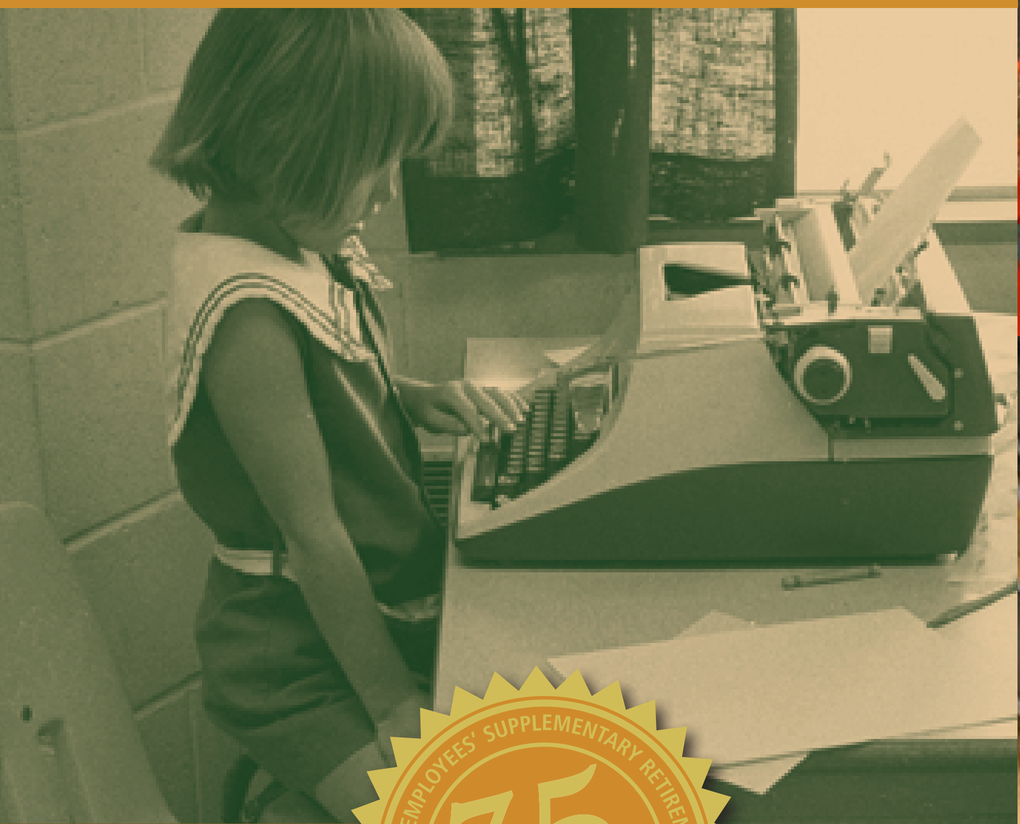
ERFC 2008



THE EDUCATIONAL EMPLOYEES' SUPPLEMENTARY RETIREMENT SYSTEM
35 YEARS
1973-2008

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2008

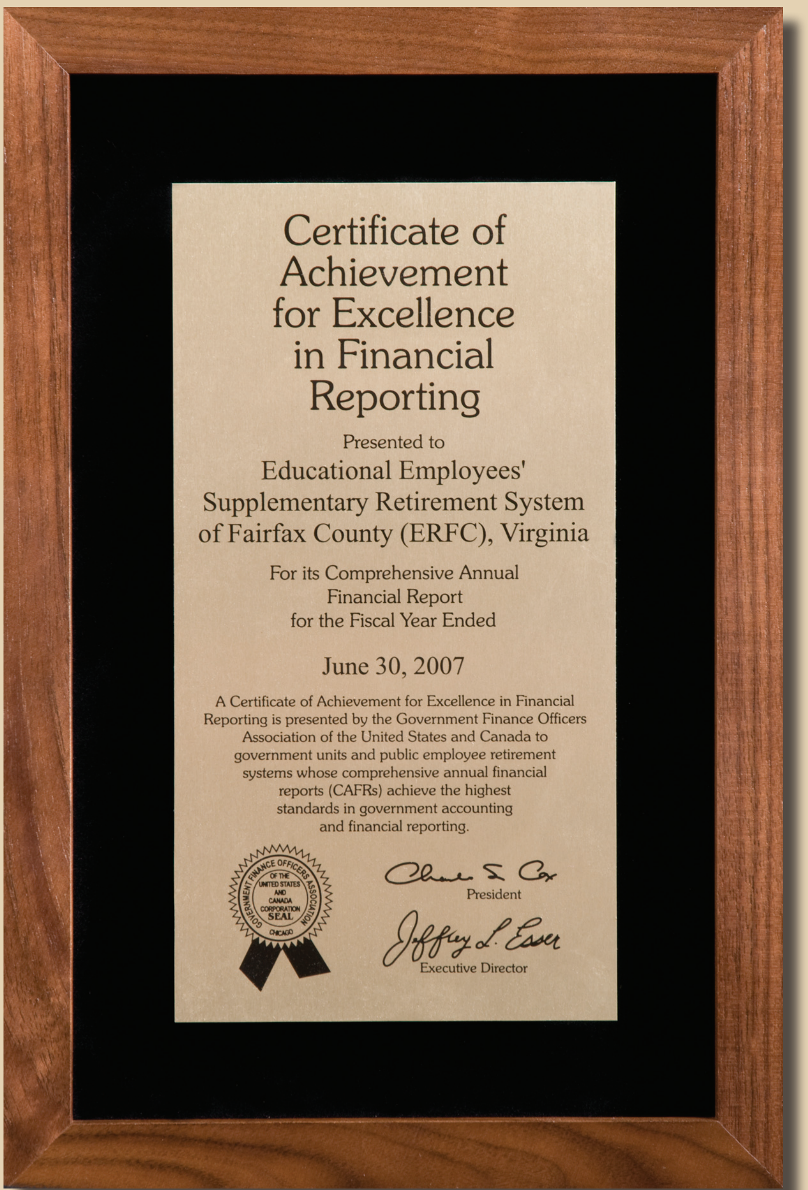
The Educational Employees' Supplementary Retirement System of Fairfax County

