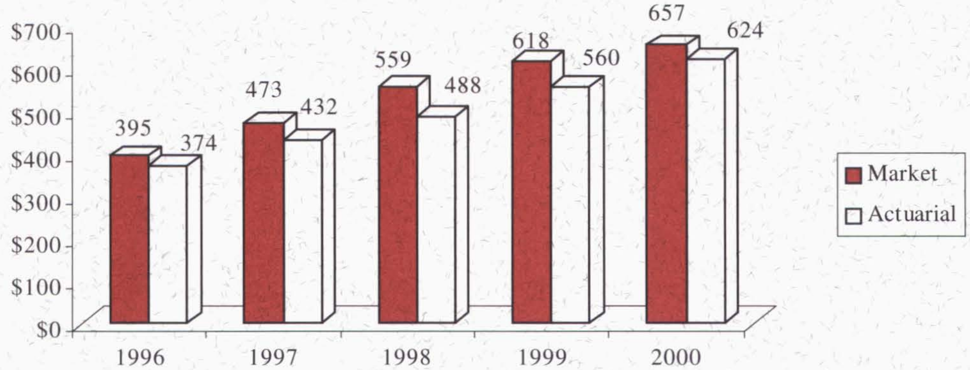
Employer Contribution Rates
(as % of Payroll)



The County contribution rate decreased over the last year due to investment gains which offset liability losses.

The employer contribution rate for FY 2001 is equal to the 15.49% developed in last year's valuation report plus 4.62% to provide for the cost of plan improvements.

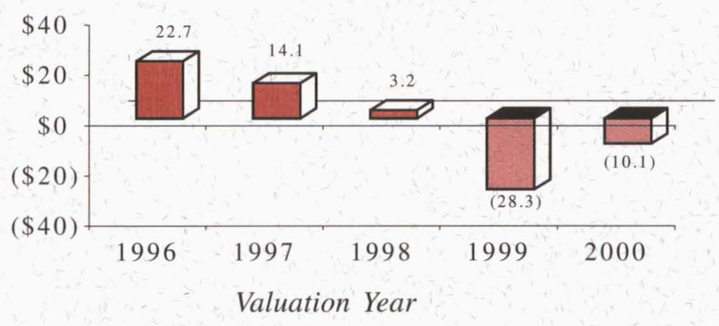
System Assets
(in Millions)



The rate of return this year on the market value of assets was 9.58%, down from last year's return of 16.18%. The System still has a large cushion against future possible adverse performance of $58 million.

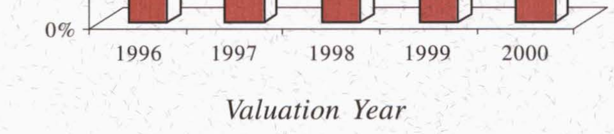
SUMMARY OF VALUATION RESULTS
(Continued)

Unfunded Actuarial Liability
(in Millions)



This is the second year that the Uniformed System has seen a negative unfunded actuarial liability.

Funding Ratio



The ratio of actuarial assets to the actuarial accrued liability decreased over the past year due to plan improvements. This is the GASB #25 measure of funding progress.

SUMMARY OF VALUATION RESULTS
(Continued)

Summary of Results

The following table compares the principal results from the 1999 and 2000 valuations.

SUMMARY OF PRINCIPAL RESULTS

Participant Data	July 1, 1999	July 1, 2000	Percent Change
Number of:			
Active Members	1,566	1,570	+0.3%
Retired Members and Beneficiaries	363	386	+6.3%
Disabled Members	203	203	+0.0%
Vested Former Members	24	20	-16.7%
Annual Salaries of Active Members	$ 77,790,159	$82,851,063	+6.5%
Annual Benefits for Retired and Disabled Members, and Beneficiaries (Excluding Supplemental Benefits)	$14,094,595	$15,810,367	+12.2%

