Fairfax County Uniformed Retirement System

A Pension
Trust Fund of
Fairfax County
Virginia

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2003

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FAIRFAX COUNTY
VIRGINIA

BOARD OF TRUSTEES
UNIFORMED RETIREMENT SYSTEM
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Fairfax, Virginia 22030-3812

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

November 15, 2003

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, 2003. 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 2003 consists of five sections: (1) an Introductory Section that contains this transmittal letter along with the organization structure and review of plan provisions; (2) a Financial Section that contains the opinion of the independent auditors, management's discussion and analysis, the financial statements of the System and required supplementary information; (3) an Investment Section that contains investment results; (4) an Actuarial Section that includes the independent actuary's certification letter, a summary of the results of the actuarial valuation, and actuarial procedures and assumptions; and (5) a Statistical Section that contains information regarding the System membership.

History

The Fairfax County Uniformed Retirement System was established on July 1, 1974, as a public employee retirement system providing defined benefit pension plan coverage for uniformed or sworn employees of the Fire and Rescue Department, helicopter pilots, the Sheriff's Department, the animal control division and certain park police officers. There were 1,625 active members and 731 retirees participating in the System as of June 30, 2003.

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 2003 was characterized by the continuation of the bear market through mid-March and much more favorable market conditions during the final quarter of the year. Even with the market rebound, the S&P 500 index returned only 0.26% for the year. Fortunately, the bond market was strong as evidenced by the Lehman Aggregate Bond Index return of 10.40%. With the market rally, the Uniformed Retirement System fund returned 10.7% in the quarter ended June 30, 2003 and finished with a fiscal year return of 5.9%, before management fees. The full year return placed the fund in the 15th percentile of the Russell/Mellon public fund universe and the fund's three year returns placed in the 25th percentile. The returns for the total fund exceeded the policy benchmark for the year. The returns of domestic and international equities and REITs exceeded their respective indexes while returns for fixed income trailed the benchmark.

After accounting for all cash flows, including contributions, expenses, and benefit payments, the market value of the System's net assets increased 6.4%, from $617.6 million on June 30, 2002 to $657.4 million on June 30, 2003.

Major Initiatives

Following established policy of having a periodic actuarial audit, a parallel valuation of liabilities was completed by an independent actuarial firm. The actuarial audit report certified that the liabilities and costs computed by the plan's actuaries as of July 1, 2001 were computed in accordance with generally accepted actuarial principles.

After having the plan terms reviewed by outside counsel and obtaining approval of a number of recommended technical amendments, an application was submitted to the Internal Revenue Service to obtain an updated letter confirming the plan continues to qualify as an employee benefit plan under section 401(a) of the Internal Revenue Code.

Recognizing that disabilities can worsen following retirement, the Board of Trustees sought and gained approval of code changes that would enable the Board to change a service-connected disability benefit to a severe service-connected disability benefit if a disability retiree's condition changes after retirement to the point of meeting the qualifications for a severe disability.

Following the expiration of the investment consulting contract with CRARogersCasey, a Request for Proposal was released to the premier investment consulting firms. As fiscal 2003 closed, the selection advisory committee was reviewing proposals and early in fiscal 2004, the Board of Trustees selected New England Pension Consultants as their new investment consulting firm.

A restructuring of the plan's investments in the fixed income asset class was completed. A number of changes designed to further diversify the asset class and to obtain improved risk-adjusted returns over the long term were implemented. In addition to replacing a core portfolio manager, the fixed income asset class now includes a specialized portfolio of mortgage-backed securities and a portfolio focused on duration management.

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.

The final report and recommendations resulting from the investigation of an embezzlement discovered in fiscal 2002 was received. The report did not identify any control deficiencies other than those already addressed during fiscal 2002. A number of recommendations unrelated to the embezzlement have also been implemented to improve the back-up and disaster recovery capabilities related to computer application systems. Based on the recent intensive audit review, we believe the internal controls in effect 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 and approved by the Board of Trustees and the County's Board of Supervisors.

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, 2002 indicated that the ratio of assets accumulated by the System to total actuarial accrued liabilities for benefits decreased from 102.3% to 95.3%. The Actuarial Section contains further information on the results of the July 1, 2002 valuation.

Investment Policies and Strategies

The Board of Trustees has an adopted Statement of Investment Objectives and Policy. This Statement establishes the investment goals, guidelines, constraints and performance standards that the Board of Trustees uses when exercising its fiduciary duties to manage the investment assets of the System. The Board operates in conformity with the standard of care required in making investments as stated in the Code of Virginia §26-45.1.A.

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 the County's pooled cash and temporary investments are held by Mellon Global Securities Services as agent, in the System's name. Mellon Financial Corporation, the parent company, carries Financial Institution Bond insurance coverage including a Computer Crime Policy. An additional Excess Securities policy covers all risk of physical loss to securities.

Other Information

Independent Audit and Actuarial Certifications

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

Acknowledgements

The annual report of the Uniformed Retirement System was prepared by the System's staff under the leadership of the Board of Trustees. I would like to thank the 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 and is available to the public via the County's website located at www.fairfaxcounty.gov/retbrd/.

Respectfully submitted,

Laurnz A. Swartz

Laurnz A. Swartz
Executive Director

BOARD OF TRUSTEES

ADMINISTRATIVE ORGANIZATION

Administrative Staff

Laurnz A. Swartz
Executive Director

Jeffrey A. Willison
Investment Manager

Philip R. Langham
Retirement Administrator

Professional Services

Actuary

Milliman USA - Actuaries
Vienna, VA

Auditor

KPMG LLP - Certified Public Accountants
Washington, DC

Investment Managers

Barclays Global Investors
San Francisco, CA

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

Harbour Vest Partners, LLC
Boston, MA

J. L. Kaplan Associates
Boston, MA

Lazard Asset Management
New York, NY

Marathon-London
London, England

JP Morgan Investment Management, Inc.
New York, NY

Pantheon Ventures, Inc.
San Francisco, CA

Payden & Rygel Investment Counsel
Los Angeles, CA

Peregrine Capital Management
Minneapolis, MN

PIMCO
Newport Beach, CA

Schroder Capital Management
International, Inc.
London, England

Standish Mellon Asset Management
Pittsburgh, PA

State Street Global Advisors
Boston, MA

Trust Company of the West
Los Angeles, CA

UBS Realty Advisors LLC
Hartford, CT

Wasatch Advisors
Salt Lake City, UT

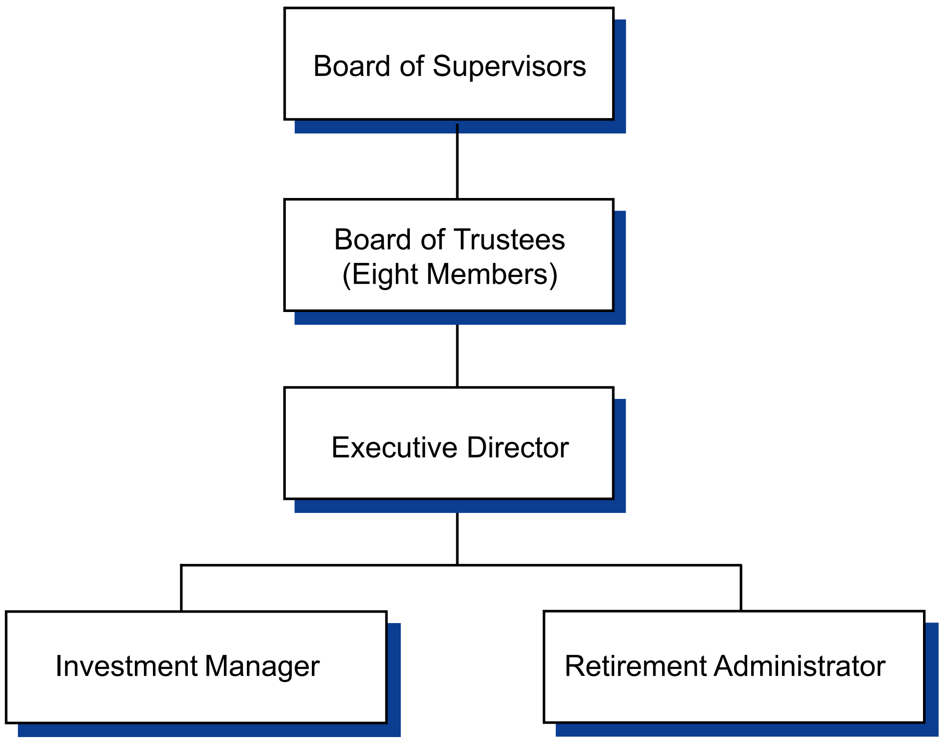
Investment Consultant

BARRA RogersCasey
Darien, CT

Custodial Bank

Mellon Global Securities Services
Pittsburgh, PA

ORGANIZATIONAL CHART



SUMMARY OF PLAN PROVISIONS

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

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

All Plans

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

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 disability 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 or her spouse receive 50%, $66^2/_3$%, 75% or 100% of the member's reduced annuity upon the member's death. The member's annuity is reduced by a percentage based on the difference in age between the member and his or her spouse. If the spouse pre-deceases the member, the annuity is restored to what it would have been if this option had not been elected.

