Introduction

Lynn Riggs
Science Resource Teacher
Bailey's Elementary School for the Arts and Sciences

Letter of Transmittal

Educational Employees' Supplementary
Retirement System of Fairfax County
8001 Forbes Place, Suite 300
Springfield, VA 22151

December 28, 2006

The Board of Trustees
Educational Employees' Supplementary Retirement
System of Fairfax County (ERFC)
Springfield, VA 22151

Dear Chairperson and Members of the Board of Trustees:

It is our privilege to submit the Comprehensive Annual Financial Report (CAFR) for the Educational Employees' Supplementary Retirement System of Fairfax County ("ERFC" or "System") for the fiscal year ended June 30, 2006. The financial information presented in this report is the responsibility of the ERFC management. Proper internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements. We believe this report conforms to Government Finance Officers Association (GFOA) requirements. This CAFR reflects the careful stewardship of the System's assets and dedicated service provided by the Board and staff.

Plan History

The ERFC was established effective July 1, 1973, as a result of negotiations between the Fairfax County School Board and the Fairfax Education Association (FEA). The terms under which ERFC operates were later incorporated in a Fairfax County ordinance and the ERFC Plan Document. Historically, ERFC benefits have been designed to supplement and complement the benefits of two other retirement plans: The Virginia Retirement System (VRS) and The Federal Social Security System. In 1987, VRS enacted major increases in early retirement benefits. This resulted in a thorough re-examination of ERFC benefits. Effective July 1, 1988, the *ERFC* benefit structure was significantly changed which decreased benefits for future members while protecting rights of the present members. Further plan changes were effective on July 1, 2001. Employees hired on or after July 1, 2001, are enrolled in the new *ERFC 2001,* a benefit structure that incorporates a more streamlined stand-alone retirement benefit. ERFC provides service, reduced service, disability and survivor benefits for thousands of Fairfax County Public Schools full-time educational and support service employees. Both employees and the Fairfax County School Board contribute to the System. ERFC, in turn, pays benefits to members throughout their retirement and to qualified beneficiaries upon a member's or retiree's death.

Letter of Transmittal

Report Contents and Structure

For financial reporting purposes, ERFC is considered a component unit of the Fairfax County Public Schools, Fairfax, Virginia.

This report is designed to comply with the reporting requirements of Sections 3-4-6(a)(8) of the Fairfax County Code and the Virginia Code. Additionally, this report reflects GFOA Guidelines for the Preparation of a Public Employee Retirement System Comprehensive Annual Financial Report. This report is divided into the following five sections:

- The Introductory Section contains a letter of transmittal, a letter from the Chairperson of the Board of Trustees, the administrative organization, and general information regarding the operations of ERFC. The GFOA's fiscal year 2005 **Certificate of Achievement for Excellence in Financial Reporting** is pictured on the inside front cover and is addressed at the beginning of this section. Also included in the preface is the **Public Pension Standard's *2006 Award*** as issued by the Public Pension Coordinating Council.
- The Financial Section contains the report of the independent auditors, the management discussion and analysis (MD&A) section, the financial statements, and the financial notes, which includes additional schedules and supplementary financial information. The letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A narrative can be found immediately following the report of the independent auditors.
- The Investment Section contains a report on investment activity, investment policies, an investment summary, and information pertaining to pension trust fund investment management.
- The Actuarial Section contains information regarding the financial condition of the retirement plan and the actuary's certification letter.
- The Statistical Section has been modified to comply with the Governmental Accounting Standard Board's Statement No. 44 and contains the required financial trends and operating information.

Plan Financial Condition

As reported by an independent actuary for the valuation period ending December 31, 2005, ERFC is in sound financial condition. The ERFC's funded ratio of 84.9 percent remained unchanged from the previous year and is slightly less than the average of 86.6% for 125 public pension plans nationally.

Historical information relating to the ERFC's funded ratio is presented in the Schedule of Funding Progress contained in the Financial Section. In addition, information regarding the overall financial condition of the pension trust fund can also be found in the Financial Section as well as in the Actuarial and Statistical Sections of this report.

Letter of Transmittal

Investment Activity

Fiscal year 2006 was another strong year for the ERFC and in fact is the third consecutive year that ERFC's portfolio generated a return greater than the assumed actuarial investment return rate of 7.5 percent. ERFC's assets generated a 10.9 percent return for the 12 months ending June 30, 2006, which compares favorably to the fund's diversified benchmark return of 9.6 percent and to the actuarial earnings' rate assumption of 7.5 percent. However, the fund return did lag the average public funds' return of 11.9 percent due mainly to the under-allocation to international equities. At your direction, we have since increased this target allocation from 12 to 18 percent and reduced the allocation to domestic equities to accommodate the change.

For the longer-term, ERFC performed favorably on both an absolute and relative basis for the three- and five-year periods and exceeded the actuarial earnings rate assumption. However, the System did lag both the diversified target and public funds universe for the ten-year period, due mainly to the underperformance of ERFC's equity managers during the five-year period prior to July 2001.

Regarding the investment manager lineup, two changes were completed in fiscal year 2006. ERFC finalized its strategic decision to divide the real estate allocation evenly between public and private components by allocating $20 million to UBS Global Asset Management and reducing the Urdang Investment Management portfolio by a like amount. Also, a growth index portfolio managed by Mellon Capital Corporation replaced the portfolio managed by Montag & Caldwell.

Further detail regarding the fund's performance may be found in the Investment Section of this report.

Professional Services

Professional services are provided to the ERFC by consultants appointed by the Board of Trustees to aid in the efficient management of the System. Mercer Investment Consulting, Inc., Atlanta, Georgia, provides investment consulting services; and Gabriel, Roeder, Smith & Company, Southfield, Michigan, provides actuarial services. In accordance with county code, the Fairfax County Board of Supervisors appointed KPMG LLP, Certified Public Accountants, Washington, D.C., to audit the financial statements of the System.

Letter of Transmittal

Awards

The System is proud to announce that it has recently received the **Certificate of Achievement for Excellence in Financial Reporting** for the FY 2005 Comprehensive Annual Financial Report (CAFR) as issued by the Government Finance Officers Association of the United States and Canada (GFOA). This is the tenth consecutive year that the ERFC has earned this award. The CAFR must satisfy both generally accepted accounting principles and legal requirements in order to earn this certificate, which is valid for a period of one year. ERFC, was also recently granted the **Public Pension Standards *2006 Award*** by the Public Pension Coordinating Council. This award is in recognition that the ERFC meets or exceeds the professional standards for plan design and administration as set forth in the Public Pension Standards.

Conclusion

This report is a product of the combined efforts of the ERFC staff and advisors functioning under your leadership. It is intended to provide complete and reliable information that will enhance the management decision process, serve as a means for determining compliance with legal requirements, and allow for an assessment of the stewardship of the funds of the System.

Our sincere appreciation is extended to all who assisted in and contributed towards the completion of this document.

The report is being mailed to the members of the Fairfax County School Board, Leadership Team, Fairfax County Schools and Government Finance Offices and Libraries, and other interested parties. We hope that all recipients of this report find it both informative and useful.

Respectfully submitted,

Alan Belstock, PhD
Executive Director

Bob Lausier
Finance Coordinator

Letter from the Chairperson

Educational Employees' Supplementary Retirement System of Fairfax County
8001 Forbes Place, Suite 300
Springfield, VA 22151

November 30, 2006

Dear ERFC Members:

On behalf of the members of the Board of Trustees, I am pleased to present the Educational Employees' Supplementary Retirement System of Fairfax County's (ERFC) Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006. The Board is dedicated to maintaining the integrity of the fund by adhering to the philosophy, service, and management principles outlined in the ERFC mission statement. Proper, prudent, and faithful stewardship is necessary for the accumulation and preservation of the assets needed to pay the benefits promised by the System. We monitor local, national, and international economic indicators to stay on the leading edge of developments that may affect your pension fund. A recent actuarial valuation conducted by an independent actuarial firm once again concluded that ERFC is in excellent financial health.

The composition of the Board remained stable during the year with only one change. Last year, Dr. Brad Draeger retired after more then 26 years with Fairfax County Public Schools, including several years of dedicated service on the ERFC Board. I join all of the trustees in extending our sincere gratitude to Dr. Draeger for his leadership and support of ERFC. Replacing Dr. Draeger, ERFC welcomed new FCPS Deputy Superintendent, Dr. Richard Moniuszko. In June, the School Board also re-appointed Tom Bowen, Nitin Chittal, and Deirdra McLaughlin to serve one-year terms. During the annual organization meeting in July, the ERFC Board held an election of officers. Michael Hairston was reelected to serve as the vice chairperson, Deirdra McLaughlin was reelected to serve as treasurer, and I was reelected as chairperson. Board terms begin on July 1, and end on June 30.

The Board continues to focus on strategic planning. At the Board's annual retreat, the Strategic Plan is reviewed and revisions are made as appropriate. The plan focuses on six primary areas: (1) best practices in maintaining our defined benefit plans, (2) member communication/education, (3) long term goals and objectives, (4) high fiduciary standards, (5) funding and investment management, and (6) long term automation. Details of recent accomplishments and the complete Strategic Plan can be reviewed on our web site, **www.fcps.edu/ERFC.**

Letter from the Chairperson

After extensive research and revision, member handbooks have been newly-published for both the *ERFC* and *ERFC 2001* benefit structures. I would like to acknowledge the work of Dr. Belstock, Jeanne Carr, and Janet Kohler Dueweke whose untiring efforts made this possible. We are justifiably proud! The new handbooks are posted online for immediate reference on the ERFC website. To request a printed copy of an ERFC Handbook, send an email including your name, work location, and FCPS hire-date to **ERFCComm@fcps.edu.**

Finally, the members of the Board and the ERFC staff wish to express our thanks to all members for their continued support. We value your opinions and welcome your input regarding your retirement system. We are committed to enhancing our communication with you so that you may learn more about your pension fund and the issues that may affect your retirement. Please feel free to contact a member of the Board or staff if you would like to comment on how we may enhance our service to you.

Yours sincerely,

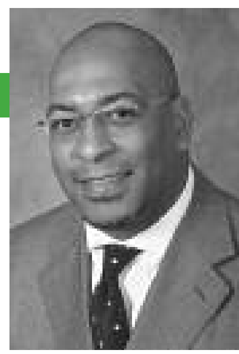
Leonard E. Bumbaca
Chairperson
ERFC Board of Trustees

Board of Trustees

The Board of Trustees is the governing body of the Educational Employees' Supplementary Retirement System of Fairfax County. The Board is composed of seven members: three appointed by the School Board, three elected by the membership of the System, and one not affiliated with or employed by Fairfax County, the Fairfax County School Board, or any union or similar organization that represents teachers or other Fairfax County employees. The "individual" trustee is chosen by unanimous vote or consent by the other six trustees and approved by the Fairfax County School Board.

The Board of Trustees appoints an executive director, an actuary, an investment consultant, and legal counsel for the transaction of business. The Board meets monthly and receives no compensation but is reimbursed for business-related expenses. The Board's executive committee is comprised of the chairperson and treasurer.

Leonard E. Bumbaca
Chairperson/Trustee
Elected Member



Michael A. Hairston
Vice Chairperson/
Trustee
Elected Member

Deirdra McLaughlin
Treasurer/Trustee
Appointed Member

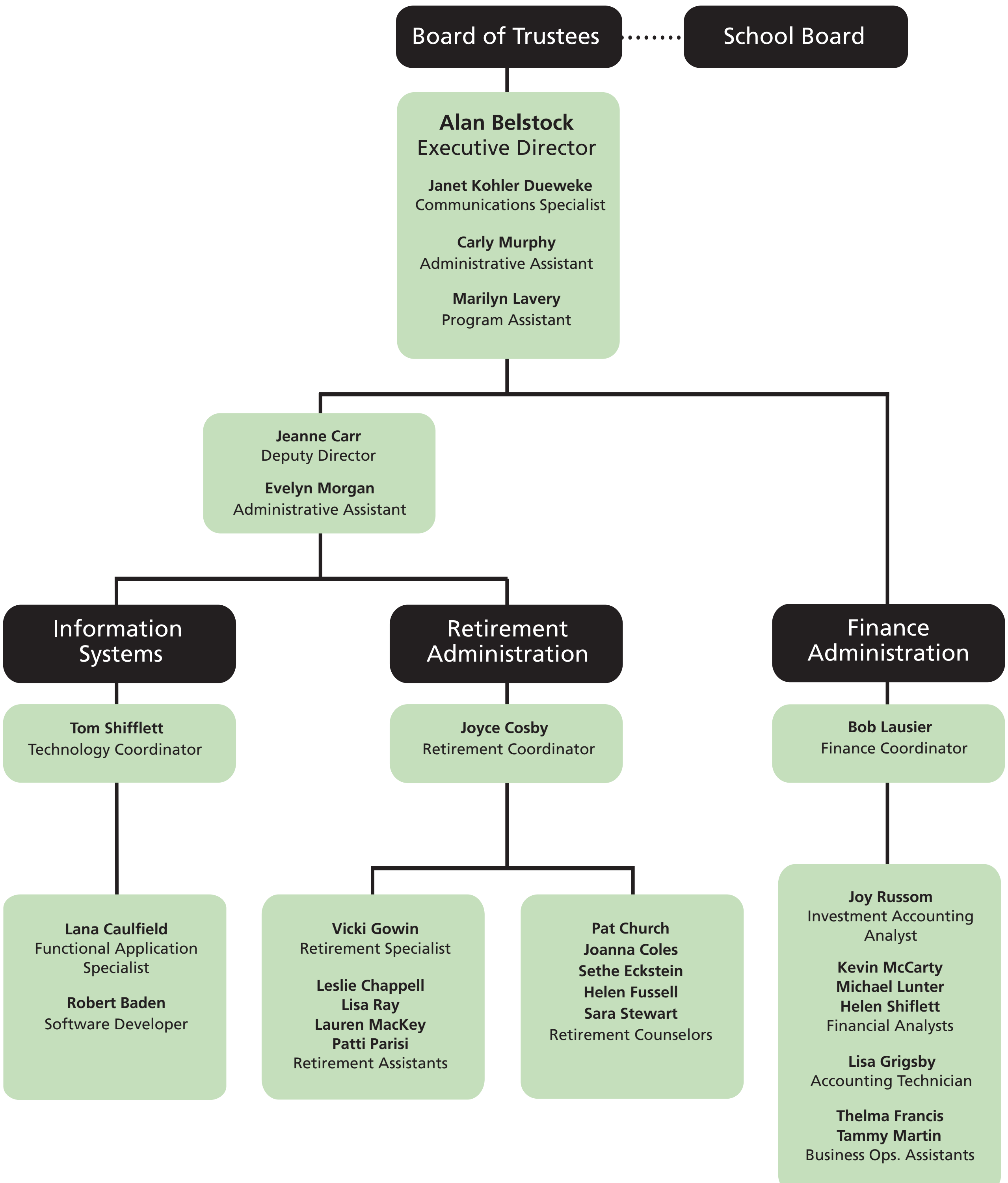
Jeannine Maynard
Trustee
Elected Member

Richard Moniuszko
Trustee
Appointed Member

Tom Bowen
Trustee
Appointed Member

Nitin M. Chittal
Trustee
Appointed Member

ERFC Administrative Organization



INTRODUCTION

Professional Services

ACTUARY

Gabriel, Roeder, Smith & Company
Southfield, Michigan

AUDITOR

KPMG, LLP
Certified Public Accountants
Washington, D.C.

INVESTMENT CONSULTANT

William M. Mercer Investment Consulting, Inc.
Atlanta, Georgia

LEGAL COUNSEL

Bredhoff & Kaiser, P.L.L.C.
Washington, D.C.

Groom Law Group, Chartered
Washington, D.C.

TECHNOLOGY CONSULTANT

Leon Wechsler, LTD
Fairfax, Virginia

MASTER CUSTODIAN

Mellon Trust
Pittsburgh, Pennsylvania

FIXED INCOME INVESTMENT MANAGERS

Loomis-Sayles & Company
Boston, Massachusetts

Mellon Capital Management Corporation
Pittsburgh, Pennsylvania

Pacific Investment Management Company
Los Angeles, California

INTERNATIONAL EQUITY INVESTMENT MANAGERS

Mellon Capital Management Corporation
Pittsburgh, Pennsylvania

Templeton Investment Counsel, LLC
San Mateo, California

William Blair and Company, LLC
Chicago, Illinois

DOMESTIC EQUITY INVESTMENT MANAGERS

AllianceBernstein
New York, New York

Aronson + Johnson + Ortiz, LP
Philadelphia, Pennsylvania

Dodge & Cox
San Francisco, California

EARNEST Partners, LLC
Atlanta, Georgia

Lazard Asset Management
New York, New York

Mellon Capital Management Corporation
San Francisco, California

Montag & Caldwell, Inc.[2]
Atlanta, Georgia

Westfield Capital Management
Boston, Massachusetts

REAL ESTATE MANAGERS

JP Morgan Asset Management
New York, New York

Prudential Investment Management[1]
Parsippany, New Jersey

Urdang Investment Management
Plymouth Meeting, Pennsylvania

UBS Global Asset Management
Hartford, Connecticut

[1] *Hired in fiscal year 2006*
[2] *Terminated in fiscal year 2006*

Financial Section

- Independent Auditor's Report
- Management Discussion and Analysis
- Statement of Plan Net Assets
- Statement of Changes in Plan Net Assets
- Notes to the Financial Statements
- Required Supplementary Information
- Notes to the Schedules of Required Supplementary Information
- Other Supplementary Information

Toss Cline
Technology Education Teacher, James Madison High School

Independent Auditors' Report

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

The Board of Supervisors
County of Fairfax, Virginia

The School Board
Fairfax County Public Schools

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

We have audited the statement of plan net assets of the Educational Employees' Supplementary Retirement System of Fairfax County (the System), a pension trust fund of Fairfax County Public Schools, as of June 30, 2006, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the plan net assets as of June 30, 2006, and the changes in plan net assets for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis, schedule of funding progress, and schedule of employer contributions, as listed in the accompanying table of contents, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. 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.

Independent Auditors' Report

KPMG

Our audit was conducted for the purpose of forming an opinion on the System's basic financial statements. The supplementary information on pages 30 through 32 is presented for purposes of additional analysis and is not a required part of the 2006 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2006 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2006 basic financial statements taken as a whole. The information included in the introduction, investment, actuarial, and statistical 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 such information.

KPMG LLP

November 30, 2006

Management Discussion and Analysis

This discussion and analysis of the Educational Employees' Supplementary Retirement System of Fairfax County (ERFC) financial performance provides an overview of the financial activities for the fiscal year ended June 30, 2006. The information contained in this section should be reviewed in conjunction with the letter of transmittal provided in the Introduction Section of this document.