A Component Unit of Fairfax County Public Schools · Fairfax County, VA

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 *2007 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.



Educational Employees' Supplementary Retirement System of Fairfax County

2008 ERFC
Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2008

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

ERFC

THE EDUCATIONAL EMPLOYEES' SUPPLEMENTARY RETIREMENT SYSTEM *of Fairfax County*

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.

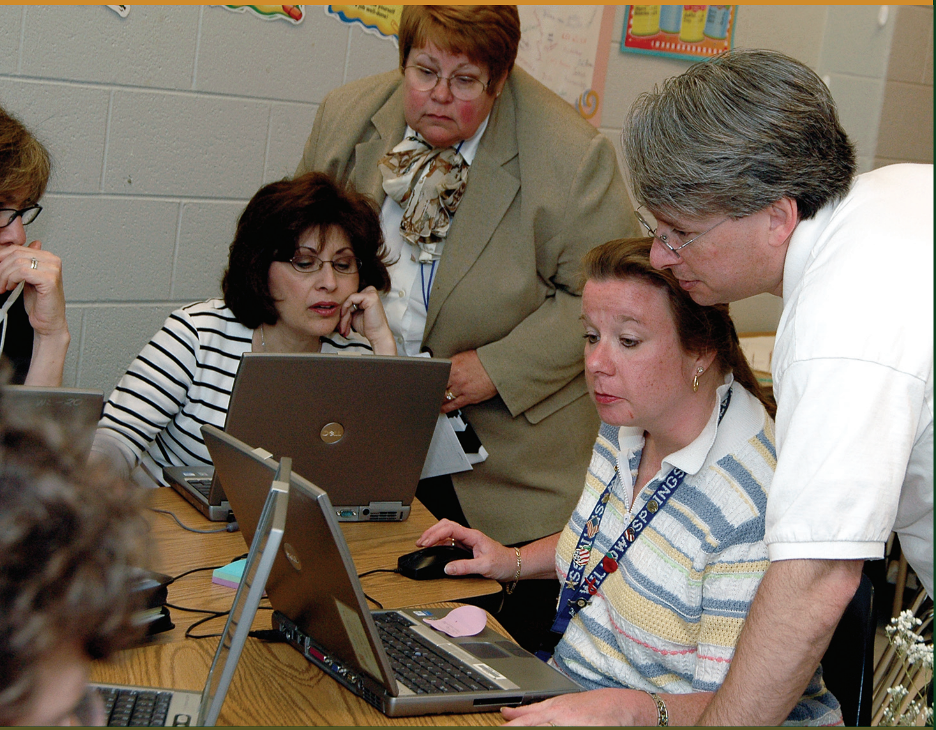
Table of Contents

Achievements

PUBLIC PENSION STANDARDS *2008 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.

Introduction



Letter of Transmittal

THE EDUCATIONAL EMPLOYEES' SUPPLEMENTARY RETIREMENT SYSTEM of Fairfax County
8001 Forbes Place, Suite 300
Springfield, VA 22151

December 26, 2008

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, 2008. ERFC management holds responsibility for the financial information presented in this report. Proper internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements. This CAFR reflects the careful stewardship of the System's assets, and dedicated service provided by the Board and staff. For financial reporting purposes, ERFC is considered a component unit of the Fairfax County Public Schools, Fairfax County, Virginia. As such, 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, we believe this report conforms to Government Finance Officers Association (GFOA) requirements.

The following provides a summary of the System's historical background, and summarizes significant Board and management achievements for the fiscal year. In addition, the management discussion and analysis (MD&A) narrative can be found in the Finance Section, immediately following the report of the independent auditor.

Plan History

The ERFC was established on July 1, 1973, through negotiations conducted 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 the benefits of two other retirement plans: the Virginia Retirement System (VRS) and the federal Social Security System. In 1987, the VRS introduced major increases in the state's early retirement benefits, which prompted ERFC to conduct a thorough re-examination of its complementary supplemental benefits plan. Effective July 1, 1988, the *ERFC* Legacy benefit structure was changed significantly to re-balance the ERFC benefit amounts payable to future members, while protecting and maintaining the rights of current members. The School Board approved further refinements to the retirement program in 2001, introducing a second benefit structure, *ERFC 2001,* for new and future ERFC Plan members.