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

SUMMARY OF PLAN PROVISIONS
(Continued)

Normal Retirement Benefit:

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

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

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

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

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

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

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

Cost of Living Benefit: Annual cost-of-living adjustments (COLAs) are provided to retirees and beneficiaries equal to the lesser of 4 percent or the percentage increase in the Consumer Price index for the Washington Consolidated Metropolitan Statistical Area. Members of Plan A and C receive COLA increases beginning at age 55. Members of Plan B and D receive COLAs beginning at retirement.

Contribution Rates:

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

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

Plan C Contribution Rate: 4% of creditable compensation.

Plan D Contribution Rate: 7.08% of creditable compensation.

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

The Board of Supervisors
County of Fairfax, Virginia

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

We have audited the statements of plan net assets of the Fairfax County Uniformed Retirement System (the System), a pension trust fund of the County of Fairfax, Virginia, as of June 30, 2003 and 2002, and the related statements of changes in plan net assets for the years then ended. These basic financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the plan net assets as of June 30, 2003 and 2002, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 13 through 15 and the required supplementary information on pages 23 and 24 are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

KPMG LLP

October 17, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's discussion and analysis of the Fairfax County Uniformed Retirement System's ("System" or "plan") financial performance and provides an overview of the financial activities for the fiscal years ended June 30, 2003 and 2002. The information in this section should be reviewed in conjunction with the letter of transmittal provided in the Introductory Section of this report.

Overview of Financial Statements and Accompanying Information

Basic Financial Statements. The System presents Statements of Plan Net Assets as of June 30, 2003 and 2002 and Statements of Changes in Plan Net Assets for the years then ended. These statements reflect the resources available for the payment of benefits as of year-end and the sources and uses of those funds during the year.

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

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

Financial Analysis

Summary of Plan Net Assets. As indicated in the following Summary Statement of Plan Net Assets, the net assets held in the System increased $39.7 million or 6.4% during fiscal 2003 and declined $26.6 million or 4.1% during fiscal 2002. These changes are primarily due to increases in the fair value of investments during fiscal 2003 and declines in the fair value of investments during fiscal 2002.

Return on Investments. The System's return on investments net of investment management fees for fiscal 2003 and 2002 were +5.6% and -4.9%, respectively. Domestic equities had a +0.3% total return in fiscal 2003, after losing a cumulative 30.2% during fiscal 2001 and 2002. International equities exhibited mixed results; developed equity markets fell 6.1% while emerging markets increased 7.0%. On the fixed income side, the Lehman Brothers Aggregate bond Index gained 10.4% for fiscal 2003. Real estate was also a positive contributor to portfolio results in 2003. Additional investment commentary is provided in the Investment Section of this document.

Summary of Additions and Deductions. As presented in the Summary of Additions and Deductions (also included in this section), fiscal year 2003 experienced an overall increase due to investment income while fiscal 2002 experienced an overall reduction due to investment losses. Investment performance was very good in relative terms during both years. The System's return on investments ranked in the top quartile of all public funds during fiscal 2003 and was in the top third of public funds in fiscal 2002.

Additions. Total additions increased $70.0 million from fiscal 2002 to 2003, primarily due to increases in investment returns. Employer contributions increased $4.2 million or 22.6% from fiscal 2002 to 2003 and decreased slightly from fiscal 2001 to 2002. The fiscal 2003 increase is due to the increase in the contribution rate from 18.93% of covered payroll in fiscal 2002 to 21.90% of covered payroll in fiscal 2003. The fiscal 2002 rate was a decrease from the fiscal 2001 rate of 20.11% of covered payroll. Total contributions for both fiscal 2003 and fiscal 2002 were also impacted by the increases in covered

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

payroll that occurred each year. Plan member contributions increased during both years as a result of the increase in covered payroll. The System experienced net investment gains during fiscal 2003. Net appreciation in the fair value of investments was $24.2 million during fiscal 2003, after a decline of $45.1 million during fiscal 2002. Interest and dividend income was $12.0 million during fiscal 2003, a decrease of 18.9% from $14.8 million during fiscal 2002. Investment activity expense increased $1.2 million due to investment management fees computed on the increasing investment values and changes in investment strategies that resulted in higher fees. Net securities lending income decreased $238 thousand in fiscal 2003 compared with the same period a year ago. This was due to a combination of factors, including; a lower level of overall interest rates that could be earned on cash collateral, a lessening in demand for securities by borrowers, particularly in international markets, and the change in lending agents that occurred with the custodian change during fiscal 2002.

Deductions. Benefit payments increased 18.6% from fiscal 2002 to 2003 and 9.7% from fiscal 2001 to 2002. The number of retirees and beneficiaries collecting benefits and the amount of the average benefit increased in both years and were responsible for the increase in the expense. Retirees received cost of living increases of 3.0% as of July, 2002 and 3.4% as of July 1, 2001. Refunds and other expenses declined 6.8% from fiscal 2002 to 2003 and 13.2% from fiscal 2001 to 2002. The amount of refunds varies from year to year based on changes in employee turnover rates and decisions of terminated employees.

The actuarial valuation performed as of July 1, 2002 showed the system's funded status at 95.30%, a decrease of 7.96 percentage points from the July 1, 2001 funded percentage of 102.26%.

Major Initiatives

Following policy established by the Board of Trustees, the System engaged an independent actuary to perform an actuarial audit during fiscal 2003. The audit report certified that the liabilities and costs computed by the System's actuary as of July 1, 2001 were computed in accordance with generally accepted actuarial principles.

The plan document was reviewed by outside counsel and a number of recommended amendments were enacted. An application was submitted to the Internal Revenue Service to obtain an updated letter confirming that the plan continues to qualify as an employee benefit plan under section 401(a) of the Internal Revenue Code.

The System's fixed income investments were restructured during fiscal 2003. A number of changes were implemented to further diversify the asset class and to obtain improved risk adjusted return. In addition to replacing a core portfolio manager, the fixed income asset class now includes a specialized portfolio of mortgage-backed securities and a portfolio focused on duration management. A new small-cap U.S. equity manager was hired.

Contacting the System's Financial Management

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Summary Statement of Plan Net Assets

	2003	2002	Difference	2001	Difference
Assets					
Total cash and investments	$767,879,422	$718,522,492	$49,356,930	$755,283,445	($36,760,953)
Total receivables	49,621,578	17,041,544	32,580,034	26,888,427	(9,846,883)
Total Assets	817,501,000	735,564,036	81,936,964	782,171,872	(46,607,836)
Liabilities	160,139,822	117,938,633	42,201,189	137,990,812	(20,052,179)
Net Assets	$657,361,178	$617,625,403	$39,735,775	$644,181,060	($26,555,657)

Summary of Additions and Deductions

	2003	2002	Difference	2001	Difference
Additions					
Contributions					
Employer	$23,027,237	$18,778,608	$4,248,629	$18,818,351	($39,743)
Plan members	7,478,708	6,892,667	586,041	6,525,647	367,020
Net investment income (loss)	33,576,497	(31,599,441)	65,175,938	(18,768,044)	(12,831,397)
Total Additions	64,082,442	(5,928,166)	70,010,608	6,575,954	(12,504,120)
Deductions					
Benefit Payments	23,863,933	20,116,400	3,747,533	18,341,664	1,774,736
Refunds and other	482,734	511,091	(28,357)	556,289	(45,198)
Total Deductions	24,346,667	20,627,491	3,719,176	18,897,953	1,729,538
Net Change	$39,735,775	($26,555,657)	$66,291,432	($12,321,999)	($14,233,658)

STATEMENTS OF PLAN NET ASSETS

as of June 30, 2003 and 2002

Assets	2003	2002
Equity in County's pooled cash and temporary investments	$ 5,556,834	$ 4,283,535
Contributions receivable	875,420	748,401
Accrued interest and dividends receivable	1,811,095	2,666,962
Receivable from sale of investments	46,935,063	13,626,181
Investments		
U.S. Government obligations	36,976,296	23,458,193
Asset-backed securities	147,090,208	105,365,431
Corporate bonds	31,745,149	88,312,892
Common and preferred stock	126,510,559	111,299,223
Pooled and mutual funds	304,136,426	297,850,309
Short-term investments	64,700,914	48,695,528
Cash collateral received under securities lending agreements	51,163,036	39,257,381
Total investments	762,322,588	714,238,957
Total assets	817,501,000	735,564,036
Liabilities		
Payable for collateral received under securities lending agreements	51,163,036	39,257,381
Payable for purchase of investments	107,998,834	78,145,263
Accounts payable and accrued expenses	977,952	535,989
Total liabilities	160,139,822	117,938,633
Net assets held in trust for pension benefits	**$657,361,178**	**$ 617,625,403**