Financial Overview

For fiscal year 2006, ERFC's assets generated a return of 10.9 percent[1]. This resulted in a total asset value of $1.77 billion which is an increase of $118.8 million over fiscal year 2005's year end total (as reflected in the accompanying chart). Additional detail on this net increase in fund value is outlined in the Summary of Additions and Deductions table contained within this Finance Section. As shown, it is comprised of four major components. They include $169.9 million in investment income and $76.9 million in employee and employer contributions. The additions are offset by $121.7 million in retiree benefit payments and $6.4 million in member refunds and administrative expenses.

The 12 months ending June 30, 2006, is the fourth consecutive fiscal year that ERFC's assets generate a positive return. The fiscal year 2006 return of 10.9 percent was measurably greater than our long-term actuarial assumption rate of 7.5 percent and exceeded the diversified benchmark return of 9.6 percent[2] and was slightly less than the return of 11.9 percent[3] for plans similar to ERFC. Three, five, and ten year returns are 13.5 percent, 7.6 percent, and 8.3 percent, respectively. While the 10 year return slightly lagged the diversified benchmark return and the return for similar plans, both the three year and five year ERFC returns exceeded these comparative numbers. Additional detail regarding investment results can be found in the Investment Section of this report.

ERFC Fund Balances *($ in millions)*

Fiscal Year	Ending Balance	Net Change Dollars	Net Change Percent
2002	1,369.4		%
2003	1,349.8	$ (19.6)	– 1.43%
2004	1,528.1	178.3	13.21%
2005	1,647.7	119.6	7.8%
2006	1,766.5	118.8	7.2%

As addressed in last year's CAFR, ERFC's actuarial valuations were converted from fiscal year to calendar year valuations effective in calendar year 2004. At December 31, 2005, the actuarial value of assets was set equal to the market value of assets of $1.718 billion. Liabilities at December 31, 2005 were $2.023 billion resulting in a funding ratio of 84.9 percent which was the same funding ratio at December 31, 2004. ERFC's funding level is consistent with the funding levels of similar plans nationwide and as addressed in the Actuary's Certification Letter contained within this report, ERFC remains in sound financial condition. The Schedule of Funding Progress contained in this section provides additional historical information. In addition, detailed information regarding actuarial assumptions and methods can be found in the Actuarial Section of this report.

1 As calculated by Mercer Investment Consulting

2 Diversified benchmark is 32.7% Russell 1000, 11.8% Russell 2000, 18% MSCI World Ex-US, 3.75% NAREIT, 3.75% NCREIF, 23% Lehman Bros (LB) Aggregate, 3.75% LB Corporate, 3.75% LB Long Corporate

3 Mercer Investment Consulting Public Funds Universe (Funds in excess of $1 billion)

Management Discussion and Analysis

Using this Annual Report

ERFC financial statements are comprised of the Statement of Plan Net Assets, Statement of Changes in Plan Net Assets, and Notes to the Financial Statements. Also contained in the Financial Section is other supplementary information in addition to the basic financial statements.

The Statement of Net Plan Assets provides information on all of the System's assets and liabilities, with the difference between the assets and liabilities shown as net assets. Ultimately, increases or decreases in net assets may be used to measure the financial condition of ERFC as a going-concern over time.

The Statement of Changes in Plan Net Assets describes how ERFC's net assets changed during the current fiscal year. Additions and deductions represent revenues and expenses, respectively. Additions minus deductions represent the change in net assets. For the current fiscal year, ERFC received revenues from contributions and investments. Expenses, or deductions, consisted of benefit payments, refunds, and administrative costs.

The Notes to the Financial Statements provide additional data, which is crucial in understanding the information included in the financial statements. The Notes to the Financial Statements are immediately following the basic financial statements.

In addition to the basic financial statements and accompanying notes, the annual report also provides required supplementary information regarding the ERFC schedule of employer contributions and funding progress which is intended to assess ERFC's ability to accumulate assets to pay retirement benefits when due.

MD & A, *continued on next page*

FINANCIAL

Summary of Plan Net Assets

	June 30, 2006	June 30, 2005	Difference
Assets			
Total cash and investments	$ 1,917,025,310	$ 1,780,598,777	$ 136,426,533
Total receivables	7,854,030	20,899,306	(13,045,276)
Other assets	24,792	26,204	(1,412)
Total assets	1,924,904,132	1,801,524,287	123,379,845
Liabilities			
Accounts payable	1,264,024	1,161,192	102,832
Securities purchased	9,899,543	15,720,580	(5,821,037)
Securities lending collateral	147,205,644	136,929,359	10,276,285
Total liabilities	158,369,211	153,811,131	4,558,080
Total Net assets held in trust for pension benefits	**$ 1,766,534,921**	**$ 1,647,713,156**	**$ 118,821,765**

Management Discussion and Analysis

Financial Statements

As indicated in the Summary of Plan Net Assets, the System's net asset value increased $118.8 million, or 7.2 percent in fiscal year 2006. This total increase in net assets is due primarily to an increase of $136.4 million in the value of investments and a $13.1 million decrease in the value of receivables which is offset primarily by an increase of $10.3 million in securities lending collateral and a decrease of $5.8 million in securities purchased.

As presented in the Summary of Additions and Deductions (also included in this section), additional information is provided regarding the differences between the fiscal year 2005 and 2006 results. These differing results are due mainly to a small increase in investment income of $1.5 million and an increase in member and employer contributions of $4.9 million. The changes above are offset by deduction increases in the following three categories: benefit payments of $6.7 million, member refunds of $0.3 million, and administrative expenses of $0.2 million.

Requests for Information

This financial information is intended to provide a general overview of the System's finances. Questions concerning any of the information presented in this report or requests for additional financial information should be addressed to either the Executive Director or the Finance Coordinator of the Educational Employees' Supplementary Retirement System of Fairfax County, 8001 Forbes Place, Suite 300, Springfield, Virginia 22151.

Summary of Additions and Deductions

	June 30, 2006	June 30, 2005	Difference
Additions			
Contributions			
Member	$ 42,292,828	$ 39,818,585	$ 2,474,243
Employer	34,648,918	32,198,596	2,450,322
Net Investment Income /(Loss)	169,944,356	168,479,920	1,464,436
Total	246,886,102	240,497,101	6,389,001
Deductions			
Benefits	121,687,318	114,999,379	6,687,939
Refunds	3,087,501	2,794,118	293,383
Admin. Expenses	3,289,518	3,110,563	178,955
Total	128,064,337	120,904,060	7,160,277
Net Change	**$ 118,821,765**	**$ 119,593,041**	**$ (771,276)**

Statement of Plan Net Assets

(As of June 30, 2006)

Assets	
Cash and short-term investments	
Cash	$ 859,214
Cash with fiscal agent	176,128
Cash collateral for securities on loan	147,205,644
Short-term investments	28,246,558
Total cash and short-term investments	**176,487,544**
Receivables	
Member contributions	176,484
Interest and dividends	3,404,138
Securities sold	4,266,558
Miscellaneous accounts receivable	6,850
Total receivables	**7,854,030**
Investments, at fair value	
U.S. Government obligations	32,644,274
Mortgage-backed securities	9,511,807
Domestic corporate bonds	49,318,752
Convertible bonds	5,333,080
International bonds	32,678,782
Common stock	856,308,509
Real estate	70,550,729
Preferred stock	105,750
Mutual funds	684,086,083
Total investments	**1,740,537,766**
Prepaid assets	
Prepaid expenses	24,792
Total assets	**1,924,904,132**
Liabilities	
Accounts payable	1,264,024
Securities purchased	9,899,543
Securities lending collateral	147,205,644
Total liabilities	**158,369,211**
Net assets held in trust for pension benefits	**1,766,534,921**
(a Schedule of Funding Progress for the plan is on page 27)	

See accompanying ***Notes to the Financial Statements***

FINANCIAL

Statement of Changes in Plan Net Assets

(for the Fiscal Year Ended June 30, 2006)

Additions	
Contributions	
Employer	$ 34,648,918
Plan members	42,292,828
Total contributions	**76,941,746**
Investment income from investing activities	
Net appreciation in fair value of investments	139,231,411
Interest and dividends	35,381,219
Real estate income	1,832,886
Other	234,720
Total investment income	**176,680,236**
Less investment expenses	
Investment management fees	6,612,357
Investment consulting fees	95,000
Investment custodial fees	278,847
Investment salaries	162,560
Total investment expenses	**7,148,764**
Income from securities lending activities	
Securities lending income	6,331,861
Securities lending borrower rebates	(5,781,369)
Securities lending management fees	(137,608)
Net securities lending income	**412,884**
Net investment income	**169,944,356**
Total additions	**246,886,102**
Deductions	
Benefits	121,687,318
Refunds	3,087,501
Administrative expense	3,289,518
Total deductions	**128,064,337**
Net increase	**118,821,765**
Net assets held in trust for pension benefits	
Beginning of year	**1,647,713,156**
End of year	**1,766,534,921**

See accompanying Notes to the Financial Statements

Notes to the Financial Statements

(For the Fiscal Year Ending June 30, 2006)

INTRODUCTION

The Educational Employees' Supplementary Retirement System of Fairfax County ("ERFC", "System") is a legally separate single-employer retirement system and fund established under Virginia code to provide pension benefits to all full-time educational and administrative support employees who are employed by the Fairfax County Public Schools (Schools) and who are not covered by another Fairfax County, Virginia (County) plan. As such, and as a fund under the financial control of the School Board, the System's financial statements are included in the Schools' basic financial statements as a pension trust fund.

The System contains two primary benefit structures, *ERFC* and *ERFC 2001*. Both are defined benefit structures. The original structure, *ERFC,* became effective July 1, 1973, and is coordinated with the benefits members expect to receive from the Virginia Retirement System (VRS) and Social Security. It remains in effect, however, it is closed to new members. Effective July 1, 2001, all new-hire full-time educational and administrative support employees are enrolled in *ERFC 2001*. This new component incorporates a streamlined stand-alone retirement benefit structure.

1. Summary of Significant Accounting and Other Policies

Basis of Accounting

The System's financial statements have been prepared under the accrual basis of accounting in accordance with accounting principles applicable to governmental units in the United States of America. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. The costs of administering the plan are paid for by the System through the use of investment income and employer and employee contributions.

Investment Policy and Valuation

Short-term investments are reported at cost, which approximates fair value. All other investments are reported at fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value. The System records investment purchases and sales as of the trade date. These transactions are not finalized until the settlement date, which occurs approximately two business days after the trade date for domestic trades and approximately seven to ten days after the trade date for international trades. Until finalized, these investment purchases and sales are recorded as payables and receivables, respectively.

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.

Cash

ERFC maintains its cash with the County, which invests cash and allocates interest earned net of a management fee, on a daily basis to the System based on the System's average daily balance of equity in pooled cash. For the fiscal year ended June 30, 2006, the cash balance of $859,214 represents funds that could not be invested in the County's enhanced cash fund until July 1, 2006.

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. As of June 30, 2006, cash with fiscal agent totaled $176,128. This cash is insured and represents receipts from investment sales occurring on the last day of the month.

2. Plan Distribution and Contribution Information

Benefit Structure Descriptions

Benefit provisions for *ERFC* and *ERFC 2001* are established and may be amended by the System's

Notes, *continued on next page*

Notes to the Financial Statements

Board of Trustees subject to approval by the School Board. All members are vested for benefits after five years of service. The *ERFC* benefit formula was revised effective July 1, 1988, following changes to the Virginia Retirement System (VRS), which the *ERFC* has historically supplemented. The benefit structure is designed to supplement VRS and Social Security benefits to provide a level retirement benefit throughout retirement. *ERFC 2001* has a stand-alone structure. Member contributions for *ERFC* and *ERFC 2001* are made through an arrangement that results in a deferral of taxes on the contributions. Further details of member contributions may be found in Article III of both Benefit Structure Documents.

ERFC and *ERFC 2001* provide for a variety of benefit payment types. *ERFC's* payment types include Service Retirement, Reduced Service, Disability, Death-in-Service, and Deferred Retirement. *ERFC 2001's* payment types include Service Retirement, Death-in-Service, and Deferred Retirement. Minimum eligibility requirements for full service benefits for *ERFC* is either (a) age 65 with 5 years of service or (b) age 55 with 25 years of service. Minimum eligibility requirements for full service benefits for *ERFC 2001* is either (a) age 60 with 5 years of service or (b) any age with 30 years of service. Annual post-retirement cost-of-living increases of 3 percent are effective each March 31. Participants in their first full year of retirement receive a 1.49 percent increase. Participants who retire on or after January 1 receive no cost-of-living increase that first March. Additional detail regarding all benefit payment types can be found in the actuarial valuation and/or the Plan Document.

Contributions
The contribution requirements for *ERFC* and *ERFC 2001* members are established and may be amended by the System's Board of Trustees with the approval of the School Board. The requirements are based upon a fundamental financial objective of having rates of contribution that remain relatively level from generation to generation of employees. To determine the appropriate employer contribution rates and to assess the extent to which the fundamental financial objective is being achieved, the System has actuarial valuations prepared annually.

At December 31, 2005, the date of the latest actuarial valuation, the System's membership consisted of:

Retirees and beneficiaries currently receiving benefits	7,710
Terminated employees entitled to benefits but not yet receiving them	2,030
Active plan members	19,081
Total	28,821

In preparing those valuations, the entry age actuarial cost method is used to determine normal cost and actuarial accrued liabilities. Effective July 1, 2004, the employer rate was increased from 2.53 to 3.37 percent of salaries.

Additional information on contribution rates and the July 1, 2004 rate increase is contained within the "Significant Changes…" narrative contained within this Financial Section.

3. Investment Securities

Investments
The Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures,* which is effective for reporting periods beginning after June 15, 2004, requires that state and local governments report their exposure to investment risks in four categories: credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Accordingly, this is the second year that the contents of this Financial Section have been revised to comply with this new standard.

The authority to establish pension funds is set forth in sections 51.1-800 of the Code of Virginia (Code) which provides that the County may purchase investments for pension funds (including common and preferred stocks and corporate bonds) that meet the standard of judgment and care set forth in Section 51.1-124 of the Code. The Board of Trustees or investment advisors selected by the Board make investment decisions.

Notes to the Financial Statements

The System does not have investments (other than U.S. government and U.S. government guaranteed obligations) in any one organization that represents 5 percent or more of net assets held in trust for pension benefits.

As permitted by the Code described above, ERFC invests in derivative instruments on a limited basis in accordance with the Board of Trustees' investment policy. Investment in derivatives allows the System to increase earnings and/or hedge against potential losses. The risks associated with derivative investments include market risk resulting from fluctuations in interest and currency rates, the credit worthiness of counter parties to any contracts entered into, and the credit worthiness of mortgages related to collateralized mortgage obligations (CMOs). Specific authorization by the Trustees is required should investment managers seek to purchase securities on margin or leverage.

During the fiscal year, consistent with standard accounting principle guidelines, the System invested in the following derivatives that were not reported on the financial statements as of June 30, 2006: government futures, TBA mortgage securities, and interest rate swaps. The language below provides additional detail on the relevant off-balance sheet derivatives.

Government futures are an inexpensive substitute for government securities and are 100% backed by cash equivalent securities to replicate government bond positions. At June 30, 2006, the notional value and market value of these futures were $4,800,000 and $5,119,500 respectively, with an effective date of June 05, 2006 and a maturity date of September 30, 2006.

TBA (To Be Assigned) Mortgage Securities are useful to gain mortgage exposure without taking delivery of mortgage pass-through securities. Provided that pricing is the advantage, a TBA position may be sold prior to settlement date and the same posititon may be bought or rolled forward one month. By actively managing the short-term investments that back the mortgage TBA positions, a higher return is received on the cash needed for future settlement than the imbedded financing rate of the TBA implied by the forward price. At June 30, 2006, the System had TBAs with a notional value of $4,100,000 and a market value of $3,833,500. The effective date of the TBAs is July 13, 2006 with a maturity date of July 13, 2036.

Interest rate swaps are an attractive and inexpensive means of managing interest rate exposure and duration. At June 30, 2006, the System carried swaps with notional values and market values of $4,300,000 and $403,742, respectively. The swaps effective date was December 20, 2006, with a maturity date of December 20, 2126.

At June 30, 2006, investment in derivatives that were included on the financial statements represented .5 percent of the total fair value of the System's portfolio. Throughout the fiscal year, these investments ranged from .5 percent to 4.5 percent of the total portfolio and included CMOs and asset-backed securities.

Credit Risk

The System's policy on credit quality states that the average credit quality of the portfolio must be at least AA. Up to 10 percent of the portfolio may be invested in below investment grade (that is, Moody's Baa or Standard & Poor's BBB ratings). If a security has a split rating, the lower rating will be considered in meeting the minimum quality standard.

As of June 30, 2006, the System had two active fixed income managers and one passive fixed income manager. The following schedule lists the ratings of all of ERFC's fixed income investments according to Moody's Investment Services and Standard & Poor's.

Notes to the Financial Statements

CREDIT QUALITY SUMMARY (As of June 30, 2006)

Rating	Category	Percent	Amount	Total	Percent
AAA	Corporate Bonds	0.3%	$ 1,239,317		
	Foreign Bonds	2.4%	11,765,162		
	Futures	0.1%	403,742		
	Government Bonds	27.5%	132,830,815		
	Mortgage	36.2%	174,776,472		
	Government Agencies	2.8%	13,287,391		
	Cash and Cash Equivalents	0.6%	2,923,796	$ 337,226,695	69.9%
AA	Convertible Bonds	0.4%	2,152,306		
	Corporate Bonds	0.7%	3,551,305		
	Foreign Bonds	0.3%	1,529,463		
	Mortgage	1.0%	4,844,886		
	Municipals	0.9%	4,480,775	16,558,735	3.4%
A	Convertible Bonds	0.3%	1,611,964		
	Corporate Bonds	3.6%	17,451,529		
	Foreign Bonds	0.3%	1,217,230	20,280,723	4.2%
BAA	Corporate Bonds	0.3%	1,448,312		
	Mortgage	0.2%	1,072,257		
	Foreign Bonds	0.3%	1,416,729	3,937,298	0.8%
BA	Mortgage	0.1%	390,333		
	Corporate Bonds	0.0%	81,413		
	International Bonds	1.0%	5,046,249	5,517,995	1.2%
BBB	Convertible Bonds	0.2%	1,153,063		
	Corporate Bonds	5.3%	25,756,404		
	Mortgage	0.1%	258,028		
	Foreign Bonds	0.8%	3,710,662		
	Preferred Stock	0.0%	105,750	30,983,907	6.4%
BB	Corporate Bonds	2.2%	10,653,017		
	Mortgage	0.2%	810,313		
	Foreign Bonds	1.2%	5,801,600	17,264,930	3.6%
B	Foreign Bonds	0.2%	1,119,690		
	Corporate Bonds	2.8%	13,337,116		
	Mortgage	0.0%	220,844	14,677,650	3.1%
Below B	Corporate Bonds	0.2%	1,272,468		
	Mortgage	0.0%	83,031		
	Convertible Bonds	0.0%	154,560	1,510,059	0.3%
Not Rated	Cash & Cash Equivalents	–0.4%	(1,843,620)		
	Commercial Paper	1.2%	5,650,172		
	Convertible Bonds	0.1%	261,188		
	Corporate Bonds	0.6%	2,717,228		
	Mortgage	0.2%	857,096		
	Equity	0.4%	1,773,879		
	Foreign Bonds	4.5%	21,550,847		
	Government Bonds	0.0%	35,639		
	Municipal Bonds	0.3	1,282,404		
	Other Portfolio	0.4%	2,042,028	34,326,862	7.1%
	Total	**100.0%**	**$ 482,284,854**	**$ 482,284,854**	**100%**

Notes to the Financial Statements

Concentration of Credit Risk
The System's policy limits the securities of any one issue to 10% at cost and 15% at market of each fixed income portfolio. The policy allows an exception for government securities and its agencies. At June 30, 2006, and as addressed previously, the System had two active fixed income managers and one passive fixed income manager. The active manager portfolios had values of $124.9 million and $242.1 million. The indexed portfolio had a value of $115.3 million. The market value of the largest issue other than the U.S. Government in the portfolios of the active managers was only 4.4 percent of that portfolio. Since the passive manager's portfolio is an index mutual fund, it is excluded from the Concentration of Credit Risk measurement.