Letter of Transmittal

Eligible FCPS employees hired on or after July 1, 2001, are now enrolled in *ERFC 2001,* a more streamlined, stand-alone retirement benefit plan. Together, the *ERFC* Legacy and *ERFC 2001* plan structures provide a valuable defined benefit retirement program for thousands of full-time educational and support service employees of Fairfax County Public Schools.

Strategic Plan

ERFC's strategic plan dictates staff and Board priorities for the next several years. The plan is divided into six sections including: I. Achieving and Maintaining Best Practices for ERFC; II. Member Communication/Education; III. Accountability, Disclosure, and Advocacy; IV. ERFC Governance and Fiduciary Responsibilities; V. Funding Policy/Investment Management; VI. ERFC Administration and Management; and, VII. Long-Term Automation. Details of the *2007 Strategic Plan* are available on the web site: www.fcps.edu/ERFC.

Technology Initiatives

ERFC continued its efforts to replace and consolidate a series of outdated computer resource applications with a fully-integrated Retirement Benefit Administration and Payroll computer system. Development of the new system is more than 50% complete, with a new benefit calculation engine in place, and replacement of the current retiree payroll system well underway. We expect full system implementation by the end of 2009, with member self-service via the internet available in the Spring 2010. Additionally, ERFC moved to a "paperless office" in fiscal year 2007, with all member files now stored electronically.

Plan Financial Condition

As reported by ERFC's independent actuary, for the valuation period ending December 31, 2007, ERFC's funded ratio of 88.0 percent increased slightly above the 86.4 percent ratio from the previous valuation. It also measures just slightly higher than the 86.0 percent average reported for 121 public pension plans nationally.

The Schedule of Funding Progress contained in the Financial Section of this report presents historical information for the ERFC's funded ratio. Information regarding the overall financial condition of the pension trust fund can also be found in the Financial, Actuarial, and Statistical Sections of this report.

The significant decline in global capital markets during calendar year 2008 is not reflected in the information provided above. In accordance with customary practice, ERFC's independent actuary will conduct a full actuarial valuation shortly after January 1, 2009. At that time, and for the four years following, calendar year 2008 losses below ERFC's actuarial assumed investment return rate of 7.5 percent will be phased into the actuarial value of assets. The full impact of these losses will not be recognized for several years into the future. Over time, we expect that these losses will lower the Plan's funded ratio significantly, and prompt the need for additional contributions. Any future earnings in excess of ERFC's actuarial assumed investment return will mitigate the impact of the calendar year 2008 losses.

Letter of Transmittal

Investment Activity

Following five consecutive years of solid returns, ERFC's portfolio suffered a loss of 4.4 percent for fiscal year 2008. This was driven primarily by very negative returns in the equity markets. ERFC's domestic equity benchmark, the Russell 3000 Index, fell 12.7 percent, while ERFC's international equity benchmark, the MSCI All Country World Index, excluding U.S. Equities, posted a loss of 6.6 percent. Overall, ERFC exceeded its diversified benchmark return of -5.0 percent but lagged slightly behind the large public funds' universe return of -4.1 percent.

An analysis of the portfolio's components indicated that ERFC's domestic equities fell 12.6 percent, nearly equal to the benchmark return of -12.7 percent. International equities fell 11.0 percent, which under-performed the international benchmark return of -6.6 percent. Real estate generated a 1.4 percent return, which compared favorably to the benchmark return of -2.3 percent, and fixed income returned 7.7 percent, out-performing its benchmark return of 7.1 percent.

Disappointment in ERFC's 2008 fiscal year returns is tempered by a review of the portfolio's performance over the past 1-year, 3-year, 5-year, and 10-year periods, which still compare favorably to other pension funds with assets in excess of $1 billion. Although ERFC did not meet its long-term interest assumption of 7.5 percent over the 10-year period, it exceeded the rate over the 3-year and 5-year periods.

In accordance with revisions to the portfolio's strategic asset allocation targets that were adopted at the beginning of Fiscal Year 2008, the Board completed the transition of a 15 percent target allocation to three Global Asset Allocation (GAA) managers during the second quarter of Fiscal Year 2008. The newly-hired managers included the PIMCO All Asset Fund, Bridgewater's All Weather Fund, and Mellon's Global Alpha I Fund. In the fourth quarter of Fiscal Year 2008, ERFC also funded one-sixth of its 7.5 percent target to Absolute Return strategies, by hiring Grosvenor Capital Management's Institutional Partners' hedge fund-of-funds.

ERFC's initial allocations to Absolute Return strategies and GAA proved beneficial in fiscal year 2008, according to an analysis conducted by ERFC's investment advisor, New England Pension Consultants. The analysis showed that if ERFC had not proceeded with these transitions—reallocating 15 percent ($300 million) to GAA, and 1.25 percent ($25 million) to hedge fund-of-funds—the total portfolio would have lost an additional 1.0 percent ($20 million) in Fiscal Year 2008.

The Investment Section of this report provides further details regarding the Fund's performance.

Professional Services

The Board of Trustees appoints professional services to provide aid in the efficient management of the System. New England Pension Consultants (NEPC), based in Cambridge, Massachusetts, provides investment consulting services, and Gabriel, Roeder, Smith & Company, of Southfield, Michigan, provides actuarial services. In accordance with county code, the Fairfax County Board of Supervisors appointed

Letter of Transmittal

KPMG LLP, Certified Public Accountants, Washington, D.C., to audit the System's financial statements.