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

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN PLAN NET ASSETS

For the Years Ended June 30, 2003 and 2002

Additions	**2003**	**2002**
Contributions		
Employer	$ 23,027,237	$ 18,778,608
Plan members	7,478,708	6,892,667
Total contributions	30,505,945	25,671,275
Investment income		
From investment activities		
Net appreciation (depreciation) in fair value of investments	24,262,226	(45,163,488)
Interest	9,719,912	12,662,086
Dividends	2,293,937	2,190,422
Total investment income	36,276,075	(30,310,980)
Investment activity expense		
Management fees	2,530,256	1,250,053
Custodial fees	117,701	121,773
Consultant	126,424	122,742
Allocated administrative expense	96,468	95,217
Total investment expense	2,870,849	1,589,785
Net income (loss) from investment activities	33,405,226	(31,900,765)
From securities lending activities		
Securities lending income	785,690	1,325,179
Securities lending expense		
Borrower rebates	543,329	864,311
Management fees	71,090	159,544
Total securities lending activities expense	614,419	1,023,855
Net income from securities lending activities	171,271	301,324
Total net investment income	33,576,497	(31,599,441)
Total additions	64,082,442	(5,928,166)
Deductions		
Annuity benefits	17,410,370	13,996,618
Disability benefits	6,076,207	5,790,446
Survivor benefits	377,356	329,336
Refunds	259,624	290,966
Administrative expense	223,110	220,125
Total deductions	24,346,667	20,627,491
Net increase (decrease)	39,735,775	(26,555,657)
Net assets held in trust for pension benefits		
Beginning of fiscal year	617,625,403	644,181,060
End of fiscal year	**$ 657,361,178**	**$ 617,625,403**

See accompanying notes to financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

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

A. Summary of Significant Accounting Policies

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

Method Used to Value Investments. Short-term investments are reported at cost, which approximates fair value. All other investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Asset-backed securities are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The System records investment purchases and sales as of the trade date. These transactions are not finalized until the settlement date, which occurs approximately three business days after the trade date. The amounts of trade receivables and payables are shown as receivables and payables on the Statements of Plan Net Assets. Cash received as collateral on securities lending transactions and investments made with such cash are reported as assets along with a related liability for collateral received.

Equity in County's pooled cash and temporary investments. The System maintains cash with the County, which invests cash and allocates interest earned, net of a management fee, on a daily basis to the System based on the System's average daily balance of equity in pooled cash. As of June 30, 2003 and 2002 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, 2002, the date of the latest actuarial valuation, membership in the System consisted of:

Retirees and beneficiaries receiving benefits	663
Terminated plan members entitled to but not yet receiving benefits	24
Active plan members	1,625
Total	**2,312**

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, Office of the Sheriff, park police, helicopter pilots, animal wardens and game wardens who are not covered by other plans of the County or the Virginia Retirement System. Benefit provisions are established and may be amended by County ordinance. All benefits vest at five years of service. To be eligible for normal retirement, an individual must meet the following criteria: (a) attain the age of 55 with six years of service, or (b) complete 25 years of service. The normal retirement benefit is calculated using average final compensation (i.e., the highest consecutive three years) and years, (or partial years) of service at date of termination. The plan provides that unused sick leave credit may be used in the calculation of average final compensation by projecting the final salary during the unused sick leave period. To be eligible for early retirement, the employee must have 20 years of service. The benefit for early retirement is actuarially reduced and payable at early termination.

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

Contributions. The contribution requirements of the System members are established and may be amended by County ordinances. Plan A members were given the opportunity to join Plan B as of July 1, 1981 and to enroll in Plan C as of April 1, 1997. From July 1, 1981, until March 31, 1997, all new hires were enrolled in Plan B. Plan B members were given the opportunity to enroll in plan D as of April 1, 1997. From April 1, 1997, forward, all new hires are enrolled in Plan D. Plan A requires member contributions of 4 percent 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, 2003 and 2002 were 21.65 percent and 18.93 percent of annual covered payroll, respectively.

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. Such investments shall be diversified so as to minimize the risk of large losses unless under the circumstances it is clearly prudent not to do so.*

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

An exchange-traded financial futures contract is a legally-binding agreement to buy or sell a financial instrument in a designated future month at a price agreed upon by the buyer and seller at initiation of the contract. Futures contracts are standardized according to quality, quantity and delivery time. The System uses Money Market Euro Futures Contracts as risk-neutral substitutes for the underlying physical securities. Futures have the potential to provide an attractive means of managing interest rate exposure at the short end of the yield curve in a more efficient way and at lower transaction costs. The System entered into contracts in May and June of 2003 which mature in March and June of 2005. At June 30, 2003, the notional value of these contracts was $46,000,000, and the fair market value was $11,238,175. The market and interest rate risks of holding exchange-traded futures contracts arise from adverse changes in market prices and interest rates. These risks are equivalent to holding exposure to the underlying security. Counterparty credit risk is modest because the futures clearinghouse becomes the counterparty to all transactions.

An Options Contract is a financial instrument that, in exchange for the option price, gives the option buyer the right, but not the obligation, to buy (or sell) a financial asset at the exercise price from (or to) the option seller within a specified time period, or on a specified date (expiration date). The System employs Options on Treasury Futures as well as Options on Swaps (Swaptions). Options on Treasury Futures are used to manage interest rate and volatility exposure of the portfolio. Swaptions have similar investment characteristics to other options but have the advantage of being more customized instruments that can serve more specific applications in a portfolio. Swaptions are used in an attempt to generate income by writing puts and calls to manage swap rates or swap rate volatility. Options were written as needed between January and June of 2003 bearing maturities from August to December 2003. Options held in the portfolio at June 30, 2003 had a notional value of ($22,700,000) and a fair market value of ($234,926). A most important characteristic of options is that they can cause the effective duration of a portfolio to change with movements in interest rates. To control interest rate risk, the duration change potential of options positions over a wide range of best and worst case interest rate scenarios are measured and controlled.

An interest rate swap is a binding agreement between counterparties to exchange periodic interest payments on some predetermined dollar principal, which is called the notional principal amount. The System uses interest rate swaps as risk-neutral substitutes for physical securities, or to obtain non-leveraged exposure in markets where no physical securities are available, such as an interest rate index. In the System's interest rate swaps, the portfolio receives a fixed LIBOR rate in the currencies of the United Kingdom, Switzerland, Euroland, Sweden and Canada, while paying out 3- or 6-month LIBOR floating rates that reset quarterly. The effective dates of the swaps range from March to June, 2003, and bear maturity dates from March of 2005 to June of 2008. At June 30, 2003, the notional amount of interest rate swaps totaled $17,700,000 and the fair market value totaled $101,537. The counterparty credit risk is equal to the amount of profit or loss that has not yet been realized. This risk is controlled by the System's investment guidelines and limited by periodic resets to the swap that allow the unrealized profit and loss to be realized. The market risk is equivalent to holding the exposure to the index.

Credit spread swaps (spread locks) are swaps used to adjust exposure to specific sectors and risks in portfolios by the most effective means possible. Swap spreads can both reduce risk and enhance

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

portfolio management flexibility. The System employs spread locks as a potentially attractive means of gaining exposure to the interest rate differential between two market rates. The System has entered agreements to pay fixed amounts ranging from 12.25 basis points to 13.25 basis points over the reference 20-year Treasury bond in anticipation that swap spreads will widen and the entering party can lock in paying a fixed amount that is less than the current swap rate. The spread locks agreements existing at June 30, 2003 were written on April 30, 2003 and matured on August 13, 2003. The notional value of the spread locks on June 30, 2003 was $5.9 million, while the fair market value totaled $29,601. Counterparty risk is limited by restricting eligible counterparties to the highest credit rating organizations in the industry. Risk is also limited to the exchange of net-interest payments, not the instrument's underlying notional value. In addition, there is a mutual collateral agreement that each party may exercise if the market value of the swap exceeds $250,000.

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 System changed custodians during fiscal 2002 and the securities lending program was moved to Mellon Global Securities Services as of the May 1, 2002 conversion date. 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, 2003 had a weighted-average maturity and duration of 18 days. At June 30, 2002 the cash collateral investment pool had a weighted-average maturity and duration of 27 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 2003 or 2002 on the amounts of loans the lending agent made on its behalf. The custodian provides full indemnification to the System for any losses that might occur in the program due to the failure of a broker/dealer to return a borrowed security or failure to pay the System for income earned on the securities while on loan. Securities on loan for securities collateral are classified in the following schedule of investments according to the category of the collateral received. Securities on loan at each year-end for cash collateral are unclassified as the cash collateral is invested in a collective collateral investment pool. At each year end, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts the borrowers owed the System.