Interest Rate Risk
All three of ERFC's fixed income managers use the modified duration method to control interest rate risk. Regarding maturity, ERFC does not place limits on it's fixed income managers. However, it does expect the average duration to be within 25 percent of the portfolio's benchmark.

As of June 30, 2006, ERFC had the following fixed income investments, none of which are highly sensitive to changes in interest rates.

Investment Category	Amount	Modified Duration*
U.S. Treasuries	$ 132,870,424	5.9
Agencies	17,021,391	3.4
Corporate Bonds	107,305,228	6.8
Municipals	4,480,775	10.5
Mortgages	171,831,115	5.0
ABS/CMBS	1,816,329	1.6
Non-U.S.	10,457,118	(2.5)
Emerging Markets	5,046,249	6.3
Cash	7,422,400	0.5
Other	24,033,825	6.0
Total	**$ 482,284,854**	**5.5**

** Note: Duration in years*

Deposits
At June 30, 2006, short-term investments with the custodial bank totaled $28,246,558. These investments are collateralized with securities held by the agent in the System's name or are in a short-term investment pool.

Securities Lending
The System's Board of Trustees' policy permits the fund to participate in a securities lending program. The securities lending program is administered by the System's custodian. Certain securities of the System are loaned to approved broker/dealers who borrow the securities and provide collateral in the form of cash, U.S. Treasury or Government Agency Securities, letters of credit issued by approved banks, or other securities of a quality specified in the securities lending agreement. Collateral must be provided in the amount of 102 percent of market value for domestic securities and 105 percent for international securities. Securities on loan at fiscal year-end for cash collateral are presented as not subject to classification in the preceding investments schedule of custodial credit risk. Securities on loan for non-cash collateral are classified according to the category pertaining to the collateral. The System did not impose any restrictions during the period on the amount of loans the custodian made on its behalf. The custodian provides for 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 of the securities while on loan. The market value of collateral is monitored daily by the custodian.

Either ERFC or the borrower can terminate all security loans on demand. Cash collateral is invested in a fund maintained by the custodian or its affiliate. Per stated custodian policy, the maximum weighted average maturity of the fund is 90 days. Investment income from the securities lending program is shared 75/25 by ERFC and the

Notes, *continued on next page*

Notes to the Financial Statements

custodian, respectively. At 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.

Cash received as collateral and the related liability of $147,205,644 as of June 30, 2006, are shown on the Statement of Plan Net Assets. As of June 30, 2006, the market value of securities on loan was $144,308,205. Securities received as collateral are not reported as assets since ERFC does not have the ability to pledge or sell the collateral securities absent borrower default.

At June 30, 2006, securities on loan for cash and non-cash collateral are as follows:

Securities	Cash Market Value	Cash Collateral	Non-Cash Collateral
U.S. Government and agency securities	$ 99,619	$ 112,500	
Domestic corporate bonds	3,567,324	3,702,840	
International bonds	3,472,350	3,637,700	
Domestic stocks	61,896,596	63,600,759	
International stocks	43,458,692	44,184,329	$ 5,225
U.S. Government securities	31,813,624	31,967,516	647,130
Total	**$ 144,308,205**	**$ 147,205,644**	**$ 652,355**

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the system's funds will be lost. However, the System's investments and deposits are not exposed to custodial credit risk since they are insured and are held by the agent in the System's name. Other investments such as mutual funds, a short-term investment pool and a cash collateral investment pool which invests cash collateral for securities on loan, are not exposed to custodial risk due to their non-physical form. As such, the System does not have a custodial credit risk policy.

Investments with the custodian as of June 30, 2006, included the following:

Investment Type	Market Value
U.S. Government obligations	$ 32,644,273
Mortgage-backed securities	9,511,807
Domestic corporate bonds	49,318,752
Convertible bonds	5,333,080
International bonds	32,678,782
Common stock	856,308,509
Real Estate	70,550,729
Preferred stock	105,750
Mutual funds	684,086,083
Sub-total investments	**$ 1,740,537,766**
Cash collateral for securities on loan	147,205,644
Total	**$ 1,887,743,410**

Notes to the Financial Statements

Foreign Currency Risk

The System's Investment Guidelines on active fixed income holdings are limited to debt instruments of U.S. entities denominated in U.S. dollars which includes U.S. denominated sovereign bonds. However, with Trustee approval, ERFC's two active fixed income managers have been granted exceptions that allow a maximum of 25 percent of the portfolio in non-U.S. bonds.

At the present time, there are no specific foreign currency guidelines for equities, however, the equity managers are all measured against specific benchmarks and are expected to adhere to the performance standard and risk guidelines identified in ERFC's Investment Policy. The chart below provides a summary of ERFC's foreign currency risk.

Market Value of Foreign Currency Risk
(As of June 30, 2006)

Currency	Cash and Cash Equivalents	Equity	Convertible and Fixed Income	Total U.S. Dollar
Australian Dollar	$ 33,842	$ 1,433,843		$ 1,467,685
British Pound Sterling	140,926	27,743,197		27,884,123
Canadian Dollar	40,027	1,630,744	$ 6,593,098	8,263,869
Danish Krone		1,217,572		1,217,572
EURO Currency Unit	12,255	43,689,365		43,701,620
Hong Kong Dollar		4,659,614		4,659,614
Japanese Yen	53,395	9,749,739		9,803,134
Mexican New Peso	75,924	2,394,431		2,470,355
New Zeland Dollar	39,137		4,527,649	4,566,786
Norwegian Krone		1,410,046		1,410,046
S. African Comm Rand	50,585		1,330,503	1,381,088
Singapore Dollar	52,820	1,510,861	125,771	1,689,452
Swedish Krona		3,405,299		3,405,299
Swiss Franc	74,179	4,932,301		5,006,480
Thialand Baht	25,438		614,874	640,312
	$ 598,528	**$ 103,777,012**	**$ 13,191,895**	**$ 117,567,435**

4. Income Taxes

The Internal Revenue Service (IRS) issued a determination letter on October 2, 2001, which stated that the System and its underlying trust qualify under the applicable provisions of the Internal Revenue Code and therefore are exempt from federal income taxes. In the opinion of the plan administrator, the System and its underlying trust have operated within the terms of the IRS regulations and are qualified under the applicable provisions of the Internal Revenue Code.

Required Supplementary Information

Historical information is presented herein for the most recent six fiscal years 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 Employer Contributions

Year ended June 30	Annual Required Contribution	Percentage Contributed
2000	35,655,898	100%
2001	29,145,883	100%
2002	30,849,067	100%
2003	34,506,630	100%
2004	37,331,203	100%
2005	32,198,596	100%
2006	34,648,918	100%

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. 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 in the analysis of the System's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller the percentage, the stronger the system.

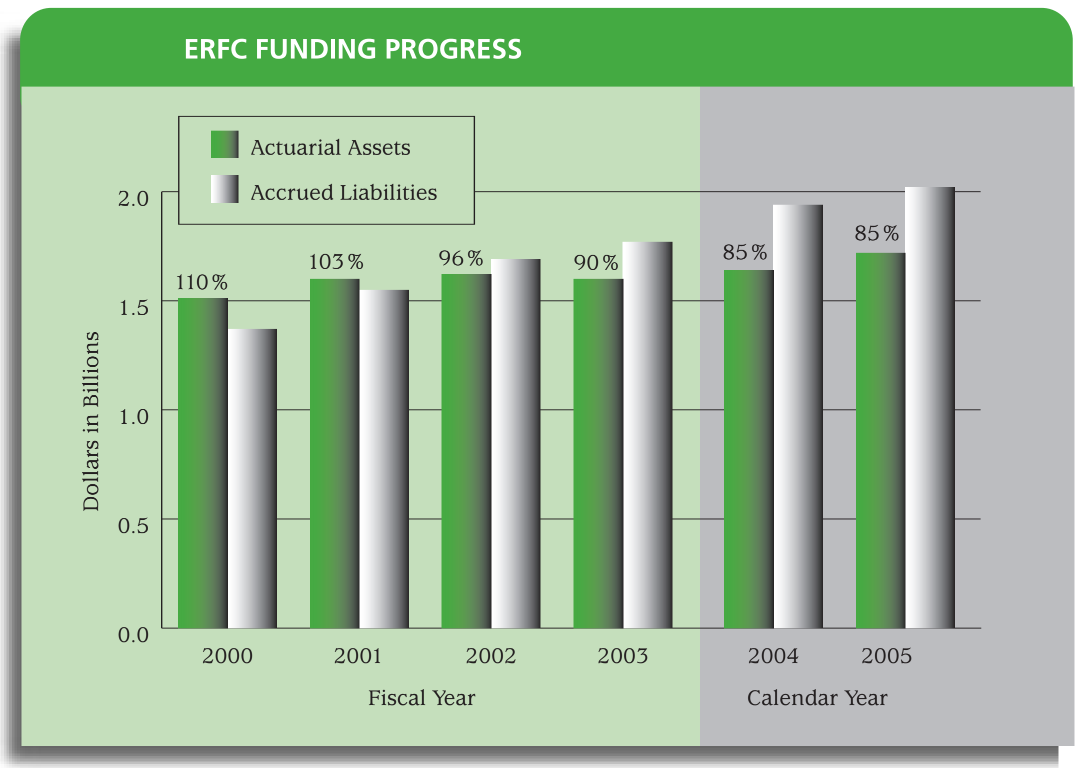
The following Schedule of Funding Progress provides a comparison of actuarial asset values vs. actuarial liabilities along with a historical profile of the System's funded ratio. As addressed in last year's CAFR and as noted on the Schedule of Funding Progress, ERFC has transitioned to calendar year valuations. The most recent valuation was effective December 31, 2005. This transition was done in order to provide a more current contribution rate which could be included in the Superintendent's proposed budget and to provide more accurate information to the actuary for the annual valuation.

Required Supplementary Information

SCHEDULE OF FUNDING PROGRESS ($ in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	[Excess of Assets] Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	[Excess of Assets] UAAL as a Percentage of Covered Payroll ((b-a)/c)
06/30/00	$ 1,505,231	$ 1,367,371	$ (137,860)	110.11	$ 678,937	—
06/30/01	1,599,219	1,552,558	(46,661)	103.00	759,906	—
06/30/02	1,619,889	1,693,956	74,067	95.63	781,756	9.47 %
06/30/03	1,597,459	1,772,418	174,959	90.13	866,502	20.19
12/31/04	1,643,020[1]	1,935,582	292,562	84.89	977,817	29.92
12/31/05	1,718,399	2,022,962	304,563	84.94	1,050,217	29.00

1 At the recommendation of the ERFC's actuary and due to the fact that these values were very similar, the actuarial value of assets was reset to the market value of assets for this valuation period only.



FINANCIAL

Notes to the Schedules of Required Supplementary Information

SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS

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 is as follows:

Valuation date	December 31, 2005
Actuarial cost method	Entry age
Amortization method	Level percent of payroll closed
Remaining amortization period	27 years
Asset valuation method	5-year smoothed market which recognizes asset values should be between 85% and 115% of the market value
Actuarial assumptions:	
Investment rate of return	7.5%*
Projected active member salary increases	4.0-8.2%*
Retiree cost-of-living adjustments	3%

* Includes inflation at 3.75%

Reserves

There are no legally required actuarial or investment reserves for the pension system nor are there any incorporated. However, there is a budgetary reserve of $3 million. This is a budget line item that is subject to the annual review and recommendation of the Board of Trustees and approval by the School Board.

SUMMARY OF SIGNIFICANT CHANGES TO THE PENSION SYSTEM

The following provides a summary of the composite employer and employee contribution rates and other significant changes to the pension system during the past six fiscal years.

- July 1, 2006 – The implementation of a Benefit Restoration Plan in order to make benefit payments in excess of the limits established by Section 415 of the Internal Revenue Code.
- July 1, 2004 – The employer rate increases from 2.53 to 3.37 percent of salaries.
- June 1, 2004 – The employer contribution rate is decreased from 4.29 to 2.53 percent of salaries and the employee rate is increased from 2 to 4 percent of salaries. This is done to facilitate the school system's assumption of the 5 percent employee contribution to the Virginia Retirement System.

Contribution Rates *(as a percent of salary)*

Fiscal Year	Composite Employer	Employee	Total
2001	3.69	2.00	5.69
2002	3.69	2.00	5.69
2003	4.00	2.00	6.00
Jul 1–May 31 2004	4.29	2.00	6.29
June 2004	2.53	4.00	6.53
2005	3.37	4.00	7.37
2006	3.37	4.00	7.37

Notes to the Schedules of Required Supplementary Information

- April 29, 2004 – The Board of Trustees agreed to transition to calendar year actuarial valuations.

- December 18, 2003 – Effective July 1, 2004, members hired prior to July 1, 2001 (*ERFC* Benefit Structure), are eligible for a Level Lifetime Benefit (LLB) that is calculated by determining the annuitized value of the greater of their accumulated contribution balance or the present value of the currently provided defined benefit. The following changes apply to members hired on or after July 1, 2001 (*ERFC 2001* Benefit Structure):

  – The defined contribution component of the benefit structure that was to be offered as an option to members on July 1, 2006, was eliminated.

  – The matching contribution provisions of the benefit structure were eliminated effective July 1, 2004. Members who met the requirements for a contribution match as of June 30, 2004, had the match credited to their accounts on June 30, 2004.

  – Beginning July 1, 2004, members who retire are eligible for a minimum benefit that is calculated by determining the annuitized value of their accumulated contribution balance.

- July 24, 2003 – The Working After Retirement (WAR) program is closed to new entrants, effective June 30, 2004, which is two years earlier than originally planned.

- Effective January 1, 2002 – ERFC adopted the provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGGTRA) that greatly expands pension portability by allowing for the rollover of certain tax-deferred funds to purchase service credit; expands the vehicles from which funds from ERFC may be deposited upon termination of employment; and, updates the limits on which compensation may be taken into account in the determination of retirement benefits.

- Effective December 6, 2001 – Service purchased by Adult and Community Education (ACE) employees before June 30, 2002, shall count toward vesting; delegated the initial determination of disability retirement to the ERFC Retirement Office; and, provided that members who are retired, return to work, and re-retire have the following options:

  – Take the same retirement benefit received before they returned to work, including all cost-of-living increases, plus a refund of their contributions made during the period of re-employment; or

  – Recalculate the retirement benefit to include additional service and salary credit earned during the period of re-employment. However, the benefit is subject to the same percentage reduction that applied to the original retirement benefit.

- July 1, 2001 – Members who were eligible for unreduced benefits were given the option to continue working while receiving retirement benefits.

- July 1, 2001 – A new *ERFC 2001* plan was implemented for employees hired on or after July 1, 2001. The plan allows vested employees a one-time irrevocable option of transferring to a new Defined Contribution (DC) Plan.

Other Supplementary Information

SCHEDULE OF ADMINISTRATIVE EXPENSES

(Year Ended June 30, 2006)

Personnel services	
Salaries and wages	$ 1,836,512
Retirement contributions	251,114
Insurance	167,050
Social security	144,632
Total personnel services	**2,399,308**
Professional services	
Actuarial	103,985
Legal	84,420
Payroll disbursement	140,591
Plan automation	37,993
Audit	19,900
Total professional services	**386,889**
Communications	
Printing	24,107
Postage	25,781
Total communications	**49,888**
Supplies	
Office supplies	19,017
Dues and subscriptions	1,155
Total supplies	**20,172**
Other services and charges	
Board travel and staff development	57,402
Equipment	54,689
Building rent	315,452
Miscellaneous	5,719
Total other services and charges	**433,262**
Total administrative expenses	**$ 3,289,518**

Other Supplementary Information

SCHEDULE OF INVESTMENT EXPENSES

(Year Ended June 30, 2006)

Investment management fees	
Fixed income managers	
Loomis-Sayles and Company, L.P.	$ 375,483
Pacific Investment Management Company	552,998
Mellon Capital Management Corporation	27,810
Domestic equity managers	
Alliance Capital Management L.P.	539,975
Aronson + Johnson + Ortiz, LLC	368,132
Dodge & Cox	393,786
Earnest Partners, LLC	570,415
Lazard Asset Management	363,373
Mellon Capital Management Corporation	68,518
Montag & Caldwell, Inc.	446,973
Westfield Capital Management	550,105
International equity managers	
Templeton Investment Counsel, LLC	627,941
William Blair & Company	647,026
Real estate managers	
J.P. Morgan Asset Management	420,880
Prudential Financial	213,043
UBS Realty Investors LLC	119,673
Urdang Investment Management	326,226
Total investment management fees	**6,612,357**
Other investment service fees	
Securities lending borrower rebates	5,781,369
Securities lending management fees	137,608
Custodial fees — Mellon Global Securities Services	278,847
Investment consultant fees —	
Mercer Investment Consulting, Inc.	95,000
Investment salaries	162,560
Total other investment service fees	**6,455,384**
Total investment expenses	**$ 13,067,741**

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Other Supplementary Information

SCHEDULE OF PROFESSIONAL SERVICE FEES

(Year Ended June 30, 2006)

Service Provider	Nature of Service	
Gabriel, Roeder, Smith & Co.	Actuary & plan automation	$ 131,135
Bredhoff & Kaiser, P.L.L.C.	Legal counsel	84,420
Mellon Global Securities Services	Pension disbursement	140,591
KPMG, LLP	Audit	19,900
Other	Various	10,843
Total professional service fees		**$ 386,889**

Investment Section

- Consultant Report on Investment Activity
- Strategic Review and Investment Policy
- Investment Managers
- Asset Structure
- Investment Results
- Ten Largest Equity and Fixed Income Holdings
- Brokerage Commissions
- Investment Summary
- Investment Management Fees

Magda Cabrero
Spanish Teacher and Chair of the Foreign Language Department, Falls Church High School

Consultant Report on Investment Activity

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Investment Consulting

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October 23, 2006

The Board of Trustees
The Educational Employees' Supplementary Retirement System of Fairfax County
8001 Forbes Place, Suite 300
Springfield, Virginia 22151

Dear Board Members:

The Educational Employees' Supplementary Retirement System of Fairfax County (ERFC) has established a record over the years of consistent asset growth through a diversified investment program which permits strong long term performance through a disciplined investment process. This was again the case for the fiscal year ended June 30, 2006 as assets grew by nearly $120 million to approximately $1.77 billion as of June 30, 2006.