Awards

The System proudly announces that the Government Finance Officers Association of the United States and Canada (GFOA) recently awarded ERFC the **Certificate of Achievement for Excellence in Financial Reporting for the FY 2007** Comprehensive Annual Financial Report (CAFR). This is the 11th consecutive year ERFC has earned the award. The GFOA certification remains valid for a period of one year, and requires, at minimum, that each CAFR satisfy both generally accepted accounting principles and legal requirements.

The Public Pension Coordinating Council also honored the ERFC recently, granting the System the **Public Pension Standards' 2008 Award.** The ERFC earned the award in recognition for meeting or exceeding 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 advance the management decision process, serve as a means for determining compliance with legal requirements, and allow for an assessment of the stewardship of the System's funds.

We extend our sincere appreciation to all those who contributed to the production of this document.

ERFC distributes this annual report to the members of the Fairfax County School Board, the Fairfax County Public Schools' Leadership Team and Government Finance Offices, Fairfax County Public Libraries, and other interested parties. We hope that all recipients find the report informative and useful.

Respectfully submitted,

Alan Belstock, PhD
Executive
Director

Bob Lausier
Finance
Coordinator

Letter from the Chairperson

ERFC
THE EDUCATIONAL EMPLOYEES' SUPPLEMENTARY RETIREMENT SYSTEM of Fairfax County
8001 Forbes Place, Suite 300
Springfield, VA 22151

December 26, 2008

Dear ERFC Members,

On behalf of the Board of Trustees of the Educational Employees' Supplementary Retirement System of Fairfax County (ERFC), it is a privilege to present the Comprehensive Annual Financial Report for fiscal year ending June 30, 2008. The ERFC Board and staff commit themselves to maintaining the financial integrity of the fund and adhering to best practices in all areas of customer service. The ERFC participants and stakeholders can be assured that the Board of Trustees works diligently and collectively on their behalf to build, preserve and protect the System's assets, while monitoring financial trends, and striving to generate investment income to provide the supplemental retirement benefits promised by Fairfax County Public Schools.

The board's composition changed at the close of this fiscal year. ERFC Board Treasurer and FCPS Chief Financial Officer, Deirdra McLaughlin, retired from the school system effective July 1, 2008. Ms. McLaughlin served FCPS in key leadership roles for over 23 years, earning a wide range of professional honors during her tenure. The School Board appointed Ms. McLaughlin to successive terms on the ERFC Board from 1995-2000, and from 2003-2008, during which she served as Treasurer and Trustee, and also chaired ERFC's Investment Committee. The ERFC Board and staff extend our most sincere appreciation to Ms. McLaughlin for her intelligent guidance and dedicated service to both ERFC and the entire school system. We wish her well in retirement.

During the annual Board Retreat meetings in July, the trustees elected Nitin Chittal to serve as Treasurer for Fiscal Year 2009. Jeannine Maynard and I were also re-elected to serve as Vice Chairperson and Chairperson respectively. The trustees serving on the ERFC Board for Fiscal Year 2009 include Tom Bowen, Leonard Bumbaca, Dr. Richard Moniuszko, and the newly appointed FCPS Chief Financial Officer, Susan Quinn.

The portfolio activities outlined in this annual report, address details specific to the 2008 fiscal year period, which ended June 30th. Nevertheless, upon the press deadline for this report, we must also acknowledge the unprecedented downturn in the world financial markets, and the deepening financial crisis occurring in our country, which has only worsened over these subsequent months. With the collapse of the housing market, credit-tightening, bank failures, and deterioration of the stock market—ERFC, like all other public pension plans, has faced significant losses while operating under the most difficult financial period in our 35 year history. The ERFC Board and staff fully recognize the severity of these issues, and emphasize to the membership, that we remain dedicated to protecting the Plan's assets with careful focus for the long term horizon. Historically, periods of market downturns have been followed by a significant recovery with renewed market opportunity. As such, we will stay the course and think strategically, working in close alliance with the Plan's investment consultant and actuary, committing our best prudent judgment to our fiduciary responsibilities.

Letter from the Chairperson

ERFC's defined benefit plan provides a valuable supplement to the employee members of Fairfax County Public Schools. In tough economic times, such as these we currently face, this benefit becomes increasingly important, both to our retirees and to active members planning for their future. The ERFC Plan was designed specifically to reward educational professionals with a pension to supplement the primary benefits they earn and receive separately from the Virginia Retirement System (VRS) and Social Security. Accordingly, FCPS partners with Plan members by contributing pre-tax dollars to the retirement system, but it is ERFC's investment income that provides the integral component necessary to fulfill the guarantee of defined member benefits. Just one year ago, ERFC marked four consecutive years of outstanding returns for the portfolio, yet we also tempered our celebration, noting new signs of market volatility. While no one can fully anticipate every turn in the marketplace, ERFC will hold steady with prudent long term strategies appropriately designed to spread pension costs over the employees' career and maintain fiscal balance during strong and weak investment periods.