As of June 30, 2003 and 2002, the market value of securities on loan was $53,504,766 and $40,217,223, respectively. Cash received as collateral and the related liabilities of $51,163,036 as of June 30, 2003 and $39,257,381 as of June 30, 2002 are shown on the Statements of Plan Net Assets. Securities received as collateral are not reported as assets since the System does not have the ability to pledge or sell the collateral absent borrower default.

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

A schedule of investments as of June 30, 2003 and 2002 follows:

	2003	2002
Categorized Investments		
Short-term investments		
Time deposits	$ 1,000,000	$ 3,000,000
Repurchase agreements	25,258,045	30,857,009
Asset-backed securities	22,512,167	5,833,080
Corporate bonds	11,336,353	7,701,227
U.S. Government bonds	1,101,020	998,740
U.S. Government obligations		
Not on securities loan	7,875,067	10,817,999
On securities loan for other collateral	6,946,830	4,450,906
Asset-backed securities		
Not on securities loan	140,602,026	92,501,660
On securities loan for other collateral	661,186	518,440
Corporate and other bonds	26,254,480	77,880,597
Common and preferred stock		
Not on securities loan	117,579,203	107,018,261
On securities loan for other collateral	285,527	-
Total categorized investments	361,411,904	341,577,919
Uncategorized Investments		
Mutual funds	304,136,426	297,850,309
Short-term investment fund	-	305,472
Securities lending short-term collateral investment pool	51,163,036	39,257,381
Investments held by broker dealers under securities loans with cash collateral:		
Short-term investments	3,493,329	-
U.S. Government obligations	22,154,399	8,189,288
Asset-backed securities	5,826,996	12,345,331
Corporate and other bonds	5,490,669	10,432,295
Common and preferred stock	8,645,829	4,280,962
Total uncategorized investments	400,910,684	372,661,038
Total Investments	$ 762,322,588	$ 714,238,957

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. The System applied for an update of this ruling in a letter dated Nov. 26, 2002. 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 here as required supplementary information. This information is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability - AAL Entry Age (b)	Unfunded AAL- UAAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/97	$ 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	(10,055,220)	101.64%	87,943,499	(11.43%)
7/1/01	666,599,019	651,840,288	(14,758,731)	102.26%	93,577,081	(15.77%)
7/1/02	687,093,049	720,995,743	33,902,694	95.30%	99,200,254	34.18%

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
1998	$ 16,565,155	100%
1999	15,645,845	100%
2000	16,489,406	100%
2001	18,818,351	100%
2002	16,834,252	112%
2003	21,548,814	107%

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, 2002
Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	Weighted average of 15 years
Asset valuation method	3-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.5%
Projected salary increases*	4.1%-8.5%
*Includes inflation at	4.0%
Cost-of-living adjustments	3.0%

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

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

Some effect of investment losses from fiscal 2001 and 2002 are being felt for determining the employer contribution rate developed during the July 1, 2002 valuation. The impact of these losses resulted in the computation of a contribution rate of 22.22% for fiscal 2004, per the GASB methodology, an increase of 3.73% over the GASB computed rate of 18.49% for fiscal 2003. 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, which serves to stabilize the contribution rate, and inclusion of a benefit change results in an adopted rate of 21.90% for fiscal 2004, an increase of 0.25% over the fiscal 2003 adopted rate of 21.65%.

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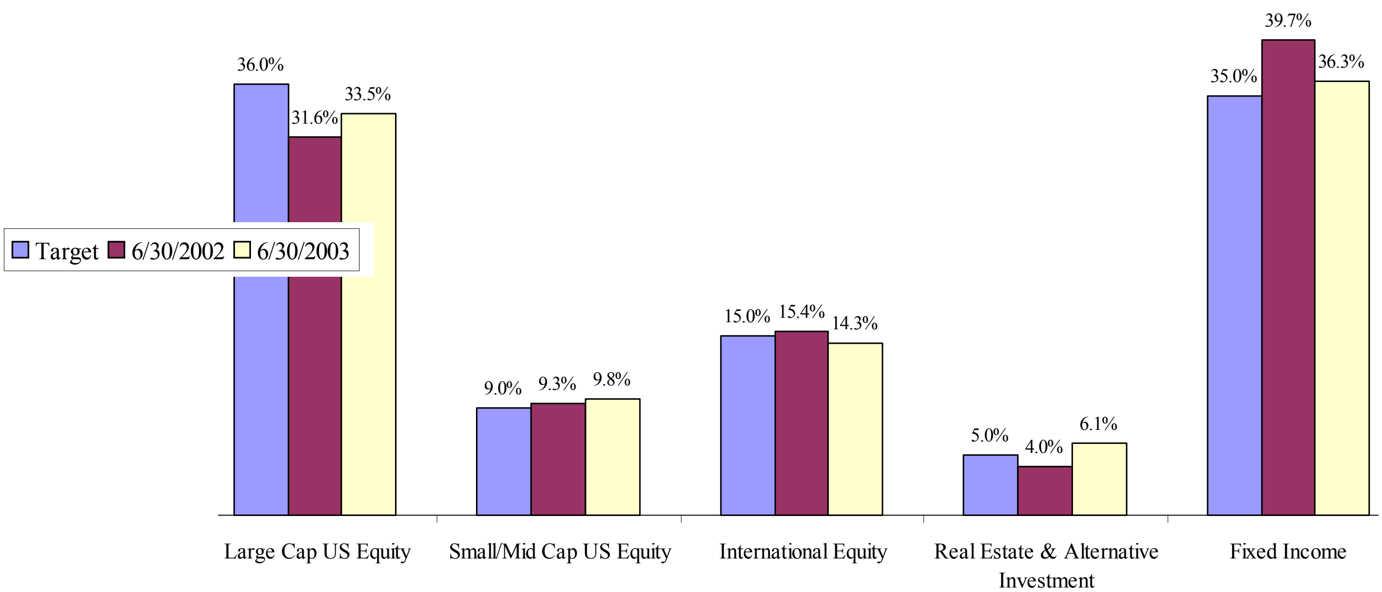
OVERVIEW

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

The Board has established its asset class strategic target allocations which it believes will achieve the return requirements of the fund at an appropriate level of risk and maintain a comfortable risk tolerance. Further, a disciplined rebalancing policy was adopted to ensure that market movements do not cause asset class weightings to unintentionally stray too far from the target percentages. The actual asset allocation at market is reviewed monthly 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, 2003 and 2002.

Uniformed Retirement System Target and Actual Asset Allocation



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

CAPITAL MARKETS AND ECONOMIC CONDITIONS

Financial and Economic Summary

Fiscal year 2003 experienced a third-consecutive tumultuous and disappointing year for equity markets. After sharp declines of 14.8% in fiscal 2001 and 18.0% in 2002, during which investors lost $6 trillion, the S&P 500 Index broke even in fiscal 2003 with a meager gain of +0.3%. The S&P 500 went on a roller coaster ride in 2003. The fiscal first quarter was down sharply, followed by a recovery in the second quarter, leading to a decline in the third quarter, before finishing with a strong rebound in the fourth quarter.

The fiscal year began in July of 2002 with one of the worst quarters in history and the very poorest for equities since the fourth quarter of 1987. The US was not alone in its suffering. Equity markets world-wide fell sharply as investors bailed out of equities in the face of geopolitical uncertainty, corporate accounting scandals, declining corporate earnings and sluggish economic progress. By the end of the fiscal first quarter the S&P 500 Index had lost 17.3% and had given up a cumulative 42% of its value since the turn of the century.

As the second fiscal quarter began, the S&P 500 plummeted to a 5-year low on October 9th, which in hindsight would prove to be the low point of the year. From that point equities began a rally which carried the index up 27.1% through the end of June 2003. The rally was not enough however, to keep the S&P 500 Index on December 31, 2002 from posting its third-consecutive calendar down year, the first time since the Great Depression for three negative years in a row.

The third quarter of fiscal 2003 was dominated by the war in Iraq. During the first two months of the year, uncertainty regarding the start and duration of a military campaign in Iraq stalled US equity

Asset Class Returns

1-Year Returns

markets. Even after war commenced, investor reaction to news from embedded reporters overshadowed economic indicators and negative profit warnings. When the US appeared to gain quick control of the conflict, the S&P 500 staged an 8-day rally in mid-March, before giving back most of the gains at quarter's end. During this quarter personal consumption expenditures declined as consumer confidence hit a 10-year low and GDP growth decelerated. The S&P 500 Index fell 3.2% for the quarter.