Most markets exhibited solid growth during the 2006 fiscal year. Only the investment grade bond markets failed to post positive results due to a continuation of the Federal Reserve's tightening activities. During the twelve month period ended June 30, 2006, the Fed increased the discount rate nine times for a total increase of 2.25%. The U.S. economy produced some mixed signals this year with a drop off in the housing market and increase in inflation being counterbalanced by continued consumer spending and strong corporate earnings. The strongest portion of most U.S. based institutional portfolios was the international component where solid local market returns were further enhanced by a weakening U.S. dollar. The ERFC portfolio, with 70 percent in equities and 30 percent in bonds, generated a return of 10.9 percent for the year, a strong result by most measures.

The ERFC's goal for the assets of the System is a 7.5 percent return over the long term. For the trailing 10 years ended June 2005, the return on the assets was 8.3 percent. The trustees of the System have worked diligently to invest the assets in such a way that the 7.5 percent return is generated while taking as little risk as possible. The success of the work they have performed shows in the results that the assets have produced. However, the trustees are constantly monitoring and re-evaluating the asset allocation and investment manager structure of the System to maintain that balance between generating returns and minimizing risk.

During the 2006 fiscal year, the final portion of the real property component of the real estate portfolio was funded. During the third and fourth quarters of 2005, the trustees began to explore the reason for short term underperformance versus the Large Public Plan peer group. The major factor in that underperformance was a significant underweight in ERFC's international equity allocation (12% vs. 18.6% for the median large public plan). A portfolio structuring analysis was conducted to examine the expected impact of increasing the international equity allocation, while reducing the domestic equity allocation. The result of this analysis confirmed an opportunity for ERFC to increase the risk adjusted return of the total portfolio through an expected decrease in portfolio volatility. The trustees approved an increase in the international equity target allocation of 6% to a total target allocation of 18%. A summary of this and other changes that occurred within the portfolio over the course of the fiscal year is as follows:

MMC Marsh & McLennan Companies

Consultant Report on Investment Activity

MERCER
Investment Consulting

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October 23, 2006
The Educational Employees'
Supplementary Retirement System
of Fairfax County

- In order to further diversify the portfolio and to improve the risk/reward trade-off, the international equity allocation was increased from 12% of the portfolio to 18%. The first half of the 6% reduction in domestic equity assets was taken from the passive large cap equity manager while the remaining 3% was taken pro-rata from each U.S. equity manager.
- The additional 6% allocation was temporarily invested in a passive EAFE fund managed by Mellon Capital Management pending further review of the international equity portfolio and the optimal manager line up for that portfolio.
- The final portion of the private real estate allocation was funded into the UBS Realty Investors RESA Fund.
- Montag & Caldwell was terminated as a large cap growth manager due to longer term underperformance of the growth benchmark and peer group. These assets were temporarily invested in a passive Russell 1000 Growth Index managed by Mellon Capital Management pending a review of the optimal manager line up in for the domestic large cap growth portfolio.

Throughout the year, the Board, in concert with the System's staff, legal counsel, and Mercer Investment Consulting, met regularly to monitor and evaluate the structure and performance of the System's investment program. The System's asset allocation remained consistent with its policy, ending the fiscal year at 46.2 percent domestic equity, 18.3 percent international equity, 27.3 percent fixed income, and 8.2 percent real estate as allocated by manager type.

At the close of another fiscal year, it is important to note the commitment with which the ERFC Board of Trustees approaches its responsibilities. The Board has assembled a diverse array of investment managers and has made a concerted effort to continually monitor the System's assets and make an extended effort to address any deficiencies that have been found. It has once again been a pleasure to work with such a dedicated group of individuals and Mercer Investment Consulting and I look forward to continuing to serve the Board.

Sincerely,

Mary Pat Alcus

Mary Pat Alcus, CFA
Principal

Note: All investment performance figures are calculated using a time-weighted average rate of return based on market values.

INVESTMENT

Strategic Review and Investment Policy

Introduction

The members of the ERFC Board of Trustees have jurisdiction over and ultimate fiduciary responsibility for the investment of the System's assets. In carrying out their responsibilities, they must adhere to applicable laws, regulations, and rulings with respect to the duties of investment fiduciaries. Accordingly, they are required to "discharge their duties in the interest of plan participants" and "act with the same care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims." The Board of Trustees has established a Statement of Investment Policy that identifies a set of investment objectives, guidelines, and performance standards for the assets of the fund. The objectives are formulated in response to the following:

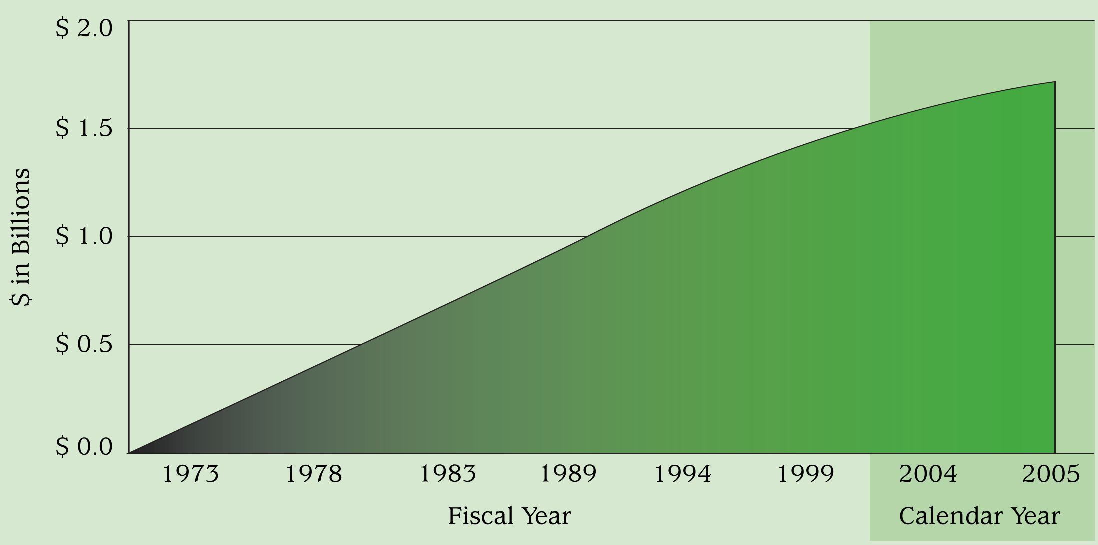
- the anticipated financial needs of the ERFC
- consideration of risk tolerance; and
- the need to document and communicate objectives, guidelines and standards to the investment managers.

Investment Objectives

The investment objective of the ERFC is to ensure, over the long-term life of the fund, an adequate level of assets to fund the benefits for ERFC members and their beneficiaries at the time they are payable. The Trustees seek to achieve a high level of total investment return consistent with a prudent level of portfolio risk. Since the preservation of principle is a component of the long-term objective, it is expected that no manager will incur a negative rate of return over any rolling five-year period. The fund's actuary uses an investment return assumption of 7.5 percent, compounded annually, of which 3.75 percent constitutes an assumed rate of inflation and 3.75 percent reflects an assumed real rate of return on investments. The fund's objective is to meet or exceed the assumed real rate of return over time, while preserving the fund's principal.

ERFC TOTAL FUND GROWTH — VALUATION ASSETS SINCE INCEPTION

(As reflected in the December 31, 2005 actuarial valuation)



Investment Managers

ASSETS UNDER MANAGEMENT

As of June 30, 2006 (Dollars in millions)

Investment Manager	Investment Type	Amount
Equities		
Large Capitalization		
AllianceBernstein	Growth	$ 123.9
Aronson + Johnson + Ortiz	Value	102.6
Dodge & Cox	Value	134.1
Mellon Capital Management	Core Index (Russell 1000)	138.2
Mellon Capital Management*	Core Index (Russell 1000 Growth Index)	96.2
Small Capitalization		
EARNEST Partners	Value	87.0
Lazard Asset Management	Core	47.2
Westfield Capital Management	Growth	86.8
International		
William Blair & Company	Growth	124.2
Mellon Capital Management*	Core Index (EAFE)	78.8
Templeton Investment Counsel	Value	121.3
Fixed Income		
Loomis-Sayles & Company	Core Plus	124.9
Mellon Capital Management	Core Index (Lehman Bros. Aggregate)	115.3
Pacific Investment Management Co	Core Plus	242.1
Real Estate		
JP Morgan Asset Management	Private	25.8
Prudential Investment Mgt. Services	Private	23.5
UBS Realty Investors	Private	21.3
Urdang Investment Management	REIT	73.5
Cash		0.8
Total		**$ 1,767.5**

* New managers in fiscal year 2006

INVESTMENT

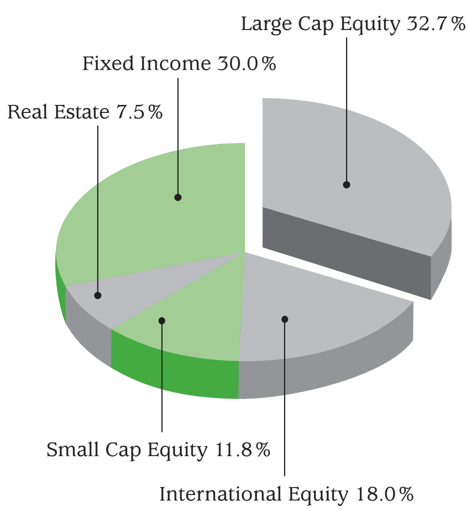
Asset Structure

Strategic Target Allocation
The asset structure shown below represents the Trustees' assessment of their optimal asset allocation as of June 30, 2006. The strategic allocation provides a reasonable expectation that the fund's investment objective can be achieved based on historic relationships of asset class performance.

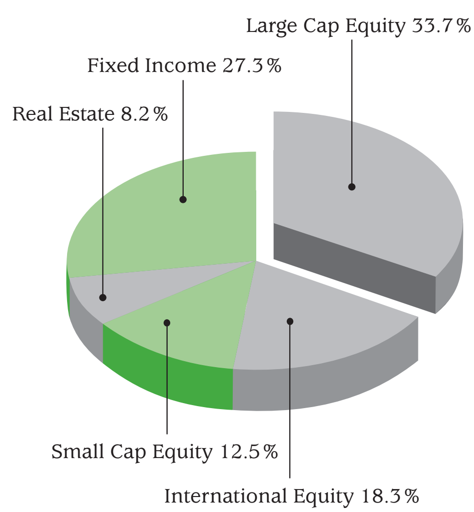
The table below provides a comparison between the target asset mix, consistent with the achievement of the long-term objective of the fund, and the actual asset allocation as of June 30, 2006.

Actual Asset Allocation as of June 30, 2006
The asset structure of ERFC has historically reflected a proper balance of the fund's needs for liquidity, growth of assets, and risk tolerance. The fund's investment policy is designed to continue to meet its long-term investment objectives while, at the same time, provide increased flexibility to meet short-term funding requirements.

STRATEGIC TARGETS



ACTUAL ASSET ALLOCATION



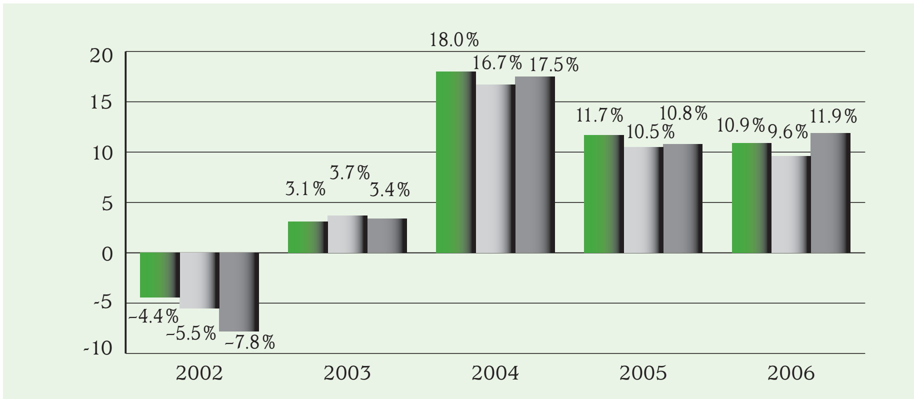
Security Class	Strategic Targets as of June 30, 2006	Actual Asset Allocation as of June 30, 2006
Domestic Large Cap Equity	32.7 %	33.7 %
Domestic Small Cap Equity	11.8	12.5
International Equity	18.0	18.3
Real Estate	7.5	8.2
Fixed Income	30.0	27.3

Investment Results

Fiscal Years Ending Ending June 30

TOTAL FUND RETURNS

- ERFC
- Benchmark*
- Public Funds**



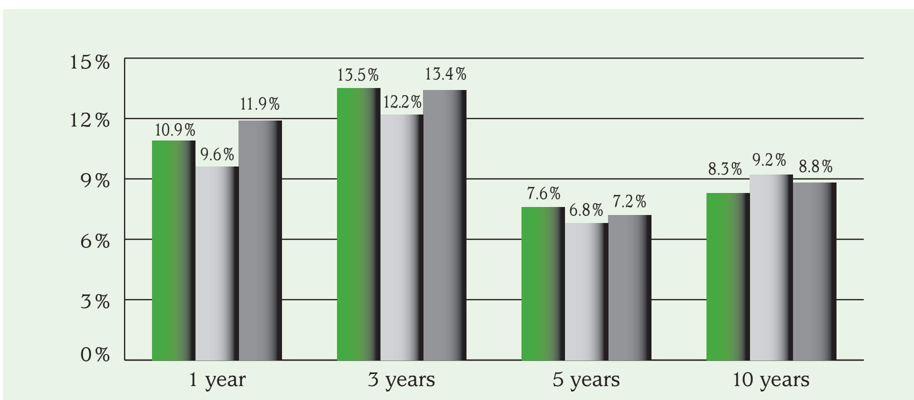
* Diversified benchmark is 32.7% Russell 1000, 11.8% Russell 2000, 18% MSCI World Ex-US, 3.75% NAREIT, 3.75% NCREIF, 22.5% Lehman Bros Aggregate, 3.75% LB Corporate, 3.75% LB Long Corporate

** Mercer Public Fund Universe (Funds in excess of $1 billion)

For the Periods Ending June 30, 2006

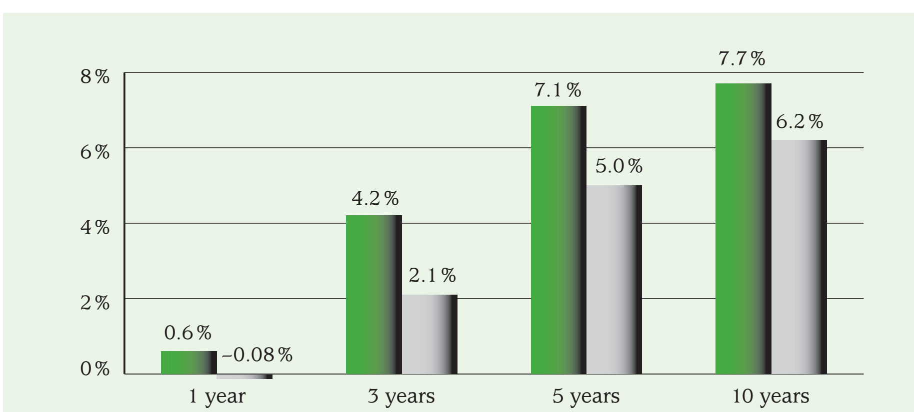
TOTAL FUND

- ERFC
- Benchmark*
- Public Funds**



FIXED INCOME

- Fixed Income
- Benchmark Lehman Bros. Agg



Note: All investment performance figures were calculated using a time-weighted rate of return based on market values.

INVESTMENT

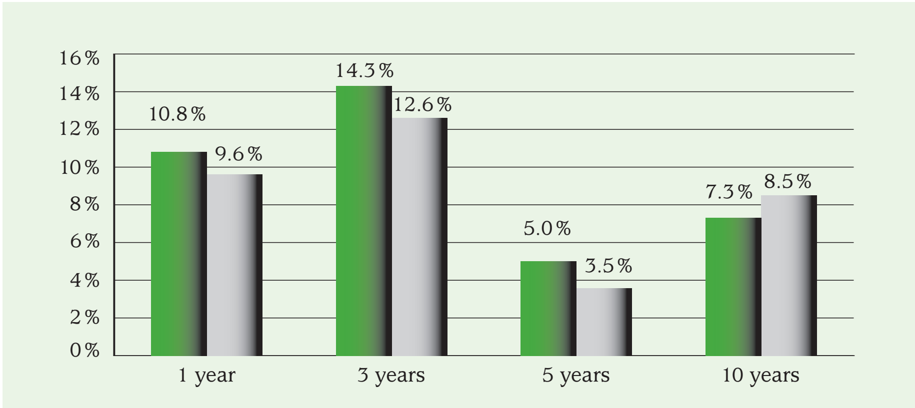
Investment Results

(For the Periods Ending June 30, 2006)

DOMESTIC EQUITY

Domestic Equity

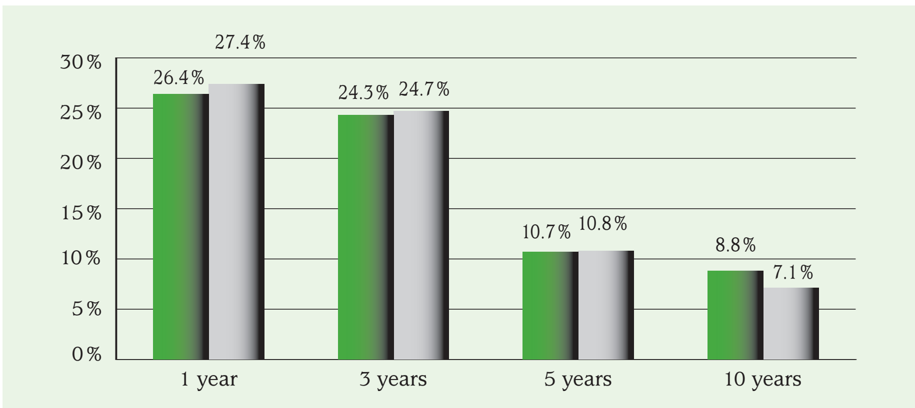
Benchmark Russell 3000 Index



INTERNATIONAL EQUITY

International Equity

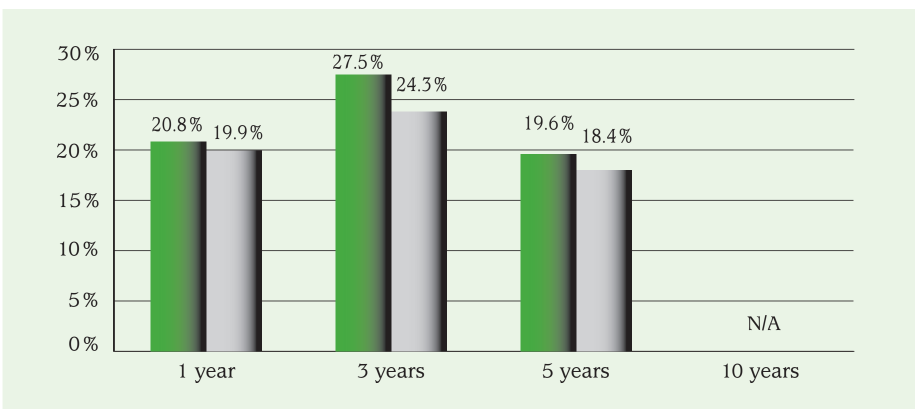
Benchmark MSCI Word Ex-USA Index



REAL ESTATE

Real Estate

Benchmark 50% NAREIT 50% NCREIF



Note: All investment performance figures were calculated using a time-weighted rate of return based on market values.