Assets and Liabilities	July 1, 1999	July 1, 2000	Percent Change
Total Actuarial Liability	$ 531,788,754	$ 614,242,655	+15.5%
Assets for Cost Purposes	$ 560,044,161	$ 624,297,885	+11.5%
Assets in excess of actuarial liability	$ (28,255,407)	$ (10,055,230)	-64.4%

Contribution Results *(as percent of payroll)*		
Employer Normal Cost Rate	16.31%	17.70%
Unfunded Actuarial Liability Contribution	(1.12)%	0.93%
Administrative Expenses	0.30%	0.30%
Total Employer Contribution	15.49%	18.93%

SUMMARY OF VALUATION RESULTS
(Continued)

Valuation Highlights

System Assets

As of July 1, 2000, the System had assets at market value of $656.5 million, as compared to $618.4 million as of July 1, 1999. The increase of $38.1 million was attributable to the following:

- an increase of $22.5 million due to employer and member contributions;
- a decrease of $16.6 million due to payment of System benefits and expenses;
- an increase of $32.2 million due to System investment experience (realized and unrealized).

When measured on an actuarial basis for contribution purposes (in order to dampen market fluctuations), System assets were $624.3 million as of July 1, 2000, up from $560.0 million as of July 1, 1999.

Overall, the rate of return on System assets during the year was 5.2% on a market value basis, and 10.4% on an actuarial value basis.

System Liabilities

Two types of liabilities are presented in this report; actuarial liabilities and the liability for benefits accrued to date. Actuarial liabilities are developed and used for ongoing funding purposes and include a portion of future anticipated pay increases and service credit. This measure is also used as the measurement of actuarial accrued liability required to be disclosed under Governmental Accounting Standards Board Statement No. 25.

The liability for benefits accrued to date measures the present value of all future System benefits based on service to date. In this report, we present a measure of the liability for benefits accrued which conforms with Statement No. 35 of the Financial Accounting Standards Board.

As of July 1, 2000, the System actuarial liabilities were $614.2 million, as compared to $531.8 million as of July 1, 1999. Measured against System assets (actuarial value) of $624.3 million there are System unfunded actuarial liabilities of negative $10.1 million. This compares to $28.3 million of unfunded actuarial liabilities as of July 1, 1999.

Viewed another way, the ratio of assets to actuarial liabilities increased from 105.3% as of July 1, 1999 to 101.6% as of July 1, 2000.

With respect to the liabilities for benefits accrued as of the valuation date, this valuation shows a liability of $522.2 million as compared to $452.2 million as of July 1, 1999.

SUMMARY OF VALUATION RESULTS

(Continued)

Since these liabilities are based upon a current "snapshot" of members' pay and service, the common approach is to compare this liability with the market (i.e. current or fair) value of System assets. This comparison as of July 1, 2000 shows that the ratio of System assets to liabilities accrued to date has decreased from 136.8% as of July 1, 1999 to 125.7% as of July 1, 2000.

System Contributions

Contributions to the System include a "normal cost rate" which, along with member contributions, covers the portion of projected liabilities on account of service of members during the year following the valuation date.

In addition, an unfunded actuarial liability contribution is made which, together with assets on hand, will fund the portion of projected liabilities on account of service rendered prior to the valuation date. Finally, a provision for System administrative expenses is made by adding 0.30% of member payroll to the total contribution.

The employer normal cost rate is 17.70% of member payroll, and the unfunded actuarial liability rate is 0.93% of payroll. Together with the administrative expense rate, this results in a total employer contribution rate as of the July 1, 2000 valuation, of 18.93% of payroll compared with a July 1, 1999 rate of 15.49% of payroll.