The trustees express our thanks to Executive Director, Dr. Alan Belstock and the ERFC staff for their accomplishments and tireless efforts with key projects this past year. We especially wish to acknowledge Deputy Executive Director, Jeanne Carr and staff for their ongoing work with the transition to a new, fully-integrated Retirement Benefit Administration and Payroll computer system for ERFC. Ms. Carr and her team have made excellent progress with the new PensionGold operating system, which will streamline workflow and improve efficiency in numerous areas. The new system will be implemented incrementally over the next 12 months, with the full launch targeted for January 2010.

The ERFC Board and staff extend sincere appreciation to the members for your continued interest and support. We value your opinions and welcome your feedback regarding any aspect of your retirement system. We encourage you to visit our website at: www.fcps.edu/ERFC — or contact a member of the Board or staff with any questions or concerns regarding the pension fund or your payable retirement benefits.

Yours sincerely,

Michael Hairston
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.

Michael A. Hairston
Chairperson/Trustee
Elected Member

Jeannine Maynard
Vice Chairperson/
Trustee
Elected Member

Nitin M. Chittal
Treasurer/
individual Trustee
Appointed Member

Leonard Bumbaca
Trustee
Elected Member

Richard Moniuszko
Trustee
Appointed Member

Tom Bowen
Trustee
Appointed Member

Susan Quinn
Trustee
Appointed Member

ERFC Administrative Organization

BOARD OF TRUSTEES ········ **SCHOOL BOARD**

Alan Belstock
Executive Director

Janet Kohler Dueweke
Communications Specialist

Carly Murphy
Administrative Assistant

Mussie Hagos
Program Assistant

Jeanne Carr
Deputy Executive Director

Evelyn Morgan
Business Operations Assistant

INFORMATION SYSTEMS

Lana Caulfield
Technology Coordinator

Robert Baden
Software Developer

Francisco Taverez
Functional Applications Specialist

RETIREMENT ADMINISTRATION

Joyce Cosby
Retirement Coordinator

Vicki Gowin
Retirement Specialist

Jeff Franklin
Marilyn Lavery
Jason Mohler
Lisa Ray
Retirement Assistants

Pat Church
Joanna Coles
Sethe Eckstein
Helen Fussell
Tammy Martin
Retirement Counselors

FINANCE ADMINISTRATION

Bob Lausier
Finance Coordinator

Joy Russom
Investment Accounting Analyst

Kevin McCarty
Michael Lunter
Helen Shiflett
Financial Analysts

Lisa Grigsby
Accounting Technician

Thelma Francis
Lauren Pike
Business Operations Assistants

Professional Services

Investment Managers

DOMESTIC EQUITY

AllianceBernstein
New York, New York

Aronson+Johnson+Ortiz, LP
Philadelphia, Pennsylvania

Dodge & Cox
San Francisco, California

Lazard Asset Management
New York, New York

Mellon Capital Management Corporation
San Francisco, California

Westfield Capital Management
Boston, Massachusetts

FIXED INCOME

Loomis-Sayles & Company
Boston, Massachusetts

Mellon Capital Management Corporation
San Francisco, California

Pacific Investment Management Company
Newport Beach, California

GLOBAL ASSET ALLOCATION

Bridgewater Associates, Inc. [1]
Westport, Connecticut

Mellon Capital Management Corporation [1]
San Francisco, California

Pacific Investment Managment Company [1]
Newport Beach, California

HEDGE FUND

Grosvenor Institutional Partners, L.P. [1]
Chicago, Illinois

INTERNATIONAL EQUITY

Acadian Asset Management
Boston, Massachusetts

AllianceBernstein
New York, New York

William Blair and Company, LLC
Chicago, Illinois

REAL ESTATE

JP Morgan Asset Management
New York, New York

Prudential Investment Management
Parsippany, New Jersey

Urdang Investment Management
Plymouth Meeting, Pennsylvania

UBS Global Asset Management
Hartford, Connecticut

Other Service Providers

ACTUARY

Gabriel, Roeder, Smith & Company
Southfield, Michigan

AUDITOR

KPMG LLP
Certified Public Accountants
Washington, D.C.

INVESTMENT CONSULTANT

New England Pension Consultants
Cambridge, Massachusetts

LEGAL COUNSEL

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

Groom Law Group, Chartered
Washington, D.C.