Schedules of Ten Largest Equity & Fixed Income Holdings

(As of June 30, 2006)

TEN LARGEST EQUITY HOLDINGS*

No. Shares	Description	Cost	Fair Value	% of Total Portfolio
111,500	WELLPOINT INC.	$ 7,360,352	$ 8,113,855	0.46%
159,400	CITIGROUP INC.	7,568,737	7,691,050	0.44%
309,800	PFIZER INC.	8,252,707	7,271,006	0.41%
116,400	EXXON MOBIL CORP.	6,244,709	7,141,140	0.40%
202,900	HEWLETT PACKARD	4,346,919	6,427,872	0.36%
14,730	GOOGLE INC.	3,888,212	6,176,730	0.35%
76,000	HALLIBURTON CO.	3,735,235	5,639,960	0.32%
98,100	APPLE COMPUTER INC.	4,455,498	5,618,187	0.32%
128,200	J. P. MORGAN CHASE & CO.	5,224,363	5,384,400	0.30%
307,300	TIME WARNER INC.	5,150,740	5,316,290	0.30%
	TOTAL	**$ 56,227,472**	**$64,780,490**	**3.66%**

TEN LARGEST FIXED INCOME HOLDINGS*

Par Value	Security	Coupon	Maturity	Cost	Fair Value	% of Total Portfolio
6,685,000	U. S. TREASURY BONDS	5.375%	2/15/31	$6,785,930	$6,801,988	0.39%
6,665,000	U. S. TREASURY NOTES	3.500%	5/31/07	6,563,723	6,561,026	0.37%
6,000,000	U. S. TREASURY NOTES	4.375%	5/15/07	6,028,828	5,955,600	0.34%
5,177,000	BRAZIL FEDERATIVE BONDS	8.250%	1/20/34	5,559,892	5,435,850	0.31%
4,975,000	U. S. TREASURY NOTES	2.625%	5/15/08	4,845,961	4,752,120	0.27%
7,255,000	INTER-AMERICAN DEVELOPMENT	6.000%	12/15/17	4,980,586	4,271,706	0.24%
4,100,000	COMMITMENT TO PURCHASE FNMA SF MTG	5.000%	7/1/36	3,869,875	3,832,270	0.22%
3,830,000	PROV OF BRITISH COLUMBIA	6.000%	6/9/08	3,181,113	3,536,064	0.20%
5,500,000	ASIF GLOBAL FING XXVII 144A	2.380%	2/26/09	3,297,758	3,343,910	0.19%
3,040,000	GEORGIA PACIFIC CORP DEB	7.750%	11/15/29	2,685,366	2,781,600	0.16%
	TOTAL			**$47,799,032**	**$47,272,134**	**2.68%**

* A detailed list of the portfolio's equity and fixed income holdings are available upon request.

INVESTMENT

Schedule of Brokerage Commissions

(Year Ended June 30, 2006)

Broker Name	Base Volume	Total Shares	Base Commission	Commission per Share
Investment Technology Groups	$ 160,778,894	4,000,199	$ 55,599	$ 0.014
Merrill Lynch Pierce Fenner Smith Inc.	67,490,415	1,560,813	67,984	0.044
Goldman Sachs & Co.	58,488,719	2,239,376	46,595	0.021
Lynch Jones & Ryan Inc.	58,137,211	1,872,036	80,562	0.043
Citigroup Global Markets Inc.	52,481,533	1,369,853	30,095	0.022
Morgan Stanley & Co.	44,169,621	1,585,495	53,423	0.034
Credit Suisse	38,327,316	2,701,522	45,254	0.017
Broadcourt Cap Corp/Sub of MLPF&S	36,859,227	1,255,254	51,388	0.041
Merrill Lynch Intl.London Equities	34,518,915	2,529,168	63,200	0.025
Liquidnet Inc.	30,452,367	1,328,768	26,575	0.020
Deutsche Bank Securities Inc.	29,497,771	745,017	21,584	0.029
Bank of New York Brokerage Inc.	28,388,783	732,552	7,347	0.010
Lehman Brothers Inc.	27,969,194	943,571	37,918	0.040
J P Morgan Securities Inc.	27,491,945	1,707,846	31,674	0.019
Alpha Management Inc.	23,411,955	807,638	32,290	0.040
Merrill Lynch Pierce Fenner	21,852,705	2,596,176	35,328	0.014
UBS Securities LLC	20,452,852	473,171	19,680	0.042
Cantor Fitzgerald & Co. Inc.	19,633,182	926,240	27,343	0.030
Banc of America Secs. LLC	18,950,321	394,540	17,433	0.044
La Branche Financial Svcs.	17,960,679	429,220	9,289	0.022
Weeden & Co.	17,436,316	487,990	10,464	0.021
Bear Stearns Security Corp.	16,337,558	469,652	19,017	0.041
Donaldson & Co. Inc.	15,878,865	523,767	23,253	0.044
Guzman & Co.	14,952,331	341,500	6,830	0.020
Merrill Lynch Professional	13,382,358	361,953	8,690	0.024
Jones & Associates Inc.	11,588,377	445,071	13,326	0.030
Rosenblatt Securities Inc.	11,472,880	243,200	5,004	0.021
Jefferies & Co.	11,159,884	375,995	13,014	0.035
Fidelity Cap Mkts.	11,116,091	223,600	4,472	0.020
J P Morgan Securities Ltd.	10,183,991	866,015	10,862	0.013
Themis Trading LLC	9,088,996	135,000	2,700	0.020
Cap Instl. Services Inc.	6,553,309	221,300	8,173	0.037
Knight Securities	6,539,645	208,919	6,930	0.033
Prudential Equity Group	6,386,290	209,400	8,704	0.042
Bernstein Sanford & Co.	6,190,037	112,800	4,579	0.041
Stifel Nicolaus	5,999,386	177,170	8,307	0.047
Instinet Corp	5,796,420	230,465	5,453	0.024
Friedman Billings	5,614,046	183,793	8,473	0.046
William Blair & Co.	5,378,101	121,000	4,878	0.040
Bear Stearns & Co. Inc.	5,323,542	140,210	8,682	0.062
Wachovia Capital Markets LLC	5,172,692	172,110	8,433	0.049
A G Edwards & Sons Inc.	5,002,287	141,945	6,274	0.044
CIBC World Markets Corp.	4,801,748	144,070	5,838	0.041
J P Morgan Secs. Asia Pacific	4,670,829	3,275,426	4,509	0.001
Midwest Research Securities	4,138,462	95,260	3,951	0.041
Other Brokers	157,792,342	8,999,634	237,879	0.026
TOTAL	**$ 1,195,270,385**	**49,105,700**	**$ 1,209,253**	**$ 0.025**

Investment Summary

	As of June 30, 2005		As of June 30, 2006	
	Market Value	Percent of Market Value	Market Value	Percent of Market Value
Fixed Income:				
U.S. Government obligations	$ 34,585,345	2.1%	$ 32,644,274	1.8%
Mortgage-backed securities	6,542,518	0.4%	9,511,807	0.5%
Domestic corporate bonds	46,868,819	2.9%	49,318,752	2.8%
Convertible bonds	3,569,163	0.2%	5,333,080	0.3%
International bonds	24,440,378	1.5%	32,678,782	1.8%
Preferred stocks	1,043,000	0.1%	105,751	0.0%
Index/Commingled fund	314,749,905	19.2%	344,666,209	19.5%
Total fixed income	431,799,128	26.3%	474,258,655	26.8%
Domestic Equities:				
Basic industry	14,256,406	0.9%	20,562,976	1.2%
Consumer and services	360,672,755	22.0%	236,748,872	13.4%
Financial and utility	116,062,613	7.1%	172,074,014	9.7%
Technological	112,046,904	6.8%	87,477,929	4.9%
Index/Commingled fund	189,214,277	11.5%	236,996,623	13.4%
Total domestic stock	792,252,955	48.2%	753,860,414	42.6%
International Equities:				
Basic industry	16,004,424	1.0%	14,721,111	0.8%
Consumer and services	160,001,958	9.7%	143,356,591	8.1%
Financial and utility	51,646,954	3.1%	87,327,914	4.9%
Technological	24,522,964	1.5%	19,389,521	1.1%
Index/Commingled fund			102,423,251	5.8%
Total international stock	252,176,300	15.4%	367,218,388	20.8%
Real Estate:				
Real Estate Investment Trusts	69,526,952	4.2%	74,649,580	4.2%
Private Real Estate	40,731,685	2.5%	70,550,729	4.0%
Total real estate	110,258,637	6.7%	145,200,309	8.2%
Subtotal investments at fair value	1,586,487,020	96.6%	1,740,537,766	98.4%
Short-term Investments:				
Money Market	50,564,841	3.1%	22,596,386	1.3%
Commercial paper	5,598,928	0.3%	5,650,172	0.3%
Total short-term investments	56,163,769	3.4%	28,246,558	1.6%
Grand Total	**$ 1,642,650,789**	**100.0%**	**$ 1,768,784,324**	**100.0%**

Note: This summary is comprised of investments at fair value and short-term investments.

INVESTMENT

Schedule of Investment Management Fees

(Year Ended June 30, 2006)

Investment Category	Assets Under Management	Fees
Domestic Equities	$ 516,863,791	$ 3,232,759
International Equities	264,795,137	1,274,967
Fixed Income	129,592,446	928,481
Real Estate	145,200,309	1,079,822
Index Funds	684,086,083	96,328
Total	**$ 1,740,537,766**	**$ 6,612,357**

Note: Excludes short-term investments.

Actuarial Section

Frank Bensinger
Principal, Forest Edge Elementary

Actuary's Certification Letter

GRS

Gabriel Roeder Smith & Company
Consultants & Actuaries

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Southfield, MI 48076-3723

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June 12, 2006

Board of Trustees
Fairfax County Educational Employees
Supplementary Retirement System (ERFC)
8001 Forbes Place, Suite 300
Springfield, Virginia 22151

Dear Board Members:

The basic financial objective of ERFC is to establish and receive contributions which,

- when expressed in terms of percents of active member payroll will remain approximately level from generation to generation, and
- when combined with present assets and future investment return will be sufficient to meet the financial obligations of ERFC to present and future retirees and beneficiaries.

The financial objective is addressed within the annual actuarial valuation. The valuation process develops contribution rates that are sufficient to fund the plan's current cost (i.e., the costs assigned by the valuation method to the year of service about to be rendered) as well as to fund unfunded actuarial accrued liabilities as a level percent of active member payroll over a finite period. The most recent valuation was completed based upon population data, asset data, and plan provisions as of December 31, 2005.

The plan administrative staff provides the actuary with data for the actuarial valuation. The actuary relies on the data after reviewing it for internal and year-to-year consistency. The actuary summarizes and tabulates population data in order to analyze longer term trends. The plan's external auditor also audits the actuarial data annually.

The actuary prepared the following supporting schedules for the Comprehensive Annual Financial Report.

Actuarial Section

Summary of Actuarial Assumptions and Methods
Sample Pay Increase Assumptions for an Individual Member
Probabilities of Retirement for Members Eligible to Retire
Single Life Retirement Values
Sample Rates of Separation from Active Employment before Retirement
Rates of Forfeiture Following Vested Separation

Actuary's Certification Letter

Board of Trustees
June 12, 2006
Page 2

Summary of Member Data Included in Valuation as of December 31, 2005

Active Members by Years of Service on December 31, 2005

All Active Members in Valuation on December 31, 2005 by Attained Age and Years of Service

Summary of Member Data

Short-Term Solvency Test

Analysis of Financial Experience Gains and Losses by Risk Area

Financial Section

Schedule of Funding Progress

Schedule of Employer Contributions

Summary of Actuarial Methods and Assumptions

Assets are valued on a market related basis that recognizes each year's difference between actual and assumed investment return over a closed five-year period, subject to an 85% to 115% corridor on market value.

Actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rates of investment return and payroll growth, eligibility for the various classes of benefits, and longevity among retired lives. These assumptions are adopted by the Board after considering the advice of the actuary and other professionals. The assumptions comply with the requirements of Statement No. 25 of the Governmental Accounting Standards Board. Each actuarial valuation takes into account all prior differences between actual and assumed experience in each risk area and adjusts the contribution rates as needed. The December 31, 2005 valuation was based upon assumptions that were recommended in connection with a study of experience during the period from July 1, 1999 to June 30, 2004.

Based upon the results of the December 31, 2005 valuation, we are pleased to report to the Board that the Fairfax County Educational Employees Supplementary Retirement System is meeting its basic financial objective and continues in sound condition in accordance with actuarial principles of level percent of payroll financing. Preservation of this condition is dependent upon continued receipt of employer and employee contributions at actuarial levels.

Respectfully submitted,

Brian B. Murphy, FSA, MAAA, EA

Judith A. Kermans, MAAA, EA

BBM:JAK:lr

ACTUARIAL

Summary of Actuarial Assumptions and Methods

The actuarial assumptions and methods used in making the annual actuarial valuation are summarized in this section. They were established for the December 31, 2004 actuarial valuation, based upon a study of experience during the period July 1, 1999, to June 30, 2004.

ECONOMIC ASSUMPTIONS

The *investment return rate* used in making the valuation was 7.5 percent per year, compounded annually (net after administrative expenses). The real rate of return is the portion of total investment return, which is more than the wage inflation rate. Based upon an assumed wage inflation rate of 3.75 percent, the 7.5 percent investment return rate translates to an *assumed real rate of return over wages of 3.75 percent.*

Pay increase assumptions for individual active members are shown for sample ages on Table A. Part of the assumption for each age is for merit and/or seniority increase, and the other 3.75 percent recognizes wage inflation.

The number of active members is assumed to continue at the present number.

Total active member payroll is assumed to increase 3.75 percent annually, which is the portion of the individual pay increase assumptions attributable to wage inflation. This assumed increase is recognized in the funding of unfunded actuarial accrued liabilities.

NON-ECONOMIC ASSUMPTIONS

The *probabilities of retirement* for members eligible to retire are shown on Table C.

The *mortality table* used to measure active and retired life mortality was the 1994 Group Annuity Mortality Table set back 2 years for males and 1 year for females. Related values are shown on Table D.

The *probabilities of withdrawal* from service, *death-in-service,* and *disability* are shown for sample ages on Table B.

The *entry age actuarial cost method of valuation* was used for determining actuarial accrued liabilities and normal cost.

Actuarial gains and losses reduce or increase the unfunded liability. The unfunded actuarial accrued liabilities are amortized to produce contribution amounts (principal and interest) which are level percent of payroll contributions.

Present assets (cash and investments) are valued on a market-related basis *effective June 30, 1986.* A one time adjustment toward market was made in connection with the 1990–93 experience study and an additional one-time adjustment set the funding value equal to the market value as of December 31, 2004. Further, an 85–110% market value corridor was added in the December 31, 2005 valuation.

The data about persons now covered and about present assets was furnished by the System's administrative staff. Although examined for general reasonableness, the data was not audited by the actuary.

The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (MAAA).

Summary of Actuarial Assumptions and Methods

TABLE A: SAMPLE PAY INCREASE ASSUMPTIONS FOR AN INDIVIDUAL MEMBER

	PAY INCREASE ASSUMPTION		
Sample Ages	Merit & Seniority	Base (Economy)	Increase Next Year
20	4.45 %	3.75 %	8.2 %
25	3.25	3.75	7.0
30	2.75	3.75	6.5
35	2.35	3.75	6.1
40	2.05	3.75	5.8
45	1.55	3.75	5.3
50	1.15	3.75	4.9
55	0.75	3.75	4.5
60	0.35	3.75	4.1
65	0.25	3.75	4.0

TABLE B: SAMPLE RATES OF SEPARATION FROM ACTIVE EMPLOYMENT BEFORE RETIREMENT

PERCENT OF ACTIVE MEMBERS SEPARATING WITHIN NEXT YEAR

		DEATH				DISABILITY				OTHER	
		Ordinary		Duty		Ordinary		Duty			
Sample Ages	Years of Service	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women
All	0									18.00 %	18.00 %
	1									15.00	15.00
	2									12.00	12.00
25	3 & over	0.04 %	0.02 %	0.01 %	0.00 %	0.06 %	0.03 %	0.01 %	0.01 %	12.00	15.80
30		0.06	0.02	0.01	0.00	0.06	0.05	0.02	0.01	8.50	12.00
35		0.06	0.03	0.01	0.00	0.09	0.09	0.02	0.02	5.75	8.20
40		0.07	0.05	0.01	0.01	0.14	0.12	0.03	0.03	4.30	5.00
45		0.10	0.07	0.01	0.01	0.21	0.18	0.05	0.05	2.90	3.70
50		0.16	0.10	0.02	0.01	0.34	0.29	0.08	0.07	2.50	3.20
55		0.27	0.16	0.04	0.02	0.59	0.49	0.15	0.12	2.50	3.00
60		0.47	0.29	0.06	0.04	0.98	0.71	0.24	0.18	2.50	3.00

Summary of Actuarial Assumptions and Methods

TABLE C: PROBABILITIES OF RETIREMENT FOR MEMBERS ELIGIBLE TO RETIRE

ERFC (Hired before 7/1/2001)			*ERFC 2001* (Hired on or after 7/1/2001)		
TYPE OF RETIREMENT			TYPE OF RETIREMENT ELIGIBILITY		
Ages	Service	Reduced Service	Age Based	Service	Service Based
45		5%			
46		5			
47		5			
48		5			
49		5			
50		6			
51		7			
52		8			
53		9			
54		10			
55	50%	10		30%	35%
56	40	5		31	28
57	30	5		32	21
58	30	5		33	21
59	30	5		34	21
60	30	10	21%	35	21
61	40	10	28	36	28
62	40	20	28	37	28
63	25	20	18	38	35
64	25	20	18	39	50
65	50		50	40 & up	100
66	40		40		
67	30		30		
68	40		40		
69	20		20		
70	20		20		
71	20		20		
72	30		30		
73	40		40		
74	50		50		
75	100		100		
76	100		100		
77	100		100		
78	100		100		
79	100		100		
80	100		100		