Improving corporate financials, aggressive fiscal and monetary stimulus measures from the federal government, and the military progress in Iraq sparked a fiscal fourth-quarter stock and bond market rally around the world. Economic indicators started showing generally positive trends, but unemployment rose to 6.4% at fiscal year end, the highest rate in nine years. Real GDP grew 3.3%, fueled by continued consumer spending, while business investment fell and inventories increased slightly. The mainstay of economic recovery during the past 12 months was autos and housing, both a beneficiary of the extraordinarily low interest rates. Equity indexes officially crossed into bull-market territory during this quarter, bringing an end to the longest and worst bear market (S&P 500 down 47.4%) of the post-World War II era. As a result of all this new-found optimism, the S&P 500 Index advanced 15.4%, the best quarterly return in five years, while the small cap stock index advanced 23.4%, a 12-year best.

For the full year, the best performing asset class was high-yield bonds (+26.4%), followed by international bonds (+17.4%), investment grade bonds (+10.4%), then emerging markets equities (+7.0%) and public real estate securities (+4.0%). Mid-cap stocks, up 2.6% for the year, outperformed large-cap stocks by 2.2 percentage points and small-cap equities by 4.2 percentage points. This marked the fourth year in a row that mid-cap stocks had bested large-cap stocks. Within the Russell 3000, growth outperformed value by 4.0 percentage points, although style leadership flip-flopped between value and growth in each of the four quarters. Health Care (+8.5%) was the best performing industry sector during fiscal 2003, followed by Technology (6.4%). The Transportation (-15.3%) and Energy (-8.0%) sectors had the greatest negative impact on S&P 500 performance.

The US economy proved to be the engine driving world economies in fiscal 2003. Equity markets worldwide followed the dynamics of the US markets. Developed market stock prices, as evidenced by the MSCI EAFE Index, declined 6.1% as governments tried to stimulate growth in a sluggish environment and faced with a declining US dollar. Asian market returns were dampened by the outbreak of the SARS epidemic, which was estimated to have clipped 1% - 2% off of GDP in that region. Emerging markets fared better, gaining 7.0% for the year, led by a strong rebound in Latin America.

Fixed income investors realized gains in every quarter of the year, as yields fell and corporate spreads widened. Bond yields in the US fell to 45-year lows and to record lows in Europe and Japan, led by monetary easing amid sluggish growth and low inflation. Inflation remained mild as the Consumer Price Index increased only 2.1% year-over-year. In June, the Federal Reserve lowered the fed funds rate for the thirteenth time since the downturn began. At that point, short-term interest rates stood at 1.0%, the lowest rate since 1958. The Lehman Brothers Aggregate Bond Index returned a stellar 10.4% for the fiscal year. The two best performing sub-sectors were Treasury bonds (+11.9%) and high-yield corporates (+26.4%), reflecting a flight to quality in the case of Treasuries and the stretching for yield by investors in the case of the high-yield sector. The worst performing bond sector was mortgage-backed securities, which returned only 1.6% due to fears of early mortgage pre-payment.

Global bonds continued their strong run, rising some 17% for the year in dollar terms. Declining global interest rates lifted non-US bond prices, but the major contributor to out-performance was the falling US dollar, especially against the Euro.

Real estate exhibited a fascinating conundrum. Starved for income in an environment of 1% - 2% returns on short-term securities, investors bid up real estate prices to gain the income yield during a period when real estate fundamentals were actually declining.

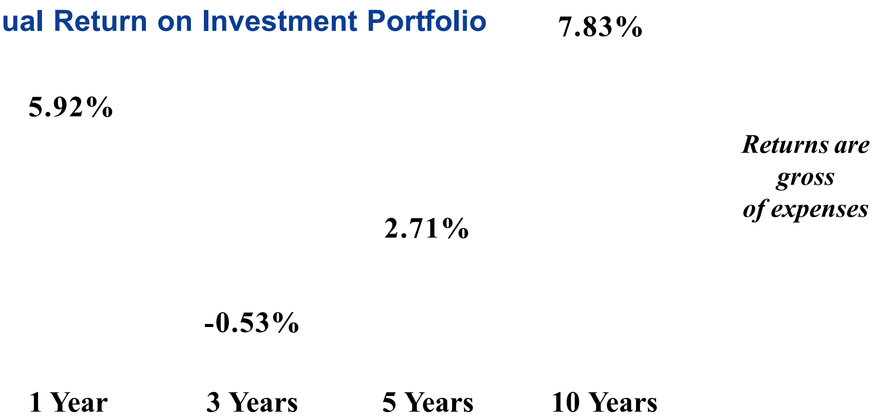
CAPITAL MARKETS AND ECONOMIC CONDITIONS

(Continued)

System

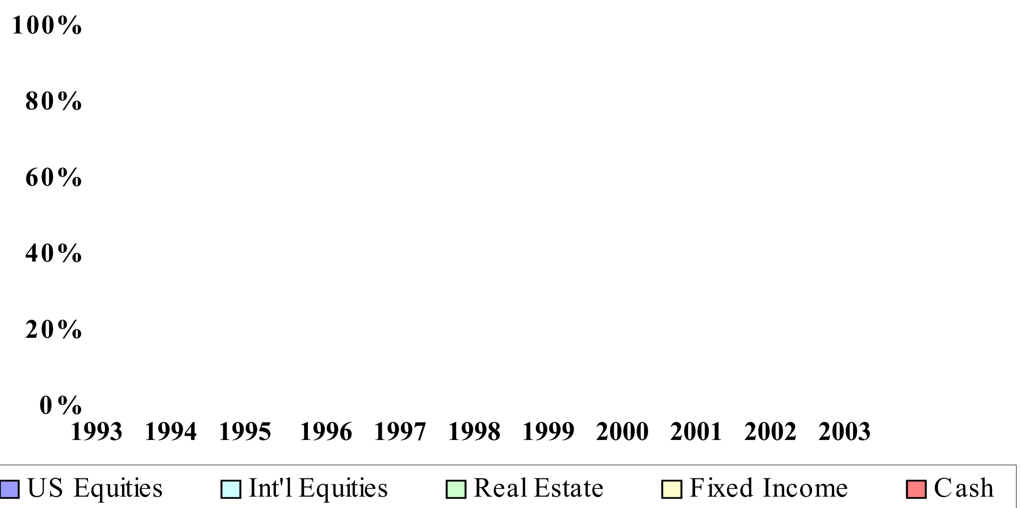
The Uniformed Retirement System operates a sound and diversified investment program with disciplined asset re-balancing to achieve strategic long-term goals. That disciplined investment process has been effective in achieving a long-term record of consistent asset growth.

Compound Annual Return on Investment Portfolio



On a market value basis, the total net assets held in trust rose from $617.7 million at June 30, 2002 to $657.4 million at June 30, 2003. For fiscal 2003, investments provided a return of +5.6%, net of fees, reflecting an improving economic environment. The System's annualized rate of return, net of fees, was -0.8% over the last three years and +2.4% over the last five years. While these investment returns were less than targeted in an absolute sense, the System's returns ranked in the top quartile of a universe of public plan sponsors during fiscal 2003, was in the top third of public funds in 2002, and was in the top quartile in fiscal 2001. The Uniformed Retirement System's annualized net return over the last five years has trailed the rate of 7.5%, the long-term return used for actuarial purposes. At year-end 2003, the System's assets were allocated by manager mandate as follows: domestic and international equities — 57.6%; fixed income securities — 36.3%; real estate — 5.1%; and private equity — 1.0%.

Asset Allocation 1993 - 2003



ASSET ALLOCATION BY CATEGORY AND INVESTMENT MANAGER

June 30, 2003

Asset Class Manager	Investment Style	Total Assets	% of Total Net Assets
Domestic Equities			
Barclays Global *	Enhanced Large Cap Index	$145,598,382	22.1%
SSGA S&P 500 Fund *	Large Cap Index	73,069,026	11.1%
J. L. Kaplan	Active Small Cap Value	34,588,875	5.2%
Wasatch Advisors	Small Cap Ultra Growth	29,068,441	4.4%
Pantheon Private Equity *	Private Equity	4,581,297	0.7%
J P Morgan Private Equity *	Private Equity	1,689,117	0.3%
Harbourvest Private Equity *	Private Equity	132,807	0.0%
International Equities			
Marathon	Active Developed Markets	36,033,532	5.5%
Schroder Emerging Market Fund *	Active Emerging Markets	31,274,683	4.8%
Lazard International	Active Developed Markets	26,092,854	4.0%
Global Fixed Income			
Payden & Rygel	Active Global Core	80,211,014	12.2%
PIMCO	Total Return	79,555,269	12.1%
Peregrine Capital	Active Domestic Duration	38,167,687	5.8%
Trust Company of the West	Strategic Mortgage-backed	37,847,602	5.7%
Real Estate			
UBS Realty *	Active Real Estate Fund	27,060,595	4.1%
Cohen & Steers	Active Equity REITs	6,119,981	0.9%
Short-term			
Standish Mellon Enhanced STIF - Fund portion	Active Short-term	810,094	0.1%
Cash Held at County Treasurer	Active Short-term	6,437,874	1.0%
Net Assets**		**$658,339,130**	**100.0%**