MASTER CUSTODIAN

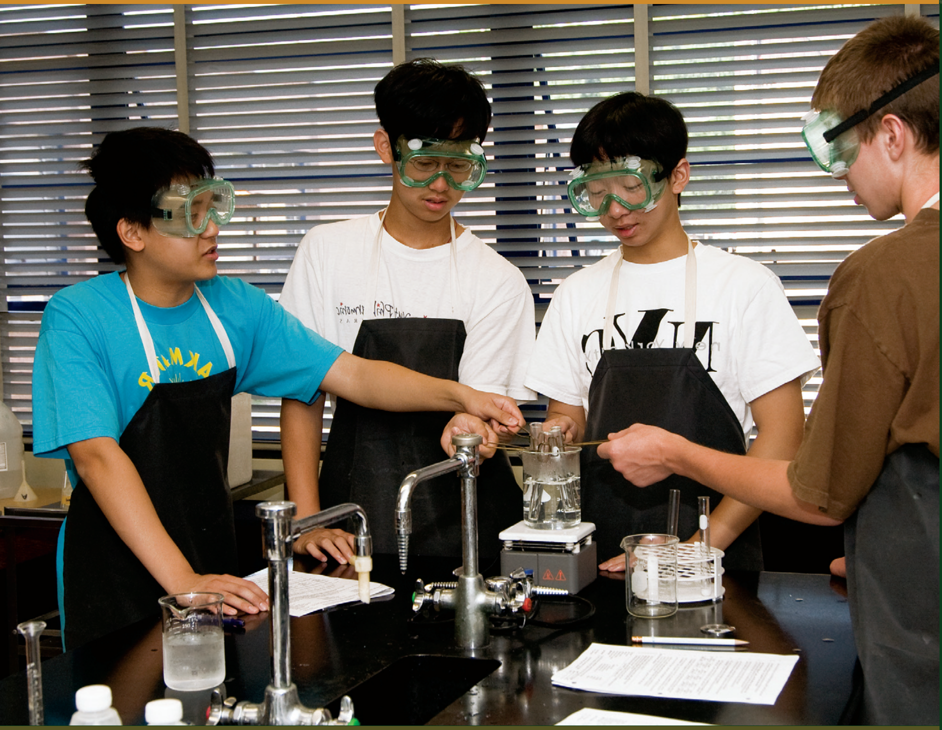
BNY Mellon
Pittsburgh, Pennsylvania

TECHNOLOGY CONSULTANT

Leon Wechsler, LTD
Fairfax, Virginia

[1] Hired in fiscal year 2008

Financial Section



- Independent Auditors' 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

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, 2008, 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 of the System as of June 30, 2008, and the changes in plan net assets for the year then ended in conformity with U.S. generally accepted accounting principles.

The Management Discussion and Analysis, Schedule of Funding Progress, and Schedule of Employer Contributions 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

Our audit was conducted for the purpose of forming an opinion on the System's basic financial statements. The supplementary information on pages 33 through 35 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the 2008 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2008 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 26, 2008

FINANCIAL

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, 2008. 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 2008, the return on ERFC's assets was (4.4) percent[1]. This resulted in a total asset value of $1.86 billion which reflects a decrease of $157.1 million over fiscal year 2007's year end total (as reflected in the accompanying chart). Additional detail on this net decrease in fund value is outlined in the Summary of Additions and Deductions table contained within this Financial Section. As shown, it is comprised of four major components. They include a ($96.9) million investment loss and $84.4 million in employee and employer contributions. The additions are offset by $135.9 million in retiree benefit payments and $8.8 million in member refunds and administrative expenses.

Fiscal year ending June 30, 2008 produced a return of (4.4) percent. However, ERFC's return exceeded the policy benchmark return of (5.0) percent[2] and was slightly less than the return of (4.1) percent[3] for plans similar to ERFC. Three, five, and ten year returns are 7.6 percent, 10.5 percent, and 6.2 percent, respectively. All three ERFC returns were higher than the policy benchmark return and the return for similar plans, for the same period.

The System's investments are exposed to various risks such as interest rate, market, and credit risks. Such risks, and the resulting investment security values, may be influenced by changes in economic conditions and market perceptions and expectations. Accordingly, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements. Additional detail regarding investment results can be found in the Investment Section of this report.

At December 31, 2007, the actuarial value of assets totaled $1.925 billion while liabilities totaled $2.187 billion. This resulted in a funding ratio of 88.0 percent which was 1.6 percent greater than the funding ratio at December 31, 2006. 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.

ERFC Fund Balances ($ in millions)

Fiscal Year	Ending Balance	Net Change Dollars	Net Change Percent
2004	$ 1,528.1	$ —	— %
2005	1,647.7	119.6	7.8
2006	1,766.5	118.8	7.2
2007	2,015.7	249.2	14.1
2008	1,858.6	(157.1)	(7.8)

1 As calculated by New England Pension Consultants

2 Policy Index benchmark is 28.5% Russell 1000, 7.5% Russell 2000, 16% MSCI/ACWI Ex-US, 3.75% NAREIT, 3.75% NCREIF, 18% Lehman Bros (LB) Aggregate, 3.75% LB Credit, 3.75% LB Long Credit, 7.5% MS World Net, 7.5% Citi World Gov't Bond

3 New England Pension Consultants Universe (Public Funds in excess of $1 billion)

Management Discussion and Analysis

In addition, detailed information regarding actuarial assumptions and methods can be found in the Actuarial Section of this report.

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 Plan Net 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 positive revenues from contributions only. Investments generated a loss. Also detracting from revenue were expenses, or deductions, which 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 immediately follow 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, 2008	June 30, 2007	Difference
Assets			
Total cash and investments	$ 1,981,259,899	$ 2,271,988,510	$ (290,728,611)
Total receivables	11,246,587	12,740,225	(1,493,638)
Other assets	118,078	105,194	12,884
Total assets	1,992,624,564	2,284,833,929	(292,209,365)
Liabilities			
Accounts payable	2,336,956	1,585,881	751,075
Securities purchased	8,058,678	8,960,018	(901,340)
Securities lending collateral	123,656,957	258,549,938	(134,892,981)
Total liabilities	134,052,591	269,095,837	(135,043,246)
Total Net assets held in trust for pension benefits	**$ 1,858,571,973**	**$ 2,015,738,092**	**$ (157,166,119)**

Management Discussion and Analysis

Financial Statements

As indicated in the Summary of Plan Net Assets, the System's net asset value decreased $157.1 million or 7.8 percent in fiscal year 2008. This total decrease in net assets is due primarily to a decrease of $290.7 million in the value of investments, and a $1.5 million decrease in the value of receivables along with a reduction of $134.9 million in securities lending collateral liabilities.