Summary of Actuarial Assumptions and Methods

TABLE D: SINGLE LIFE RETIREMENT VALUES

STANDARD MORTALITY

Sample Attained Ages	Present Value of $1 Monthly for Life (Increasing 3% Annually)		Future Life Expectancy (years)	
	Men	Women	Men	Women
55	$ 183.72	$ 195.47	27.95	31.11
60	165.91	178.85	23.52	26.49
65	146.49	160.36	19.39	22.11
70	126.51	140.71	15.66	18.08
75	106.26	119.31	12.34	14.31
80	85.94	97.25	9.40	10.93

DISABLED MORTALITY

Sample Attained Ages	Present Value of $1 Monthly for Life (Increasing 3% Annually)		Future Life Expectancy (years)	
	Men	Women	Men	Women
55	$ 128.18	$ 144.69	17.14	20.34
60	118.67	135.13	15.18	18.04
65	110.09	124.28	13.46	15.71
70	99.71	111.15	11.60	13.27
75	86.55	94.60	9.55	10.66
80	70.31	76.56	7.37	8.17

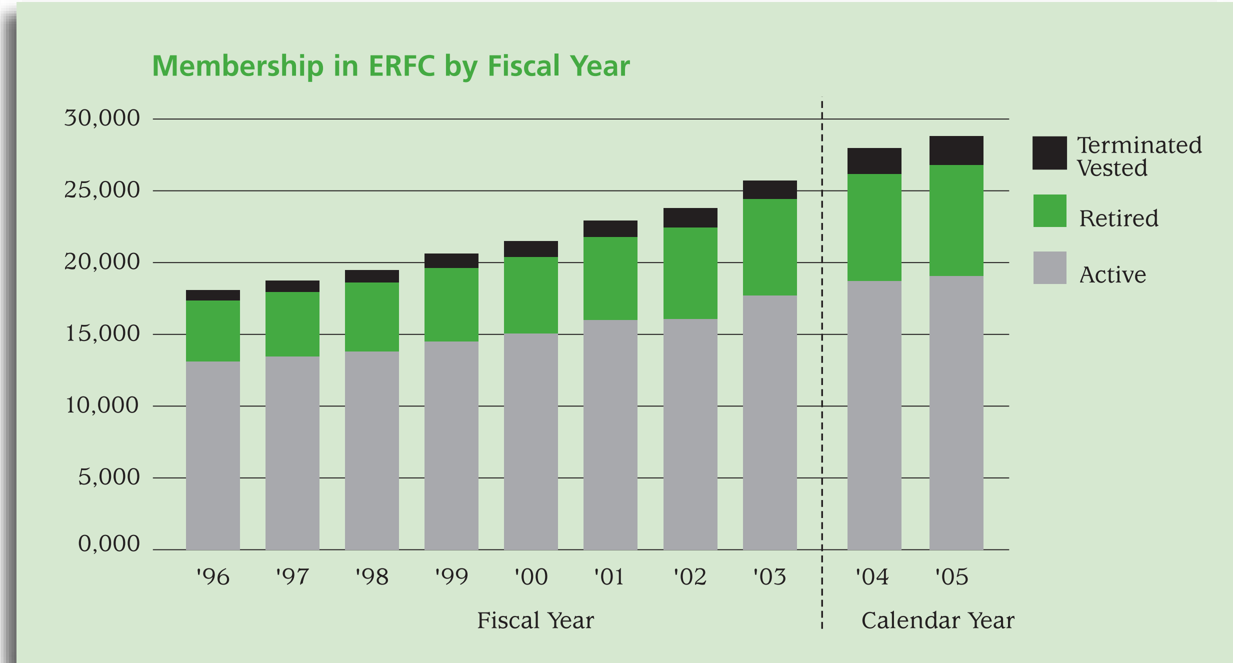
Summary of Actuarial Assumptions and Methods

TABLE E: RATES OF FORFEITURE FOLLOWING VESTED SEPARATION

	Sample Entry Age				
Age at Separation	25	30	35	40	45
30	0.5000				
31	0.4854				
32	0.4708				
33	0.4563				
34	0.4417				
35	0.4271	0.5000			
36	0.4125	0.4816			
37	0.3979	0.4632			
38	0.3833	0.4447			
39	0.3688	0.4263			
40	0.3542	0.4079	0.5000		
41	0.3396	0.3895	0.4750		
42	0.3250	0.3711	0.4500		
43	0.3104	0.3526	0.4250		
44	0.2958	0.3342	0.4000		
45	0.2813	0.3158	0.3750	0.5000	
46	0.2667	0.2974	0.3500	0.4611	
47	0.2521	0.2789	0.3250	0.4222	
48	0.2375	0.2605	0.3000	0.3833	
49	0.2229	0.2421	0.2750	0.3444	
50	0.2083	0.2237	0.2500	0.3056	0.5000
51	0.1938	0.2053	0.2250	0.2667	0.4125
52	0.1792	0.1868	0.2000	0.2278	0.3250
53	0.1646	0.1684	0.1750	0.1889	0.2375
54	0.1500	0.1500	0.1500	0.1500	0.1500

Forfeiture occurs when a vested person separates from service and withdraws contributions thereby forfeiting future rights to an employer financed benefit. The total probability of forfeiture is obtained by multiplying the probability of "other separation" from Table B by the probability of forfeiture from this table. The table does not apply to individuals who are eligible for retirement at the time of termination.

Summary of Member Data



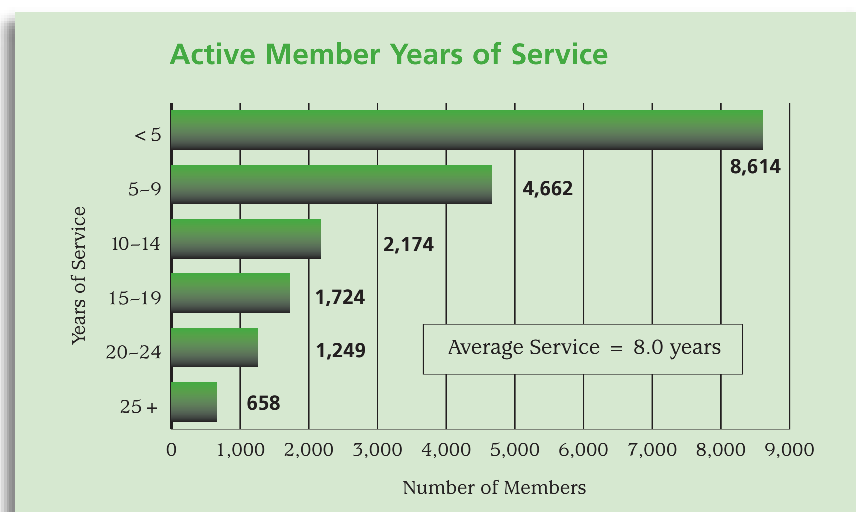
	Year	Active	Retired	Terminated Vested
Fiscal Year	1996	13,110	4,225	746
	1997	13,473	4,478	779
	1998	13,806	4,773	875
	1999	14,449	5,113	1,003
	2000	15,050	5,344	1,107
	2001	15,955	5,766	1,157
	2002	16,074	6,375	1,362
	2003	17,738	6,729	1,301
Calendar Year	2004	18,720	7,430	1,780
	2005	19,081	7,710	2,030

Summary of Member Data

(As of December 31, 2005)

ACTIVE MEMBERS BY YEARS OF SERVICE

	NUMBER OF MEMBERS			ANNUAL PAYMENTS	
Service Years	Males	Females	Total	Total	Average
0	426	1,806	2,232	$ 93,864,109	$ 42,054
1	412	1,598	2,010	88,285,107	43,923
2	319	1,268	1,587	74,139,069	46,716
3	274	1,054	1,328	63,537,766	47,845
4	280	1,177	1,475	73,003,698	50,105
5	278	1,063	1,341	67,925,661	50,653
6	248	920	1,168	61,186,108	52,385
7	169	731	900	48,191,008	53,546
8	137	550	687	38,292,522	55,739
9	114	452	566	32,968,318	58,248
10	105	326	431	25,431,745	59,006
11	129	412	541	33,376,019	61,693
12	120	385	505	31,338,539	62,057
13	55	306	361	22,930,477	63,519
14	48	288	336	21,963,137	65,366
15 & Up	646	2,985	3,631	273,783,261	75,402
Totals	**3,760**	**15,321**	**19,081**	**$ 1,050,216,544**	**$ 55,040**



Summary of Member Data

(As of December 31, 2005)

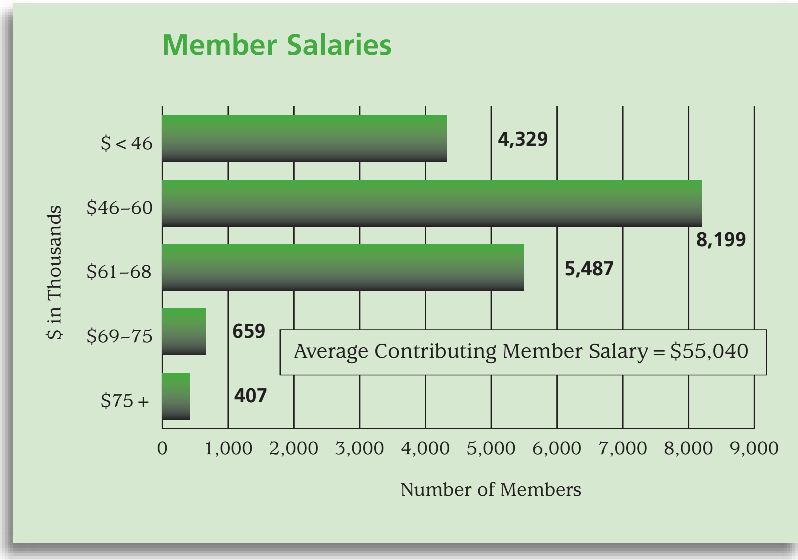
ACTIVE MEMBERS BY ATTAINED AGE AND YEARS OF SERVICE

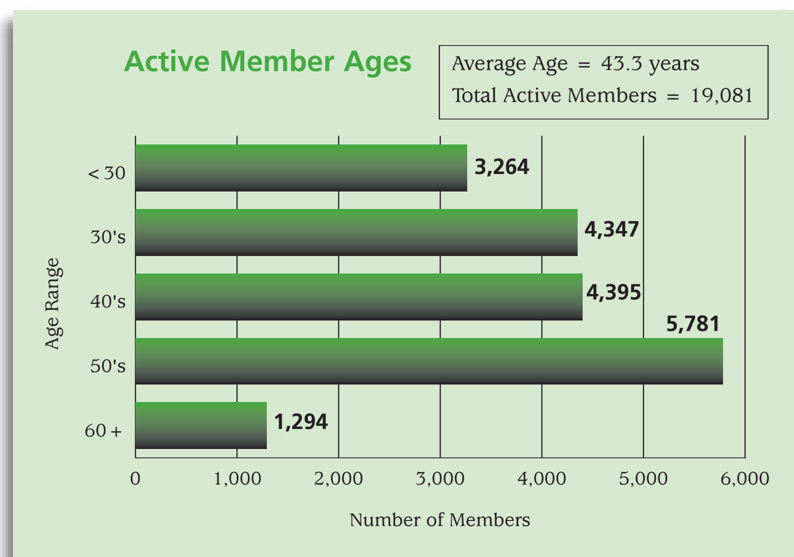
	YEARS OF SERVICE TO VALUATION DATE							TOTALS		
Age Group	0-4	5-9	10-14	15-19	20-24	25-29	30 & up	No.	Salary	Average
15-19	4							4	$ 105,849	$ 26,462
20-24	567							567	21,707,428	38,285
25-29	2,409	284						2,693	119,902,269	44,524
30-34	1,342	903	65					2,310	117,052,714	50,672
35-39	924	661	391	59	2			2,037	111,076,184	54,529
40-44	838	523	274	252	56	1		1,944	104,818,715	53,919
45-49	933	633	299	274	247	63	2	2,451	136,948,256	55,874
50-54	854	797	402	354	362	268	48	3,085	187,939,411	60,920
55-59	547	623	493	456	367	163	47	2,696	168,913,642	62,653
60	54	55	77	74	59	6	3	328	21,524,443	65,623
61	36	63	39	59	41	11		249	15,689,890	63,012
62	32	33	42	54	24	8	1	194	12,069,706	62,215
63	26	34	32	58	33	9		192	12,327,955	64,208
64	16	12	18	36	18	10	1	111	6,875,102	61,938
65	13	14	18	16	17	2	1	81	5,063,784	62,516
66	3	12	10	8	7	4		44	2,637,771	59,949
67	5	4	4	12	6			31	1,993,962	64,321
68	3	3	1	4	2	3		16	885,258	55,329
69	5	1	1	4	2	1	1	15	927,872	61,858
70	2	3	2		2	1		10	637,568	63,757
71	1	1	2		2	1	1	8	378,033	47,254
72				2				2	152,773	76,387
73		2	1	1				4	110,600	27,650
74		1	1					2	153,911	76,956
75& up			2	1	2	1	1	7	323,448	46,207
Totals	**8,614**	**4,662**	**2,174**	**1,724**	**1,249**	**552**	**106**	**19,081**	**$ 1,050,216,544**	**$ 55,040**

ACTUARIAL

Summary of Member Data

(As of December 31, 2005)





Summary of Member Data

ACTIVE MEMBER VALUATION DATA

Valuation Date	Annual Number	Annual Payroll	Annual Average Pay	% Increase in Average Pay
June 30, 1999	14,449	$ 626,015,364	$ 43,326	2.6
June 30, 2000	15,050	678,937,233	45,112	4.1
June 30, 2001	15,955	759,905,510	47,628	5.6
June 30, 2002	16,074	781,756,005	48,635	2.1
June 30, 2003	17,738	866,501,799	48,850	0.4
December 31, 2004	18,720	977,817,281	52,234	6.9
December 31, 2005	19,081	1,050,216,544	55,040	5.4

RETIREES AND BENEFICIARIES ADDED AND REMOVED

	Added to Payroll		Removed from Payroll		Payroll at End of Year			
Year	Number	Annualized Monthly Benefit	Number	Annualized Monthly Benefit	Number	Annualized Monthly Benefit	Average Annualized Monthly Benefit	% Increase in Monthly Benefit
As of June 30								
1998	355	$ 463,123	60	$ 71,771	4,773	$ 4,834,895	$ 1,013	8.81 %
1999	471	662,299	131	66,070	5,113	5,320,893	1,041	10.05
2000	576	844,879	345	846,630	5,344	5,939,101	1,111	11.62
2001	536	687,740	115	70,932	5,766	6,381,227	1,107	7.44
2002	741	1,120,553	132	77,890	6,375	7,245,460	1,137	13.54
2003	625	951,989	271	91,665	6,729	7,942,436	1,180	9.62
As of December 31								
2004*	989	1,465,852	288	175,242	7,430	8,872,997	1,194	11.72
2005	481	615,969	201	106,627	7,710	9,587,825	1,244	8.06

*With the transition from fiscal year to calendar year valuations, the added and removed calculations reflect an 18-month time span.

ACTUARIAL

Short-Term Solvency Test

If the contributions to ERFC are level in concept and soundly executed, the System *will pay all promised benefits when due — the ultimate test of financial soundness.* Testing for level contribution rates is the *long-term test.*

A *short-term solvency test* is one means of checking a system's progress under its funding program. In a short-term solvency test, the plan's present assets (cash and investments) are compared with:

1) Active member contributions on deposit,
2) The liabilities for future benefits to present retired lives, and
3) The liabilities for service already rendered by active members.

In a system that has been following the discipline of level percent of payroll financing, the liabilities for active member contributions on deposit (liability 1 in the table below) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (liability 3) will be partially covered by the remainder of present assets. The larger the funded portion of liability 3, the stronger the condition of the system.

	AGGREGATE ACTUARIAL ACCRUED LIABILITIES						
Valuation Date	(1) Member Contributions	(2) Retirants and Beneficiaries	(3) Members (Employer Financed Portion)	Valuation Assets	Portion of Accrued Liabilities Covered by Assets (1)	(2)	(3)
		($ in thousands)					
@ 6/30/1986	$ 57,753	$ 116,773	$ 206,858	$ 284,195	100%	100%	53%
6/30/1987	66,589	136,073	226,581	325,126	100	100	54
$# 6/30/1988	68,662	163,959	274,861	359,069	100	100	46
6/30/1989	75,917	203,394	281,651	405,317	100	100	45
6/30/1990	83,920	240,122	320,831	461,450	100	100	43
6/30/1991	89,976	285,618	342,133	510,825	100	100	40
6/30/1992	97,502	318,072	347,996	563,644	100	100	43
@# 6/30/1993	115,312	344,160	448,895	717,701	100	100	58
6/30/1994	129,428	374,849	467,802	766,480	100	100	56
$ 6/30/1995	143,150	395,249	534,137	839,930	100	100	56
6/30/1996	146,228	436,181	548,135	934,572	100	100	64
6/30/1997	144,063	464,345	606,959	1,045,412	100	100	72
!# 6/30/1998	149,261	490,261	638,891	1,194,556	100	100	87
! 6/30/1999	154,582	539,917	651,160	1,365,417	100	100	103
6/30/2000	157,148	614,739	595,484	1,505,231	100	100	123
6/30/2001	178,564	667,605	674,857	1,599,219	100	100	112
$ 6/30/2001	178,564	667,605	706,389	1,599,219	100	100	107
! 6/30/2002	170,849	699,251	823,856	1,619,889	100	100	91
$ 6/30/2003	176,648	903,963	691,807	1,597,459	100	100	75
# 12/31/2004	227,725	1,083,988	623,869	1,643,020	100	100	53
12/31/2005	257,142	1,130,378	635,442	1,718,399	100	100	52

@ After change in asset valuation method. $ After changes in benefit structure.
# After changes in actuarial assumptions. ! After change in employer contribution rate.

Analysis of Financial Experience

Pay Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.

Investment Return. If there is a greater investment return than assumed, there is a gain. If smaller return, a loss.

Age & Service Retirement. If members retire at older ages than assumed, there is a gain. If at younger ages, a loss.

Disability & Death in Service. If disability claims are less than assumed, there is a gain. If claims are more, a loss. If survivor claims are less than assumed, there is a gain. If claims are more, a loss.

Other Separations. If more liabilities are released by other separations than assumed, there is a gain. If smaller releases, a loss.