** Pooled Fund*

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

LIST OF LARGEST HOLDINGS FOR ACTIVE (NON-POOLED) ACCOUNTS

as of June 30, 2003

Asset Class / Manager / Security	Market Value	% of Account
Domestic Equities		
J.L. Kaplan		
Lennar Corp.	$1,573,000	4.55%
Ametek Inc.	$1,308,405	3.79%
Sovereign Bancorp Inc.	$1,298,950	3.76%
Renaissance Re Holdings Ltd.	$1,283,664	3.72%
Dean Foods Co.	$1,261,575	3.65%
Wasatch Advisors		
Accredo Health Inc.	$1,848,087	6.33%
Odyssey Healthcare Inc.	$1,652,975	5.66%
Cabot Microelectronics Corp.	$1,393,129	4.77%
UT Starcom Inc.	$1,314,225	4.50%
Express Scripts Inc.	$1,310,052	4.48%
International Equities		
Marathon		
Royal Dutch Petroleum Co.	$492,013	1.37%
Siam Cement Co.	$481,684	1.34%
Shell Transport & Trading	$455,441	1.27%
Nippon Telephone & Telegraph Corp.	$392,255	1.09%
Barclays PLC	$377,224	1.05%
Lazard International		
HSBC Holdings	$1,053,905	4.06%
Vodafone Group PLC	$971,652	3.74%
Glaxosmithkline	$942,468	3.63%
Royal Dutch Petroleum Co.	$914,401	3.52%
Total SA	$821,051	3.16%

LIST OF LARGEST HOLDINGS FOR ACTIVE (NON-POOLED) ACCOUNTS
(Continued)

Asset Class / Manager / Security	Market Value	% of Account
Global Fixed Income		
Payden & Rygel		
FNMA TBA, 5.00%,7/1/2018	$9,861,178	9.01%
FNMA TBA, 5.00%,7/1/2033	$6,037,884	5.52%
U.S. Treasury Note, 4.75%,11/15/2008	$4,468,263	4.08%
FNMA TBA, 5.50%, 7/1/2033	$4,217,381	3.86%
U.S. Treasury Note, 4.875%,2/15/2012	$3,580,238	3.27%
PIMCO		
FHLMC, 5.50%, 5/15/2031	$5,380,220	4.91%
FNMA TBA, 6.00%, 8/1/2033	$5,191,406	4.74%
FNMA TBA, 6.50%, 7/1/2033	$4,171,250	3.81%
Danske Corp. Series A Discount Note, 7/2/2003	$3,493,239	3.19%
FHLMC Discount Note, 9/9/2003	$3,288,953	3.00%
Peregrine Capital		
U.S. Treasury Bond, 5.25%, 11/15/2028	$4,491,094	10.88%
U.S. Treasury Bond, 5.25%, 2/15/2029	$4,301,807	10.42%
FHLMC Discount Note, 7/7/2003	$2,799,579	6.78%
FNMA Discount Note, 8/4/2003	$2,797,461	6.78%
Fed. Farm Credit Bank Discount Note, 11/25/2003	$2,484,563	6.02%
Trust Company of the West		
GNMA REMIC, 4.50%, 12/20/2029	$3,136,909	7.73%
Master Asset Security, 5.50%, 7/1/2033	$3,017,814	7.44%
FNMA REMIC, Variable rate, 5/25/2033	$2,990,344	7.37%
FHLMC, 6.50%, 2/15/2032	$2,966,183	7.31%
GNMA REMIC, Variable rate, 5/16/2033	$2,791,986	6.88%
Real Estate		
Cohen & Steers		
Equity Office Properties Trust	$310,615	5.12%
Vornado Realty Trust	$305,200	5.03%
Simon Property Group Inc.	$273,210	4.50%
Archstone Smith Trust	$208,800	3.44%
Macerich Co.	$203,754	3.36%

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A MILLIMAN GLOBAL FIRM

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May 2, 2003

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

Dear Members of the Board:

At your request, we have conducted our annual actuarial valuation of the Fairfax County Uniformed Retirement System as of July 1, 2002. The results of the valuation are contained in the following report. The purpose of this valuation is discussed in the Board Summary.

Funding Objective

The funding objective of the System for Fiscal Year 2003 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.

The system changed the funding objective for Fiscal Year 2004. We describe the revised funding objective in the Actuary's Comments section.

Assumptions

The actuarial assumptions used in performing this valuation have been recommended by the actuary and adopted by the Board of Trustees based on Milliman's most recent review of the System's experience (from July 1, 1995 to June 30, 2000). We believe the assumptions used, in the aggregate, reflect our best estimate of anticipated future experience of the plan. 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 plan could vary from our results. Since the prior valuation the plan was amended to provide a pre-Social Security supplement and to grant an ad hoc COLA of 1%. There were also changes in experience and actuarial methods and procedures that significantly impact the System's contribution rate for Fiscal Year 2004.

The assumptions and methods used in performing this valuation meet the parameters set by The Governmental 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 written) supplied by the System's staff. This information includes, but is not limited to, Plan provisions, employee data, and financial information. Census data provided to us has been reviewed for reasonableness, and for consistency with prior year's data.

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

We were responsible for all years of the Schedule of Funding Progress, Schedule of Employer Contributions and Notes to Required Supplementary Information 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 have compared the least valuable 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 accrual rates do exceed two-thirds of the employer provided accrual rates under the VRS plan.

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

Certification
I, Robert Dezube and I, John C. Muehl, are consulting actuaries for Milliman, USA. We are also members of the American Academy of Actuaries and meet their Qualification Standards to render the actuarial opinion contained herein.

We hereby 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.

Sincerely,

Milliman USA

John C. Muehl

Robert Dezube

John C. Muehl, FSA
Consulting Actuary

Robert S. Dezube, FSA
Consulting Actuary

MILLIMAN USA

SUMMARY OF VALUATION RESULTS

Overview

This report presents the results of the July 1, 2002 actuarial valuation of the Fairfax County Uniformed Retirement System. The primary purposes of performing the annual actuarial valuation are to:

- determine the contributions to be paid by the County in fiscal year 2004;
- measure and disclose, as of the valuation date, the financial condition of the System;
- indicate trends in the financial progress of the System;
- 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 the principal results from this year's valuation, compared to the prior year's, in a single table, intended for quick reference purposes.

Actuary's Comments

The System had an investment return of negative 4.89% for the year, considerably below the 7.5% assumption. This was a significant factor leading to an unfunded liability of $33.9 million as of July 1, 2002. This compares to a negative $14.8 million unfunded liability (i.e., surplus) measured as of July 1, 2001. In relative terms, the funding ratio (assets divided by liabilities) fell from 102.3% to 95.3%.

This marks the third consecutive period of unfavorable market return (less than the 7.5% assumption). Therefore, the impact on the actuarial, or smoothed, value of assets is more significant without the help of stored gains as in prior years. On this smoothed basis, the System earned 2.31%, over 5% less than our assumption. This resulted in an investment loss of $34.7 million. Combined with a liability gain of $14.5 million, the System experienced a net actuarial loss of $20.2 million.

This report reflects a significant change to the way the System determines the contribution rate. The Board of Supervisors approved the use of a corridor method to fund the System. Under this funding approach, the County's contribution rate is equal to the normal cost rate plus expense rate determined as of the implementation date of the corridor method (July 1, 2001). This rate will remain the same as long as the System's actuarial funded status remains within a corridor of 90% to 120%. The County's contribution rate will change due to changes in benefits. The new rate will reflect the change in normal cost rate and 15 year funding of the change in actuarial accrued liability. The normal cost rate and actuarial accrued liability will continue to be measured using the entry age funding method. If the funded status falls outside the corridor a credit (if above 120%) or charge (if below 90%) will be established based on a 15-year amortization equal to the amount necessary to re-enter the corridor. Once the funded status is within the corridor the contribution rate will return to normal cost rate plus expense rate.

SUMMARY OF VALUATION RESULTS
(Continued)

For retirements on or after March 18, 2002 a pre-Social Security supplement was added for all plans (for members of Plans A&B, this represents an additional supplement) based on 0.2% (for Plan A&B) and 0.3% (for Plan C &D) times final average earnings per year of service. The cessation date is the member's Social Security normal retirement age (either age 65, 66 or 67). This portion of the benefit is not subject to annual COLA adjustments. In addition, an ad hoc COLA of 1.00% was awarded to members in payment status as of July 1, 2002.