As presented in the Summary of Additions and Deductions (below), additional information is provided regarding the differences between the fiscal year 2007 and 2008 results. These differing results are due mainly to a significant decline in investment income of $401.0 million and an increase in member and employer contributions of $3.4 million. Also, contributing to the decline over last year are deduction increases in the following three categories: benefit payments of $7.2 million, member refunds of $0.6 million, and administrative expenses of $0.9 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, 2008	June 30, 2007	Difference
Additions			
Contributions			
Employer	$ 38,334,140	$ 36,644,001	$ 1,690,139
Member	46,143,803	44,453,617	1,690,186
Donated equipment	—	27,632	(27,632)
Net Investment Income/(Loss)	(96,855,060)	304,119,327	(400,974,387)
Total	(12,377,117)	385,244,577	(397,621,694)
Deductions			
Benefits	135,927,308	128,739,638	7,187,670
Refunds	4,229,850	3,583,007	646,843
Admin. Expenses	4,631,844	3,718,761	913,083
Total	144,789,002	136,041,406	8,747,596
Net Change	**$ (157,166,119)**	**$ 249,203,171**	**$ (406,369,290)**

Statement of Plan Net Assets

(As of June 30, 2008)

ASSETS		
Cash and short-term investments		
Cash	$	1,360,320
Cash with fiscal agent		1,474,245
Cash collateral for securities on loan		123,656,957
Short-term investments		30,408,524
Total cash and short-term investments		**156,900,046**
Receivables		
Member contributions		89,838
Interest and dividends		4,330,753
Securities sold		6,820,590
Miscellaneous accounts receivable		5,406
Total receivables		**11,246,587**
Investments, at fair value		
U.S. Government obligations		7,151,891
Mortgage-backed securities		7,303,871
Domestic bonds		84,536,207
Convertible bonds		3,029,663
International bonds		36,652,616
Common stock		692,113,438
Real estate		82,887,762
Preferred stock		6,824,099
Global asset allocation		188,062,092
Better beta		101,588,242
Hedge fund of funds		25,268,155
Mutual funds		588,941,817
Total investments		**1,824,359,853**
Prepaid assets		
Prepaid expenses		24,792
Other assets		
Furniture and equipment		124,900
Accumulated depreciation		(31,614)
Total other assets		93,286
Total assets		**1,992,624,564**
LIABILITIES		
Accounts payable		2,336,956
Securities purchased		8,058,678
Securities lending collateral		123,656,957
Total liabilities		**134,052,591**
Net assets held in trust for pension benefits	**$**	**1,858,571,973**

(a Schedule of Funding Progress for the plan is on page 28)

See accompanying Notes to the Financial Statements

FINANCIAL

Statement of Changes in Plan Net Assets

(for the Fiscal Year Ended June 30, 2008)

ADDITIONS	
Contributions	
Employer	$ 38,334,140
Plan members	46,143,803
Total contributions	**84,477,943**
Investment income	
Net appreciation in fair value of investments	(144,664,861)
Interest and dividends	49,189,331
Real estate income	5,620,286
Other	55,180
Total investment income	**(89,800,064)**
Less investment expenses	
Investment management fees	7,369,966
Investment consulting fees	224,043
Investment custodial fees	284,491
Investment salaries	180,419
Total investment expenses	**8,058,919**
Income from securities lending activities	
Securities lending	6,960,844
Securities lending borrower rebates	(5,625,055)
Securities lending management fees	(331,866)
Net securities lending income	**1,003,923**
Net investment income	**(96,855,060)**
Total additions	**(12,377,117)**
DEDUCTIONS	
Benefits	135,927,308
Refunds	4,229,850
Administrative expense	4,631,844
Total deductions	**144,789,002**
Net decrease	**(157,166,119)**
Net assets held in trust for pension benefits	
Beginning of year	**2,015,738,092**
End of year	**$ 1,858,571,973**

See accompanying Notes to the Financial Statements

Notes to the Financial Statements

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 or estimated fair value. Securities which are traded on national or international exchanges are reported at fair value based on the last reported sales price at current exchange rates. The System records these investment purchases and sales as of the trade date but are not finalized until settlement date, which is approximately three business days for domestic securities and five to seven business days for foreign securities. Until finalized, these investment purchases and sales are recorded as payables and receivables, respectively.

The values of the commingled funds are provided to ERFC's master custodian by the managers. These commingled funds include private real estate, global asset allocation, better beta, and hedge fund of funds. The fair value of these investments is determined in different ways. For private real estate, the values of the actual property holdings are determined periodically but usually annually and subject to independent appraisal. However, since these holdings are relatively illiquid, there is not a ready market for these assets and it's possible that fair value can differ from the assessed value. For global asset allocation, better beta, and hedge funds of funds and depending on the actual contents of these separate portfolios, the assets are either reported at fair value as determined by the markets for those assets, or, if market quotes are not readily available, they are determined by the manager, subject to annual audits.