EXPERIENCE GAINS AND LOSSES BY RISK AREA

(Dollars in Millions)

	Economic Risk Area			Demographic Risk Area			Total Gain (Loss)	
Experience Period	Pay Increases	Investment Return	Age & Service Retirement	Disability & Death-in Service	Other Separations	Other@	Amount	Percent of Liabilities
For Periods Ending June 30								
1988–89	$ (13.0)	$ 12.3	$ (17.9)	$ (4.4)	$ 3.3	$ 12.4	$ (7.3)	(1.4)
1989–90	(14.0)	23.6	(18.7)	(4.3)	1.2	(15.9)	(28.1)	(5.0)
1990–91	(2.1)	14.4	(25.9)	(5.5)	0.4	(5.0)	(23.7)	(3.7)
1991–92	21.2	21.7	(28.4)	(6.0)	(4.0)	2.3	6.8	0.9
1992–93	15.1	34.6	(16.3)	(1.0)	(6.5)	(17.3)	8.6	1.1
#1993–94	(4.1)	4.7	(1.6)	(3.7)	3.5	(15.2)	(16.4)	(1.8)
1994–95	(9.7)	25.2	5.1	(1.4)	(4.4)	(5.5)	9.3	0.9
1995–96	(7.7)	45.4	4.1	(1.8)	(5.6)	4.3	38.7	3.6
1996–97	9.9	53.5	2.9	(1.7)	(4.5)	(8.7)	51.4	4.5
#1997–98	(2.6)	81.1	5.9	(0.5)	6.4	(13.9)	76.4	6.3
*1998–99	(8.4)	95.4	0.3	(1.0)	6.5	(3.8)	89.0	7.0
1999–00	(17.6)	62.3	3.8	(1.2)	12.9	38.9	99.1	7.4
2000–01	(9.1)	17.6	(0.3)	(1.0)	13.0	(19.5)	0.7	0.0
2001–02	3.0	(50.4)	3.5	(1.1)	2.6	(29.9)	(72.3)	(4.7)
2002–03	18.5	(92.5)	11.0	(0.3)	4.0	(23.3)	(82.6)	(4.9)
For Periods Ending December 31								
2003–04	Due to transition to calendar year valuations, a gain/loss analysis was not conducted for this valuation period.							
2004–05	(7.1)	1.9	1.0	0.1	0.0	(3.2)	(7.3)	(0.4)%

\# *Experience Study*

* *Updated Gain Formulas*

@ *Risks not directly related to assumptions include granted additional service credit, data adjustments, timing of financial transactions, etc.*

ACTUARIAL

Summary of Benefit Provisions

Available to a Member Retiring with Some Service **Before July 1, 1988** (*ERFC* Members)

Service Retirement: Alternate Amount After Social Security Normal Retirement Age. By election at time of retirement, a member with service before July 1, 1988, may elect to receive 1988 new benefits with a special alternate amount for payment periods after the age the member becomes eligible for full Social Security benefits. The alternate amount is 103 percent of the total of:

1) the amount payable under June 30, 1987, benefit provisions,

2) plus, if the retiring member is younger than age 65 and if creditable Virginia service is less than 30 years, 1.65 percent of VRS average final compensation in excess of $1,200, multplied by years of creditable Virginia service, and further multiplied by a certain percent based upon the number of months that retirement occurs before reaching the earlier of the above two conditions; such percent is half of one percent for each of the first 60 such months and 4/10 of one percent for each of the next 60 such months, if any.

Reduced Service Retirement: With 25 Years Service. By election at time of retirement, such a member may elect to receive 103 percent of the following combination of benefits:

To age 55, 2.85 percent of the 3-year average annual salary multiplied by years of credited service, then actuarially reduced to reflect retirement age younger than age 55; and

From age 55 to Social Security Normal Retirement Age, the amount to age 55 reduced by: 1.65 percent of the portion of VRS average final compensation in excess of $1,200, multiplied by applicable years of creditable Virginia service; provided if creditable Virginia service is less than 30 years, the result of such multiplication shall be actuarially reduced for each month before the earlier of (1) attainment of age 65, and (2) the date when 30 years service would have been completed; and

From Social Security Normal Retirement Age for life, the greater of the amount payable at the age the member becomes eligible for full Social Security benefits according to June 30, 1987 provisions or the amount payable at that age according to July 1, 1988 provisions.

Summary of Benefit Provisions

For a Person Becoming a Member **After July 1, 1988 but Before July 1, 2001** (*ERFC* Members)

Service Retirement: Eligibility. A member may retire any time after reaching the service retirement date, which is either (i) age 65 with 5 years service or (ii) age 55 with 25 years of service.

Service Retirement: Amount. For payment periods during the retired member's lifetime 103 percent times (i) minus (ii) where:

(i) means 1.85 percent of the 3-year average annual salary multiplied by years of credited service, and

(ii) means 1.65 percent of the portion of VRS average final compensation in excess of $1,200, multiplied by applicable years of creditable Virginia service; provided if the member is younger than age 65 and if creditable Virginia service is less than 30 years, the result of such multiplication shall be actuarially reduced for each month before the earlier of:

1) attainment of age 65, and

2) the date when 30 years service would have been completed.

For payment periods, if any, before the age the member becomes eligible for full Social Security benefits, an additional temporary benefit equal to 1 percent of the 3-year average annual salary multiplied by years of credited service.

Reduced Service Retirement: Eligibility. A member with 25 years service but younger than age 55 may retire after age 45. A member with less than 25 years service and younger than age 65 may retire after age 55.

Reduced Service Retirement: Amount After 25 Years Service. Service Retirement amount actuarially reduced to reflect retirement age younger than age 55.

Reduced Service Retirement: Amount After 5-24 Years Service. For payment periods during the retired member's lifetime, the Service Retirement amount payable at age 65 actuarially reduced to reflect retirement age younger than age 65. For payment periods before the age the member becomes eligible for full Social Security benefits, an additional temporary benefit equal to the Service Retirement temporary benefit reduced to reflect retirement age younger than age 65.

Disability Retirement. An active member with 5 or more years of service who becomes totally and permanently disabled may be retired and receive a disability pension. The 5 year service requirement is waived if the disability is service-connected.

The amount is 103 percent times a lifetime pension equal to 0.25 percent of the 3-year average annual salary multiplied by years of credited service. Credited service shall be increased by the time period from disability retirement to the date when member would have reached service retirement date.

Death-In-Service Benefits. An active member with 5 or more years of service who dies will have benefits payable to the surviving spouse and/or dependent children. The 5 year service requirement is waived if the death is service-connected and the member's benefit includes service credit that the member would have earned between the date of death and eligibility for service retirement (with a minimum of 10 years of service used).

Deferred Retirement. Calculated in the same manner as reduced service retirement.

Member Contributions. Members contribute 4 percent of their salaries. Interest credits are added annually. If a member leaves covered employment before becoming eligible to retire, accumulated contributions are returned upon request.

Before July 1, 2001, *continued on next page*

Before July 1, 2001 *continued from previous page*

Post-Retirement Increases. On March 31, most pensions are increased by 3 percent. These increases are compounded each year. Pensions of people who retired in the immediately preceding calendar year are increased by 1.489 percent ($^1/_2$ of a year's increase).

Lifetime Level Benefit. Members retiring after July 1, 2004 are eligible for a lifetime level benefit (LLB) that is calculated by determining the annuitized value of the greater of their accumulated contribution balance or the present value of the currently provided benefit.

Optional Forms of Payment.

Option A — 100% joint and survivor.
Option B — 50% joint and survivor.
Option C — 10 years certain and life.
Option D — Single sum payment not exceeding member's accumulated contribution balance, plus a single life annuity actuarially reduced from the pension amount otherwise payable.

Summary of Benefit Provisions

For a Person Becoming a Member **July 1, 2001 or Later** *(ERFC 2001* Members*)*

Service Retirement: Eligibility. A member may retire any time after reaching the service retirement date, which is either (i) age 60 with 5 years service or (ii) any age with 30 years of service.

Service Retirement: Amount. For payment periods during the retired member's lifetime.

The amount is a lifetime pension equal to 0.8 percent of the 3-year average annual salary multiplied by years of credited service.

Death-In-Service Benefits. An active member with 5 or more years of service who dies will have benefits payable to the nominated beneficiary.

The amount is a pension equal to the straight life amount (0.8 percent of the 3-year average annual salary multiplied by years of credited service at date of death), reduced in accordance with an option A election and payable at age 60. Beneficiaries may elect to receive benefits before age 60 if benefits are further reduced as follows:

- an additional reduction of the smaller of

  1) $^1/_2$ of 1 percent for the first 60 months and $^4/_{10}$ of 1 percent for each additional month between the member's age at the date of death and age 60, and

  2) $^1/_2$ of 1 percent for the first 60 months and $^4/_{10}$ of 1 percent for each additional month between the member's service at the date of death and 30 years.

Deferred Retirement. An inactive member with 5 or more years of service will be entitled to a pension with payments beginning at age 60, provided she/he does not withdraw accumulated member contributions.

The amount is a pension equal to the straight life amount (0.8 percent of the 3-year average annual salary multiplied by years of credited service at termination date), payable at age 60.

Member Contributions. Members contribute 4 percent of their salaries. Interest credits of 5 percent are added annually. If a member leaves covered employment before becoming eligible to retire, accumulated contributions are returned upon request

Post-Retirement Increases. On March 31, most pensions are increased by 3 percent. These increases are compounded each year. Pensions of people who retired in the immediately preceding calendar year are increased by 1.489 percent ($^1/_2$ of a year's increase).

ERFC Contribution Rates

	Support Employees			Instructional Employees		
Fiscal Year	Employee	Employer	Total	Employee	Employer	Total
1974	2.0	2.0	4.0	2.0	2.0	4.0
1975	3.2	3.2	6.4	2.9	2.9	5.8
1976	4.3	4.3	8.6	3.8	3.8	7.6
1977	4.3	4.3	8.6	3.8	5.66	9.5
1978	4.3	4.3	8.6	3.8	5.66	9.5
1979	4.3	4.3	8.6	3.8	5.66	9.5
1980	3.99	3.99	7.98	3.8	5.7	9.50
1981	3.99	4.02	8.01	2.0	5.7	7.70
1982	3.99	4.02	8.01	2.0	5.7	7.70
1983	2.0	5.65	7.65	2.0	7.31	9.31
1984	2.0	5.65	7.65	2.0	7.31	9.31
1985	2.0	5.52	7.52	2.0	7.09	9.09
1986	2.0	5.52	7.52	2.0	7.09	9.09
1987	2.0	5.88	7.88	2.0	7.05	9.05
1988	2.0	5.32	7.32	2.0	6.35	8.35
1989	2.0	5.08	7.08	2.0	5.53	7.53
1990	2.0	5.08	7.08	2.0	5.53	7.53
1991	2.0	5.08	7.08	2.0	5.53	7.53
1992	2.0	5.08	7.08	2.0	5.53	7.53
1993	2.0	5.08	7.08	2.0	5.53	7.53
1994	2.0	5.08	7.08	2.0	5.53	7.53
1995	2.0	5.08	7.08	2.0	5.53	7.53
1996	2.0	5.08	7.08	2.0	5.53	7.53
1997	2.0	5.58	7.58	2.0	6.03	8.03
1998	2.0	5.58	7.58	2.0	6.03	8.03
1999	2.0	5.58	7.58	2.0	6.03	8.03
ERFC began using composite rates effective July 1, 1999						
2000	2.0	4.99	6.99			
2001	2.0	3.69	5.69			
2002	2.0	3.69	5.69			
2003	2.0	4.00	6.00			
2004						
7/1 to 5/30	2.0	4.29	6.29			
6/1 to 6/30	4.0	2.53	6.53			
2005	4.0	3.37	7.37			
2006	4.0	3.37	7.37			

ACTUARIAL

Summary of Plan Changes

The most recent actuarial valuation incorporates changes in conjunction with the new Funding Policy which was adopted by the Board of Trustees at their March 21, 2006 meeting.

The changes that were made are as follows:

Employer Contribution Rate

- The rate developed in this valuation will be contributed for two fiscal years, from July 1, 2007 until June 30, 2009.
- The December 31, 2005 unfunded liabilities are to be amortized over 27 years.

Actuarial Value of Assets

- A 15% corridor on the actuarial value of assets was added in that the actuarial value of assets must be within 15% of the market value of assets.

Statistical Section

Financial Trends Information

- Net Assets
- Changes in Net Assets
- Assets and Liabilities Comparative Statement
- Benefit Deductions by Type
- Benefit Refunds by Type

Operating Information

- Retired Members by Type of Benefit
- Average Benefit Payments by Years of Service
- Average Composite Monthly Benefit Payments
- Current Benefits by Attained Ages
- Deferred Benefits by Attained Ages

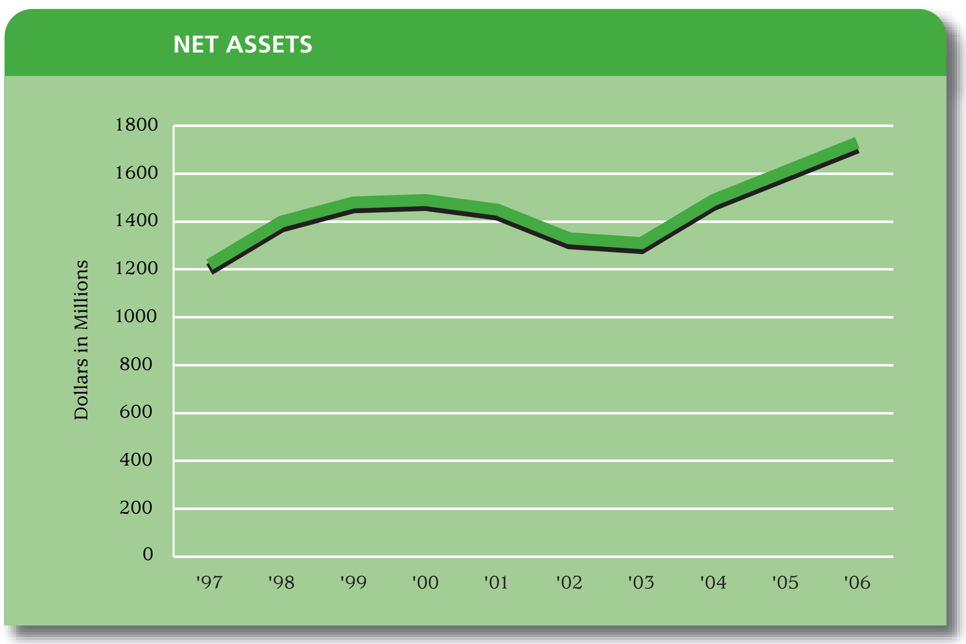
Note: *As addressed in the Letter of Transmittal, the Statistical Section reflects the implementation of GASB 44*

Clarence Jones
Coordinator, Safe & Drug-Free Youth, FCPS Administrative Offices

Net Assets

For the Last Ten Fiscal Years

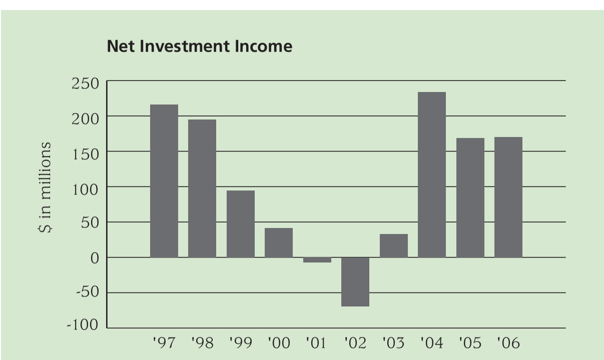
FISCAL YEARS	NET ASSETS
1997	$ 1,258,205,417
1998	1,441,702,975
1999	1,520,523,574
2000	1,534,986,934
2001	1,488,764,682
2002	1,369,372,874
2003	1,349,792,227
2004	1,528,120,115
2005	1,647,713,156
2006	1,766,534,921

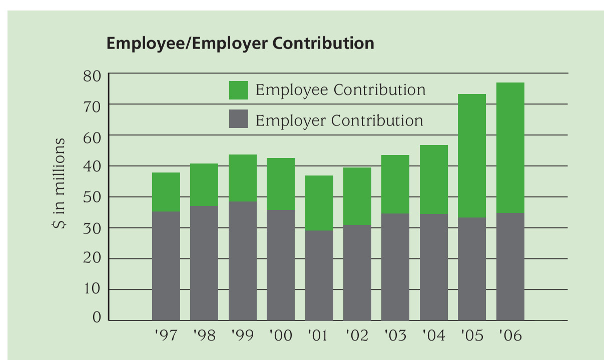


Changes in Net Assets Last Ten Fiscal years

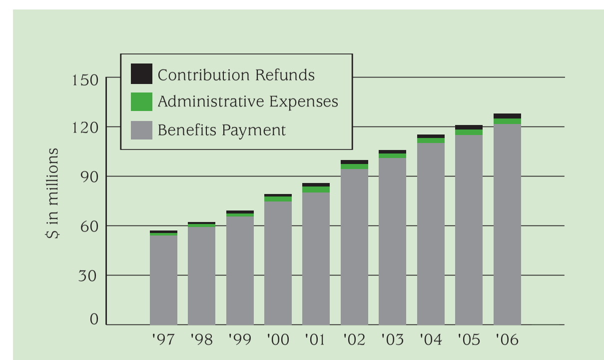
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
ADDITIONS										
Employee contributions	$ 12,660, 865	$ 13,650,547	$ 15,284,341	$ 16,936,454	$ 17,744,273	$ 18,472,712	$ 18,750,568	$ 22,340,870	$ 39,818,585	$ 42,292,828
Employer contributions	35,159,514	36,932,114	38,422,667	35,655,898	29,145,883	30,849,067	34,506,630	37,331,203	32,198,596	34,648,918
Investment income (net of expenses)	216,076,765	195,036,126	94,248,096	41,186,381	(7,290,226)	(69,121,464)	32,857,465	233,807,964	168,479,920	169,944,356
Total additions to plan net assets	**263,897,144**	**245,618,787**	**147,955,104**	**93,778,733**	**39,599,930**	**(19,799,685)**	**86,114,663**	**293,480,037**	**240,497,101**	**246,886,102**
DEDUCTIONS										
Benefit payments	54,224,421	59,275,639	65,716,547	74,803,741	79,969,985	94,247,498	100,979,864	110,236,424	114,999,379	121,687,318
Contribution refunds	1,414,367	1,326,499	1,599,786	1,777,493	2,092,580	2,153,958	1,848,428	1,996,947	2,794,118	3,087,501
Administrative expenses	1,356,322	1,519,091	1,818,172	2,734,139	3,759,617	3,190,667	2,867,018	2,918,778	3,110,563	3,289,518
Total deductions to plan net assets	**56,995,110**	**62,121,229**	**69,134,505**	**79,315,373**	**85,822,182**	**99,592,123**	**105,695,310**	**115,152,149**	**120,904,060**	**128,064,337**
Change in net assets net of expenses	**$ 206,902,034**	**$ 183,497,558**	**$ 78,820,599**	**$ 14,463,360**	**$ (46,222,252)**	**$(119,391,808)**	**$ (19,580,647)**	**$ 178,327,888**	**$ 119,593,041**	**$ 118,821,765**

Additions by Source





Deductions by Type



STATISTICAL

Assets and Liabilities Comparative Statement

($ in thousands)

Valuation Date	Active Member Payroll	COMPUTED LIABILITIES Retired	Members	Total	Valuation Assets	[Excess of Assets] Unfunded Accrued Liabilities	Funded Percent
2/28/1975	$ 110,571	$ 4,567	$ 55,613	$ 60,180	$ 7,831	$ 52,349	13.0 %
2/29/1980	169,924	38,288	138,708	176,996	74,173	102,823	41.9
6/30/1985	251,691	96,588	240,351	336,939	221,656	115,283	65.8
@ 6/30/1986	277,545	116,773	264,611	381,384	284,195	97,189	74.5
6/30/1987	305,051	136,073	293,170	429,243	325,127	104,116	75.7
$!# 6/30/1988	340,946	163,959	343,523	507,482	359,069	148,413	70.8
6/30/1989	369,575	203,394	357,569	560,963	405,317	155,646	72.3
6/30/1990	411,970	240,122	404,751	644,873	461,450	183,423	71.6
6/30/1991	451,873	285,618	432,109	717,727	510,825	206,902	71.2
6/30/1992	447,474	318,072	445,498	763,570	563,644	199,926	73.8
@# 6/30/1993	450,530	344,160	564,207	908,367	717,701	190,666	79.0
6/30/1994	480,995	374,849	597,230	972,079	766,480	205,599	78.8
$! 6/30/1995	521,044	395,249	677,287	1,072,536	839,930	232,606	78.3
6/30/1996	531,060	436,181	694,363	1,130,544	934,571	195,973	82.7
6/30/1997	553,709	464,345	751,022	1,215,367	1,045,412	169,955	86.0
#! 6/30/1998	582,755	490,261	788,111	1,278,372	1,194,556	83,816	93.4
! 6/30/1999	626,015	539,917	805,742	1,345,659	1,365,417	(19,758)	101.5
6/30/2000	678,937	614,739	752,632	1,367,371	1,505,231	(137,860)	110.1
$ 6/30/2001	759,906	667,605	884,953	1,552,558	1,599,219	(46,661)	103.0
! 6/30/2002	781,756	699,251	994,705	1,693,956	1,619,889	74,067	95.6
$ 6/30/2003	866,502	903,963	868,455	1,772,418	1,597,459	174,959	90.1
12/31/2004	977,817	1,043,677	853,565	1,897,242	1,640,216	257,026	86.5
# 12/31/2004	977,817	1,083,988	851,594	1,935,582	1,643,020	292,562	84.9
12/31/2005	1,050,271	1,130,378	892,584	2,022,962	1,718,399	304,563	84.9

@ After change in asset valuation method.
$ After change in benefits.
# After changes in actuarial assumptions.
! After change in employer contribution rate.