The results of this valuation report disclose the actuarially determined rate, which will be used for purposes of disclosing the Annual Required Contribution rate under Governmental Accounting Standards Board Statement No. 25 (GASB #25). The analysis in this report will focus on the actuarially determined rate, but will footnote the resulting contribution rate from the corridor method.

Finally, while the results are not on the favorable side this year, we emphasize again that financing a retirement system is a long-term proposition. Annual fluctuations are to be expected and should not by themselves be causes for concern. In our opinion the System's overall financial condition is healthy and there are procedures, assumptions and methods in place which adequately and appropriately finance the emerging long-term liabilities of the System.

The balance of this section summarizes System trends and provides the principal details on this year's experience.

Prior Year Experience

ASSETS

Plan assets for this System are measured on both a market value and an actuarial value basis. The actuarial value is established by phasing in investment experience outside of the actuarial assumptions at a rate of 33-1/3% per year. In periods of high return, this method significantly limits the amount of asset gain which is recognized, or conversely, the amount of asset loss recognized when returns are abnormally low. The advantage of this approach is that costs are more stable over time. The plan does not feel the full immediate impact of lower (or higher) costs when assets increase (or decrease) dramatically.

For the plan year ending June 30, 2002, the System earned negative 4.89% on a market value basis, and 2.31% on an actuarial value basis. The return, on both a market and actuarial basis, was lower than the assumption of 7.5%, which produces a loss (when compared to the expected growth using the 7.5% assumption) to the System of $80.1 million (market value), and a loss of $34.7 million (actuarial value). The specific changes between the prior year amounts and this year's are presented below.

Item	Market Value	Actuarial Value
July 1, 2001 value	$644,181,060	$666,599,019
Employer contributions	18,778,608	18,778,608
Member contributions	6,892,667	6,892,667
Benefit payments and expenses	(20,627,491)	(20,627,491)
Expected investment earnings (7.5%)	48,502,721	50,184,068
Expected value July 1, 2002	697,727,565	721,826,871
Investment gain (loss)	(80,102,162)	(34,733,822)
July 1, 2002 value	**$617,625,403**	**$687,093,049**

SUMMARY OF VALUATION RESULTS

(Continued)

LIABILITIES

Three different measures of liabilities are calculated for this System: a total value of future obligations, an actuarial liability, and an accounting liability. Each type of liability is distinguished by the people ultimately using the figures, and the purpose for which they are using them.

Total future obligations liability is used for analyzing the financial outlook of the System. This represents the amount of money needed today to fully pay off all future benefits and expenses of the System, assuming participants continue to accrue benefits.

Actuarial liability is used for funding calculations and GASB disclosures. Taking the total future obligations and subtracting the present value of future member contributions and future employer normal costs under an acceptable actuarial funding method calculate this liability. The entry age normal funding method is used.

Accrued liability is used for communicating the current level of liabilities. This liability represents the total amount of money needed today to fully pay off the current accrued obligations of the System, assuming no future accruals of benefits. This liability is required for accounting purposes under statement No. 35 of the Financial Accounting Standards Board.

Only the actuarial liability is analyzed in terms of a gain or loss experience, which then is used to determine the System's funding and GASB disclosures. During the plan year ending in 2002, the actuarial liabilities experienced a gain of $14.5 million, which is 2.0% of the total actuarial liability being measured. We will continue to monitor gains and losses to ensure there is no significant pattern.

Liabilities	Total Value	Actuarial	Accounting
July 1, 2001	$840,241,079	$651,840,288	$546,690,110
July 1, 2002	$929,112,649	$720,995,743	$624,043,025

UNFUNDED LIABILITIES AND FUNDING RATIOS

The difference between assets and liabilities is the unfunded liability. This is measured in two ways: unfunded actuarial liabilities, which compare the actuarial liabilities to the actuarial asset value, and unfunded accrued benefits, which compare the accounting liability to the market value of assets. These amounts are shown for July 1, 2001 and July 1, 2002, as well as the corresponding funded ratios for each (assets divided by liabilities).

Unfunded Liabilities	Actuarial	Accounting
Net (Surplus) Unfunded July 1, 2001	$(14,748,731)	$(97,490,950)
Funded Ratio	102.3%	117.8%
Net (Surplus) Unfunded July 1, 2002	$33,902,694	$6,417,622
Funded Ratio	95.3%	99.0%

SUMMARY OF VALUATION RESULTS
(Continued)

CONTRIBUTIONS

This summary presents the County contribution rate and compares it to the rate developed in the July 1, 2001 actuarial valuation. Due to the net impact of investment and liability losses, the County contribution rate, payable in FY 2004 on the GASB disclosure basis increased by 3.73% of payroll. It is important to note that this is not the contribution rate that the County has adopted in either FY 2003 or FY 2004. The Corridor Funding Method produced a contribution rate of 17.80% in the July 1, 2001 valuation. After adjusting for plan improvements the FY 2003 contribution rate was set at 21.65%. In the July 1, 2002 valuation, the Corridor Funding Method produced a contribution rate 21.90% for FY 2004.

Rate as a Percent of Covered Payroll - GASB Disclosure

July 1, 2001 valuation rate; FY 2003 contribution rate	18.49%
Increase due to plan change	2.45%
Increase due to Ad-Hoc COLA	0.25%
Increase due to investment loss (gain)	3.09%
Increase due to liability loss (gain)	-2.06%
July 1, 2002 valuation rate; FY 2004 contribution rate*	22.22%

**For 2002 this represents a fresh start to a 15-year amortization period.*

Rate as a Percent of Covered Payroll - Corridor Method

July 1, 2001 valuation rate; FY 2003 contribution rate	17.80%[1]
Increase due to plan change	3.85%
Increase due to Ad-Hoc COLA	0.25%
July 1, 2002 valuation rate; FY 2004 contribution rate	21.90%

[1] This was the rate produced by the Corridor Funding Method. As stated above, the rate was adjusted to reflect the Pre-Social Security Supplement included in this report. Therefore, the budgeted rate for FY 2003 was 21.65% (17.80% + 3.85%).

MEMBERSHIP

There are three types of plan participants: current active workers, terminated workers who retain a right to a deferred vested benefit, and retirees and beneficiaries receiving benefits. Below are totals for each group as of July 1, 2002 and 2001.

There was an overall increase in participation during the year.

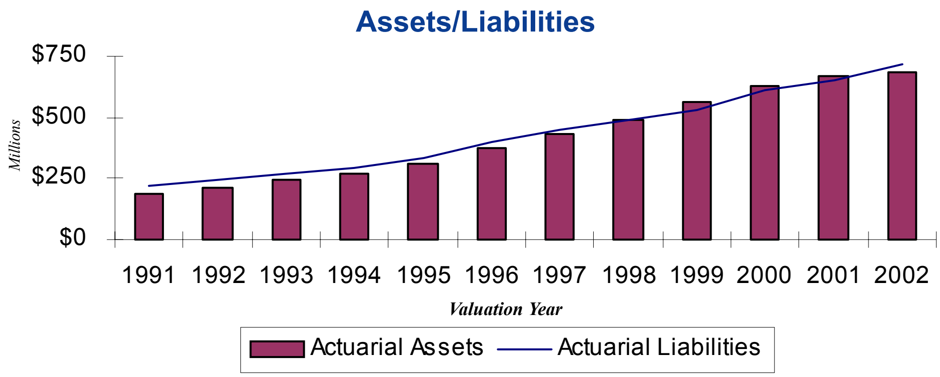
	7/1/2002	7/1/2001	Change
Active participants	1,625	1,620	0.3%
Terminated vested participants	24	18	33.3%
Retirees and beneficiaries receiving benefits	663	636	4.2%
Total participants	2,312	2,274	1.7%