The decrease in the employer contribution rate of 3.44% of payroll is attributable to the following:

Employer contribution rate (July 1, 1999 Valuation; 2001 FY)	15.49%
Decrease due to investment gains	(1.64)
Increase due to actuarial experience	0.39
Increase due to benefit enhancements	4.62
Increase due to ad-hoc COLA	0.07
Employer contribution rate (July 1, 2000 Valuation; 2002 FY)	18.93%

Membership

The total active membership of the Uniformed Retirement System has increased from 1,566 as of July 1, 1999 to 1,570 as of July 1, 2000. The number of retired members and their beneficiaries has increased from 363 as of July 1, 1999 to 386 on July 1, 2000. The number of disabled members receiving benefits remains at 203, and the number of former members with vested rights decreased from 24 to 20.

In total, the membership of the System, both active and inactive, has increased by 23 or 1.1% from 2,156 members as of July 1, 1999 to 2,179 members as of July 1, 2000.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Funding Method

The funding method used for this valuation 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 payment.

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.

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

None.

ACTUARIAL ASSUMPTIONS AND METHODS

Long Term Assumptions Used to Determine System Costs and Liabilities

Demographic Assumptions:

Mortality:

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

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

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

Termination of Employment (Prior to Normal Retirement Eligibility):

Annual Terminations per 1,000 Members

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

It is assumed that members who terminated before normal or early retirement age elect to receive a refund of contributions instead of vested benefits.

ACTUARIAL ASSUMPTIONS AND METHODS
(Continued)

Disability:

Annual Disabilities per 1,000 Members*

Age	Male & Female
20	2
25	3
30	4
35	5
40	8
45	13
50	21
55	30
60	30

Annual Deaths Per 1,000 Disabled Members

Age	Male	Female
40	14	9
45	14	10
50	15	11
55	17	13
60	20	15
65	26	18
70	37	23
75	55	35
80	82	55

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

Retirement:

It is assumed that members all retire when they are first eligible for unreduced benefits (age 55 with 6 years of service, or completion of 25 years of service).

In addition, if members are not eligible for unreduced benefits, but are eligible for early retirement (20 years of service), it is assumed that they will retire at the following rates:

Age	Annual Early Retirement Per 1,000 Eligible
40	60
45	50
50	40

ACTUARIAL ASSUMPTIONS AND METHODS
(Continued)

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

Age	Merit/Seniority Increase
20	2.13%
25	1.84%
30	1.55%
35	1.26%
40	0.97%
45	0.67%
50	0.38%
55	0.09%

Family Composition:

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

Sick Leave Credit:

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

ACTUARIAL ASSUMPTIONS AND METHODS
(Continued)

Economic Assumptions

Investment Return: 7.5% compound per annum.

Cost-of-Living Benefit Increases: 3.0% compound per annum.
(Based on assumed CPI increase of 4%.)

Increase in the Social Security Wage Base: 4.0% compound per annum.

Across-the-Board Increase in County Salaries: 4.0% compound per annum.

Total Payroll Increase (for amortization): 4.0% compound per annum.

Administrative Expenses: 0.3% of payroll.

Changes Since Last Valuation

None.

ANALYSIS OF FINANCIAL EXPERIENCE

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

	Gain (or Loss) for Year ending June 30,			
Type of Activity	**1997**	**1998**	**1999**	**2000**
Investment Income	$ 20,272,834	$ 14,398,143	$ 29,200,070	$ 16,102,586
Combined Liability Experience	(690,075)	(2,963,074)	2,706,097	(4,031,117)
Gain (or Loss) During Year from Financial Experience	19,582,759	11,435,069	31,906,167	12,071,469
Non-Recurring Items	(13,547,224)	(1,625,843)	(1,841,583)	(32,173,276)
Composite Gain (or Loss) During Year	**$ 6,035,535**	**$ 9,809,226**	**$ 30,064,584**	**$ (20,101,807)**

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
1995	32	1,389,319	16	248,354	393	8,635,044	15.22%	21,972
1996	38	1,208,415	6	49,718	425	9,793,741	13.42%	23,044
1997	47	1,843,855	5	109,621	467	11,527,975	17.71%	24,685
1998	57	1,977,416	6	221,966	518	13,283,425	15.23%	25,644
1999	55	2,148,156	7	248,459	566	15,183,122	14.30%	26,825
2000	29	1,982,436	6	234,523	589	16,931,035	11.51%	28,745