***Note:** The source of information presented above is from the most recent actuarial valuation report.*

Benefit Deductions from Net Assets by Type
Last Ten Years

	SERVICE BENEFITS				DEATH BENEFITS		DISABILITY BENEFITS					
	Normal		Early		Duty/Non-Duty		Duty		Non-Duty		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Participants	Benefits
Fiscal Years												
1996	*1,997*	$ 31,202,272	*1,957*	$ 17,302,588	*49*	$ 269,659	*25*	$ 265,185	*197*	$ 996,769	*4,225*	$ 50,036,473
1997	*2,135*	33,641,794	*2,068*	18,150,793	*49*	264,202	*24*	246,726	*202*	1,018,999	*4,478*	53,322,514
1998	*2,327*	37,302,526	*2,168*	19,148,725	*48*	296,758	*24*	245,902	*206*	1,024,833	*4,773*	58,018,744
1999	*2,532*	41,591,650	*2,299*	20,081,725	*49*	341,906	*24*	253,279	*209*	1,044,290	*5,113*	63,312,850
2000	*2,729*	46,386,613	*2,326*	22,480,107	*52*	351,142	*23*	260,556	*214*	1,069,656	*5,344*	70,548,074
2001	*2,924*	50,415,043	*2,561*	23,851,414	*54*	380,950	*23*	268,374	*204*	1,006,855	*5,766*	75,922,636
2002	*3,286*	59,760,307	*2,787*	25,449,657	*55*	366,736	*33*	312,046	*214*	1,096,861	*6,375*	86,985,607
2003	*3,537*	68,619,019	*2,857*	26,854,190	*116*	793,302	*24*	286,818	*195*	969,233	*6,729*	97,522,562
Calendar Years												
2004	*3,890*	77,911,030	*3,174*	29,941,238	*111*	812,149	*26*	298,169	*229*	1,066,414	*7,430*	110,029,000
2005	*3,989*	81,734,466	*3,364*	32,279,036	*110*	850,781	*27*	309,656	*220*	1,049,826	*7,710*	116,223,765

Benefit Refunds by Type

	SEPARATION		DEATHS		TOTAL	
Fiscal Year	No.	Amount	No.	Amount	No.	Amount
1997	*526*	$ 1,414,367	n/a	n/a	*526*	$ 1,414,367
1998	*501*	1,326,499	n/a	n/a	*501*	1,326,499
1999	556	1,599,786	n/a	n/a	*556*	1,599,786
2000	*589*	1,777,493	n/a	n/a	*589*	1,777,493
2001	*744*	2,092,580	n/a	n/a	*744*	2,092,580
2002	*851*	2,153,958	n/a	n/a	*851*	2,153,958
2003	*695*	1,717,293	*19*	$ 131,135	*714*	1,848,428
2004	*719*	1,840,349	*15*	156,598	*734*	1,996,947
2005	*871*	2,620,070	*26*	174,048	*897*	2,794,118
2006	*818*	2,865,448	*20*	222,052	*838*	3,087,500

n/a — Information not readily available

Retired Members by Type of Benefit

(As of December 31, 2005)

Amount of Monthly Benefit	Number of Retired Members	Type of Retirement* 1	2	3	4	5	Option Selected** Unmodified	1	2	3	4	5
$ 1–250	1,424	173	1,148	20	72	11	1,140	14	11	13	5	241
251–500	1,089	288	696	9	91	5	803	22	11	12	10	231
501–750	752	366	340	9	37	—	573	7	17	19	6	130
751–1,000	676	423	234	4	14	1	540	5	10	21	4	96
1,001–1,250	542	380	150	6	6	—	448	—	10	21	2	61
1,251–1,500	456	332	121	3	—	—	387	2	11	16	2	38
1,501–1,750	392	260	128	1	—	3	299	4	9	19	1	60
1,751–2,000	315	169	143	2	—	1	173	6	4	21	2	109
Over 2,000	2,064	1,637	419	2	—	6	953	51	30	83	22	925
Total	**7,710**	**4,028**	**3,379**	**56**	**220**	**27**	**5,316**	**111**	**113**	**225**	**54**	**1,891**

* **TYPE OF RETIREMENT:**

1 Full Service
2 Reduced Service
3 Ordinary Death
4 Ordinary Disability
5 Service Connected Disability

** **OPTION SELECTED:**

Unmodified plan: beneficiary receives member's unused contributions
1 Beneficiary receives 100% of member's reduced monthly benefit
2 Beneficiary receives 67% of member's reduced monthly benefit
3 Beneficiary receives 50% of member's reduced monthly benefit
4 Beneficiary receives a specified number of payments equal to 120 minus the number of payments the member has received.
5 Member receives lump sum and beneficiary receives member's unused contributions

Average Benefit Payments by Years of Service

	YEARS CREDITED SERVICE					
	5–10 years	10–15 years	15–20 years	20–25 years	25–30 years	30 + years
PERIOD 1/1/05–12/31/05						
Average Monthly Benefit	$ 234.91	$ 406.79	$ 617.89	$ 828.81	$ 2,388.75	$ 2,557.08
Average Final Salary	$ 4,466.69	$ 4,914.15	$ 4,924.77	$ 5,230.64	$ 6,541.46	$ 6,989.21
Number of Retired Members	62	59	103	48	128	60

Note: *Historical information will be added to this chart going forward.*

Average Composite Monthly Benefit Payments for Retirees and Beneficiaries

BY TYPE OF BENEFIT BEING PAID

	Year	Service Retirement	Reduced Service	Ordinary Disability
Fiscal Year	1995	$ 1,264	$ 724	$ 469
	1996	1,302	737	474
	1997	1,313	731	467
	1998	1,336	736	460
	1999	1,369	728	464
	2000	1,416	805	468
	2001	1,437	776	468
	2002	1,516	761	475
	2003	1,617	783	478
Calendar Year	2004	$ 1,663	$ 784	$ 446
	2005	1,707	800	459

STATISTICAL

Retirees and Beneficiaries Current Annual Benefits Tabulated by Attained Ages

(As of December 31, 2005)

	Total	
Attained Ages	No.	Annual Amount
under 40	4	$ 23,304
40 – 44	6	15,079
45	1	3,805
46	1	2,562
47	3	27,518
48	7	23,911
49	9	114,063
50	8	92,429
51	14	203,624
52	35	834,331
53	52	1,250,852
54	95	2,016,400
55	192	4,184,617
56	295	6,432,893
57	379	8,544,272
58	467	9,207,333
59	370	7,304,572
60	389	7,776,559
61	389	7,678,502
62	481	9,618,251
63	399	7,542,927
64	371	7,214,718
65	294	3,150,792
66	317	2,967,277
67	313	3,288,598
68	253	2,728,067
69	263	2,826,766
70–74	1,028	11,122,478
75–79	611	5,925,620
80–89	581	3,784,694
90 & up	83	335,998
Total	**7,710**	**$ 116,242,812**

Note: *The source of information presented above is from the most recent actuarial valuation report.*

Inactive Vested Members Deferred Benefits by Attained Ages

(As of December 31, 2005)

	Total	
Attained Ages	No.	Annual Amount
24	1	$ 1,091
26	4	4,762
27	8	10,032
28	21	29,792
29	24	36,316
30	43	69,285
31	59	91,142
32	75	128,691
33	70	126,936
34	94	172,059
35	96	174,872
36	101	200,516
37	102	200,342
38	93	193,414
39	90	173,433
40	72	140,186
41	79	161,471
42	68	147,053
43	56	127,969
44	56	156,168
45	54	133,644
46	47	102,991
47	37	80,951
48	50	140,758
49	57	166,323
50	71	221,977
51	63	173,586
52	77	214,972
53	83	278,137
54	76	255,424
55	34	83,770
56	34	100,554
57	25	97,377
58	30	102,372
59	26	60,345
60	28	73,099
61	11	39,079
62	5	37,091
63	6	21,893
64	1	3,234
65	1	1,654
Over 65	3	1,654
Total	**2,030**	**$ 4,734,761**

Note: *The source of information presented above is from the most recent actuarial valuation report.*

STATISTICAL

ERFC 2006

Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2006

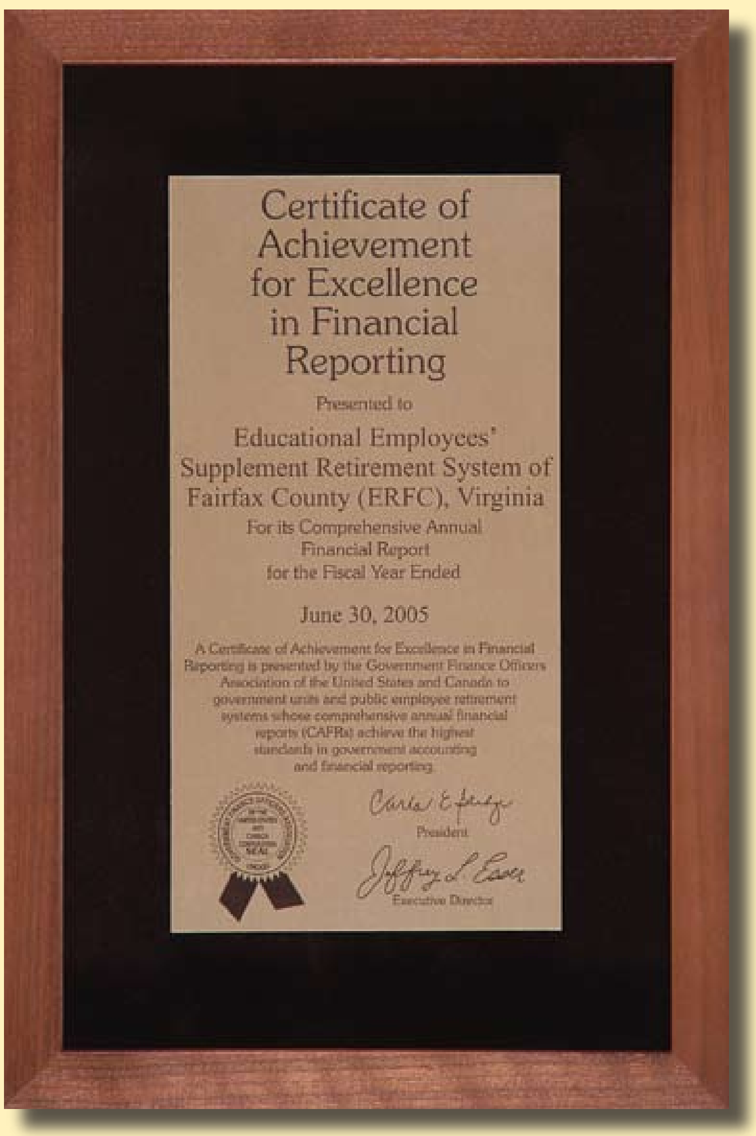
Educational
Employees'
Supplementary
Retirement System
of Fairfax County

A Component
Unit of
Fairfax County
Public Schools,
Fairfax, Virginia

Achievements

Certificate of Achievement for Excellence in Financial Reporting

This plaque was awarded to the ERFC for excellence in financial reporting for their presentation of the fiscal year *2005 Comprehensive Annual Financial Report.* This is the highest form of recognition in the area of public employee retirement system accounting and financial reporting. It is a prestigious national award recognizing excellence and represents a significant achievement by the school system. The award reflects the commitment of the ERFC Board of Trustees, School Board, and ERFC staff to achieve and maintain the highest standards of financial reporting.



1. **Toss Cline**
   Technology Education Teacher,
   James Madison High School

   Toss Cline was named 2005-2006 High School Teacher of the Year by the Virginia Technology Education Association (VTEA). He will represent the state of Virginia at the International Technology Education Association (ITEA) conference in San Antonio, Texas in March 2007. Toss Cline joined Fairfax County Public Schools in 1998.

2. **Clarence Jones**
   Coordinator, Safe & Drug-Free Youth --
   FCPS Administrative Offices

   The Community Anti-Drug Coalition of America (CADCA) named Clarence Jones their *Advocate of the Year* for 2006. The award recognized Jones for his outreach work with state congressional leaders and school coordinators, as well as for his testimony before Congress, advocating for continued funding of national safe and drug-free schools' programs. Jones' efforts were also recognized by the Arlington-Fairfax Elks Lodge No. 2188, who presented him their 2006 Distinguished Citizenship Award.

3. **Linda White**
   Music Teacher, Haycock Elementary

   Linda White was one of only five teachers from across the country, to be inducted into the National Teachers' Hall of Fame for 2006. A profile of her teaching career is now on permanent display at the National Teachers' Hall of Fame gallery in Emporia, Kansas. Linda White has been inspiring Fairfax County Public Schools' music students since 1989.

4. **Frank Bensinger**
   Principal, Forest Edge Elementary

   The Martin Luther King, Jr., Cultural Foundation presented Frank Bensinger an *Outstanding Educator Award* for 2006, in recognition of his "significant contributions in helping Fairfax County students attain their educational goals." Bensinger, who joined Fairfax County Public Schools in 1984, is principal of Reston's Forest Edge Elementary, an FCPS "Communications and Technology Focused" school.

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5. **Lynn Riggs**
   Science Resource Teacher,
   Bailey's Elementary School
   for the Arts & Sciences

   In 2006, Fairfax County Public Schools recognized Lynn Riggs as FCPS' *Teacher of the Year.* The Washington Post also honored Riggs in 2006, presenting her with the *Agnes Meyer Outstanding Teacher Award* for educational excellence. Riggs is now in her 13th year of teaching in Fairfax County Public Schools.

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6. **Magda Cabrero**
   Spanish Teacher and Chair of the Foreign Language Department, Falls Church High School

   The Hispanic Youth Foundation and George Mason University's (GMU) College of Education named Magda Cabrero the *Victoria D. de Sanchez Northern Virginia Hispanic Teacher of the Year* for 2006. Cabrero, who has taught at Falls Church High School for 13 years, is praised by FCHS principal Janice Lloyd, for her efforts to "instill a love of education and sensitivity for multiculturalism" in each student.

Educational Employees' Supplementary Retirement System of Fairfax County

8001 Forbes Place, Suite 300, Springfield, VA 22151

ERFC

2006 Comprehensive Annual Financial Report

For the Fiscal Year
Ended June 30, 2006

Educational
Employees'
Supplementary
Retirement
System of
Fairfax County

A Component Unit
of the Fairfax County
Public Schools,
Fairfax, Virginia

PREPARED BY
ERFC Staff
8001 Forbes Place, Suite 300
Springfield, VA 22151

DESIGNED BY
Fairfax County Public Schools Information Technology
Communications Design

Mission Statement and Principles

The mission of the Educational Employees' Supplementary Retirement System of Fairfax County (ERFC) is to enhance the financial well-being and security of its members and beneficiaries, while maintaining the stability and longevity of the fund through prudent financial stewardship of a defined benefit retirement plan. It is also to provide members with responsive, professional and personalized services, consistent with practices that ensure the promises made are soundly financed by assets administered in the interests of the plan participants.

PHILOSOPHY

Courteous Service
To give members prompt and courteous service and to provide complete and accurate information.

Exclusive Benefit
To act as fiduciaries entrusted with the management of plan assets and payment of retirement benefits for the exclusive benefit of members.

Ethical Conduct
To adhere to the highest standards of conduct set out in the terms of the trust, state statute, or other law.

PRUDENT MANAGEMENT

Adequate Funding
To maintain adequate funding of all promised benefits and to ensure the financial integrity of the System.

Prudent Investments
To adopt comprehensive objectives, methods for evaluation of performance, and policies that ensure the highest possible investment return consistent with the prudent investment of plan assets.

Independence of Retirement System
To maintain a retirement system that functions as an independent retirement trust, separate from state and local government; such independence includes the power of trustees to set actuarial assumptions, to appoint professionals such as actuaries and attorneys on whom they must rely to carry out their responsibilities, and to establish a budget for the System that ensures the delivery of high quality, cost-effective services to members.

Actuarial Studies
To have an annual actuarial valuation performed by an enrolled actuary in accordance with actuarial standards and an actuarial experience study at least every five years.

Annual Reports
To keep, as part of the public record, annual financial, actuarial, and investment information that will be available for members and elected officers.

Financial Audits
To prepare an annual financial statement in accordance with generally accepted accounting principles and to have an annual audit of the System's financial statement in accordance with generally accepted auditing standards.

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Achievement

PUBLIC PENSION STANDARDS *2006 AWARD*

This award has been presented to ERFC in recognition of instituting professional standards for public employee retirement systems as established by the Public Pension Coordinating Council. This award represents an exceptionally high level of administration and reporting in the public pension industry.