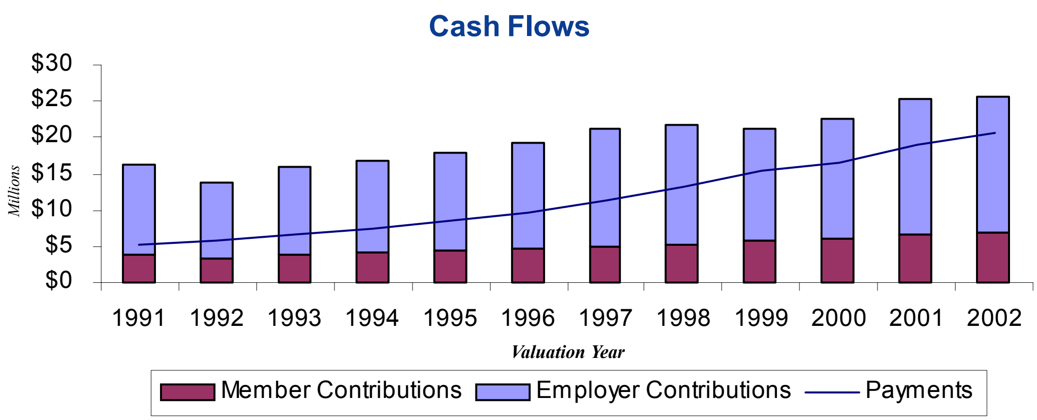
SUMMARY OF VALUATION RESULTS

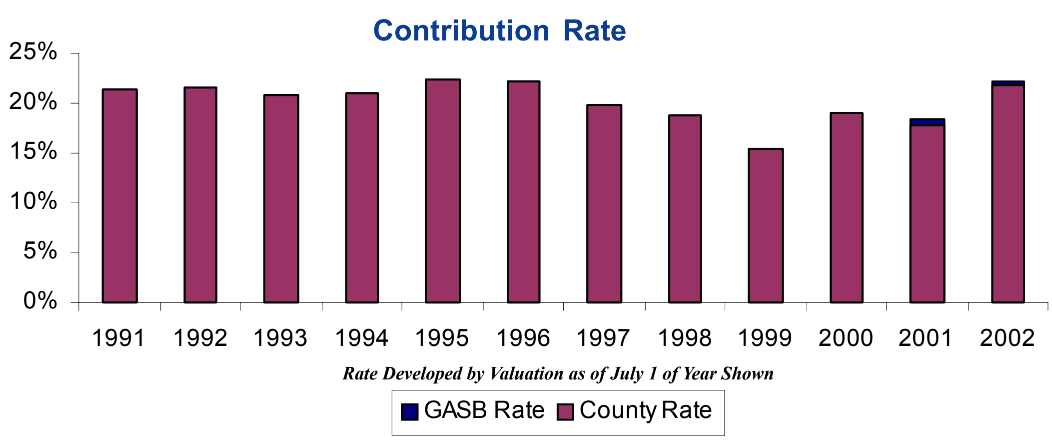
(Continued)

Trends

To truly understand the financial condition of the pension plan, a review of the prior years' funded status is helpful in seeing the big picture and general trend evolving. Below are three charts which present trend information from 1991 through the end of 2002. Comments on each chart follow.







SUMMARY OF VALUATION RESULTS
(Continued)

COMMENTS

The asset/liability chart places into perspective the aforementioned investment and liability performance losses of this past year. The ratio of assets to liabilities (funded ratio) remains quite high and exceeded 100% last year.

The cash flows chart presents an emerging trend that will have investment implications. It is a trend being faced by many public retirement systems, with the aging of our baby boomer generation. Payments to retirees are on the increase, while cash into the fund, from employer and employee contributions is stable or declining. Another significant contributing factor is the increasing ratio of retirees to actives, which is due to the stabilization of the active workforce. This is anticipated and essentially explains the need to build up assets in the System.

Finally, the contributions chart shows the fluctuation in the County contribution rate and the impact of the Corridor Method of determining the County contributions.

SUMMARY OF PRINCIPAL RESULTS

This table compares the principal results from the 2002 and 2001 valuations.

Participant Data	**July 1, 2002**	**July 1, 2001**	**Percent Change**
Number of:			
Active members	1,625	1,620	0.3%
Retired members and beneficiaries	663	636	4.2%
Vested former members	24	18	33.3%
Annual salaries of active members	$ 94,942,958	$ 89,861,512	5.7%
Annual benefits for retired members, and beneficiaries	$ 20,233,696	$ 18,300,610	10.6%

Assets and Liabilities	**July 1, 2002**	**July 1, 2001**	**Percent Change**
Total actuarial liability	$ 720,995,743	$ 651,840,288	10.6%
Assets for valuation purposes	$ 687,093,049	$ 666,599,019	3.1%
Unfunded actuarial liability	$ 33,902,694	($ 14,758,731)	-329.7%
Funded ratio	95.3%	102.3%	N/A
Present value of accrued benefits	$ 624,043,025	$ 546,690,110	14.1%
Market value of assets	$ 617,625,403	$ 644,181,060	- 4.1%
Unfunded FASB actuarial liability	$ 6,417,622	($ 97,490,950)	-106.6%
Accrued benefit funding ratio	99.0%	117.8%	N/A

SUMMARY OF VALUATION RESULTS
(Continued)

Contributions *(as percent of payroll)*	***Fiscal Year 2004***	***Fiscal Year 2003***
GASB Method:		
Employer normal cost rate	18.95%	17.55%
Unfunded actuarial liability contribution	3.02%	0.69%
Administrative expense	0.25%	0.25%
Total employer contribution GASB method	22.22%	18.49%
Corridor Method:[1]		
Employer normal cost rate	18.95%	18.95%
Increase due to ad-hoc COLA & plan changes	2.70%	2.45%
Administrative expense	0.25%	0.25%
Total employer contribution - corridor method	21.90%	21.65%

[1]The budgeted FY 2003 rate is 21.65% to reflect the pre-social security supplement.

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 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.

Actuarial Value of Assets

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

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

Changes Since Last Valuation

There have been no changes since the last valuation.

ACTUARIAL ASSUMPTIONS AND METHODS

Long Term Assumptions Used to Determine System Costs and Liabilities

Demographic Assumptions

Mortality

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

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

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

Termination of Employment : (Prior to Normal Retirement Eligibility)

Annual Terminations per 1,000 Members

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

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

ACTUARIAL ASSUMPTIONS AND METHODS

(Continued)

Disability

Age	Annual Disabilities per 1,000 Members* Male and Female	Age	Annual Deaths Per 1,000 Disabled Members 1994 Uninsured Pensioners Mortality Table +5 Male	Female
20	2	40	2	1
25	2	45	3	2
30	3	50	5	2
35	4	55	9	5
40	6	60	16	9
45	10	65	26	15
50	17	70	40	24
55	24	75	67	42
60	24	80	105	73

*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

Annual Retirement per 1,000 eligible

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

ACTUARIAL ASSUMPTIONS AND METHODS
(Continued)

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

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

Family Composition

For purposes of valuing the pre-retirement death benefit, an assumption 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.

Economic Assumptions

Investment Return: 7.50% compounded per annum.

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

Rate of Increase in Cost-of-Living : 4.00% compounded per annum.
(Benefit increases are 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: 0.25% 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

	Gain (or Loss) for Year ending June 30,			
Type of Activity	**1999**	**2000**	**2001**	**2002**
Investment income	$ 29,200,070	$ 16,102,586	$ (11,208,979)	$ (34,733,822)
Combined liability experience	2,706,097	(4,031,117)	(3,258,857)	14,531,375
Gain (or loss) during year from financial experience	$ 31,906,167	$12,071,469	$ (14,467,836)	$ (20,202,447)
Non-recurring items	(1,841,583)	(32,173,276)	17,110,280	(30,388,171)
Composite gain (or loss) during year	**$ 30,064,584**	**$ (20,101,807)**	**$ 2,642,444**	**$ (50,590,618)**

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**
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
2001	56	2,688,692	9	232,369	636	19,387,358	14.51%	30,483
2002	34	2,152,809	7	241,817	663	21,298,350	9.86%	32,124

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)
7/1/97	$ 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%
7/1/01	63,630,360	267,348,939	320,860,989	666,599,019	100%	100%	105%
7/1/02	72,967,375	290,395,797	357,632,571	687,093,049	100%	100%	91%

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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 Additions
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
2002	6,892,667	18,778,608	18.93%	(31,599,441)	(5,928,166)
2003	7,478,708	23,027,237	21.65%	33,576,497	64,082,442

SCHEDULE OF DEDUCTIONS BY TYPE

Fiscal Year	Benefit Payments	Refunds of Contributions	Administrative Expenses	Total Deductions
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
2002	20,116,400	290,966	220,125	20,627,491
2003	23,863,933	259,624	223,110	24,346,667

SCHEDULE OF BENEFIT PAYMENTS BY TYPE

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Total
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
2002	13,996,618	5,546,273	244,173	329,336	20,116,400
2003	17,410,370	5,806,457	269,750	377,356	23,863,933

SCHEDULE OF RETIRED MEMBERS BY BENEFIT TYPE

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Total
1998	298	189	14	17	518
1999	347	188	15	17	567
2000	368	188	15	18	589
2001	411	191	15	19	636
2002	437	191	15	20	663
2003	503	191	17	20	731

SCHEDULE OF AVERAGE MONTHLY BENEFIT AMOUNTS

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Average
1998	$ 2,311	$ 2,036	$ 1,194	$ 1,233	$ 2,266
1999	2,534	2,183	1,186	1,188	2,541
2000	2,532	2,325	1,232	1,315	2,278
2001	2,697	2,419	1,276	1,356	2,477
2002	2,853	2,527	1,368	1,436	2,632
2003	3,186	2,659	1,460	1,477	2,948