SOLVENCY TEST

Aggregate Accrued Liabilities For

Valuation Date	(1) Active Member Contributions	(2) Retirees Vested Terms, Beneficiaries	(3) Active Members (Employer Financed Portion)	Reported Assets	Portion of Accrued Liabilities Covered by Reported Assets (1)	(2)	(3)
7/1/95	$ 42,566,327	$ 116,855,930	$ 176,318,873	$ 307,481,896	100%	100%	84%
7/1/96	46,621,095	137,359,734	212,685,368	374,013,792	100%	100%	89%
7/1/97	50,230,152	161,103,135	235,172,472	432,367,343	100%	100%	94%
7/1/98	53,335,936	186,017,535	251,789,374	487,989,565	100%	100%	99%
7/1/99	56,975,778	211,276,417	263,536,559	560,044,161	100%	100%	111%
7/1/00	62,528,390	231,064,298	320,649,967	624,297,885	100%	100%	103%

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SCHEDULE OF ADDITIONS BY SOURCE

Fiscal Year	Plan Member Contributions	Employer Contributions	Employer Contributions % of Covered Payroll	Net Investment Income (loss)	Total Revenues
1996	$ 4,810,588	$ 14,580,237	21.09%	$ 50,767,472	$ 70,158,297
1997	4,966,687	16,111,378	22.39%	68,557,537	89,635,602
1998	5,118,104	16,565,155	22.18%	77,194,260	98,877,519
1999	5,680,758	15,645,845	19.90%	53,829,235	75,155,838
2000	6,002,735	16,489,406	19.90%	32,133,144	54,625,285
2001	6,525,647	18,818,351	20.11%	(18,768,044)	6,575,954

SCHEDULE OF DEDUCTIONS BY TYPE

Fiscal Year	Benefit Payments	Refunds of Contributions	Administrative Expenses	Total Expenses
1996	$ 9,229,198	$ 294,480	$ 179,403	$ 9,703,081
1997	10,807,664	440,064	163,173	11,410,901
1998	12,427,768	622,530	154,379	13,204,677
1999	14,519,619	625,970	151,801	15,297,390
2000	15,696,421	670,016	200,089	16,566,526
2001	18,341,664	336,462	219,827	18,897,953

SCHEDULE OF BENEFIT PAYMENTS BY TYPE

Fiscal Year Ended June 30,	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Total
1996	$ 5,269,967	$ 3,629,357	$ 132,906	$ 196,968	$ 9,229,198
1997	6,262,391	4,206,961	131,564	206,748	10,807,664
1998	7,555,702	4,449,490	179,733	242,843	12,427,768
1999	9,317,650	4,731,370	203,537	267,062	14,519,619
2000	10,217,461	5,002,237	213,311	263,412	15,696,421
2001	12,521,546	5,283,214	222,066	315,838	18,342,664

SCHEDULE OF RETIRED MEMBERS BY BENEFIT TYPE

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Total
1996	220	181	10	14	425
1997	254	187	11	15	467
1998	298	189	14	17	518
1999	347	188	15	17	567
2000	368	188	15	18	589
2001	411	191	15	19	636

SCHEDULE OF AVERAGE MONTHLY BENEFIT AMOUNTS

Fiscal Year Ended June 30	Annuity (including supplement)	Service-Connected Disability	Ordinary Disability	Survivor	Average (basic benefit only)
1996	$ 2,242	$ 1,806	$ 1,037	$ 1,192	$1,990
1997	2,407	1,952	1,048	1,233	2,155
1998	2,521	2,036	1,194	1,233	2,266
1999	2,856	2,183	1,186	1,188	2,541
2000	2,991	2,325	1,232	1,315	2,278
2001	3,196	2,419	1,276	1,356	2,477

Fairfax County Uniformed Retirement System

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