Cash received as collateral on securities lending transactions and investments with such cash are reported as assets along with the 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

Notes, *continued on next page*

FINANCIAL

Notes to the Financial Statements

June 30, 2008, the cash balance of $1,360,320 represents funds that could not be invested in the County's enhanced cash fund until July 1, 2008.

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, 2008, cash with fiscal agent totaled $1,474,245. 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 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.

At December 31, 2007, the date of the most recent actuarial valuation, the System's membership consisted of:

Retirees and beneficiaries currently receiving benefits	8,354
Terminated employees entitled to benefits but not yet receiving them	2,406
Active plan members	19,599
Total	**30,359**

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. ERFC also issues a publicly available financial report which includes financial statements and required supplementary information. That report may be obtained by writing to ERFC, 8001 Forbes Place, Suite 300, Springfield, VA 22151 or by calling 800-426-4208.

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.

Funding Policy

The contribution requirements of plan members and the employer are established and may be amended by the ERFC Board of Trustees, subject to School Board approval. Plan members are required to contribute 4 percent of their annual salary. The employer is required to contribute at an actuarially determined rate which presently is 3.37 percent.

Notes to the Financial Statements

The actuarial valuations as of odd numbered years are used to set the employer contribution rate for the two year period beginning 18 months after the valuation date. As such, the December 31, 2007 valuation recommended that the contribution rate for the two year period beginning July 1, 2009 to June 30, 2011 be reduced to 3.2 percent.

Annual Pension Cost
ERFC's annual required contribution (ARC) for fiscal year 2008 was $38.3 million of which 100% was contributed, resulting in no net pension obligation in the current fiscal year.

Funded Status and Funding Progress
As of December 31, 2007, the most recent actuarial valuation date, the plan was 88.0 percent funded. The actuarial accrued liability for benefits was $2.2 billion and the actuarial value of assets was $1.9 billion, resulting in an unfunded actuarial accrued liability (UAAL) of $0.3 billion. The covered payroll (annual payroll of active employees covered by the plan) was $1.2 billion, and the ratio of the UAAL to the covered payroll was 22.6 percent.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions
In the December 31, 2007 actuarial valuation, the entry age actuarial cost method was used in preparing the valuation. The actuarial assumptions include a 7.5 percent investment rate of return and projected annual wage increases ranging from 4.0 percent to 8.2 percent. There is no legal maximum requirement on the employer contribution rate. The individual entry age actuarial cost method of valuation was used for determining actuarial accrued liabilities and normal cost. The UAAL are amortized to produce contribution amounts which are a level percent of payroll contributions.

3. Investment Securities

Investments
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 makes all investment decisions which are based on information and/or recommendations provided by ERFC's investment consultant and ERFC staff.

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 stock index futures derivatives that were not reported on the financial statements as of June 30, 2008. These index futures are used to equitize temporary and transactional cash balances. The risk associated with these securities is equivalent to equity risk. At June 30, 2008 the market value of these stock index futures were $1.3 million. Throughout the fiscal year, the exposure to off-balance sheet derivatives was fairly insignificant in that it ranged from .07 percent to .10 percent of the total portfolio.

In addition, the System had indirect investments in derivatives through its ownership interest in the Better Beta portfolio plus with one of the Private Real Estate managers. These portfolios are commingled funds in which ERFC has a percentage

***Notes,** continued on next page*

FINANCIAL

Notes to the Financial Statements

ownership. Derivatives in these portfolios consisted of interest rate swaps and caps which reduce the effect of interst rate fluctuations of certain real estate investments. Other derivative instruments included bond and index futures, commodities futures and swaps, plus repurchase agreements and treasury futures. These derivatives are used to leverage inflation-indexed bond positions, to hedge away foreign currency risk, and to equalize risk in other areas as well. They are also a cost effective means of managing the portfolios since they tend to be liquid and have lower transaction costs. At June 30, 2008, the total exposure to these derivatives was approximately 4.0 percent of the fair value of the System's entire portfolio.

Regarding certain risk factors, the Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures,* 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.

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, 2008, the System had two active fixed income managers and one passive fixed income manager. The schedule on the following page lists the ratings of all of ERFC's fixed income investments according to Moody's Investment Services and Standard & Poor's.

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, 2008, 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 $145.5 million and $211.4 million. The indexed portfolio had a

Notes, *continued on page 24*

As of June 30, 2008, ERFC had the following fixed income investments:

Investment	Amount	Modified Duration
U.S. Government obligations	$ 58,912,706	4.40
Mortgage-backed securities–U.S. Agencies	65,292,266	3.53
Mortgage-backed securities–Corporate	98,221,890	1.90
Domestic bonds–Corporate	160,045,455	6.10
Domestic bonds–Municipals	2,713,270	0.20
Convertible and preferred stock	5,330,870	6.40
International bonds	54,928,252	3.00
International bonds–Emerging Markets	4,599,878	0.10
Cash equivalents	25,008,981	
Other	7,846,870	12.80
Total	**$ 482,900,438**	**4.00**

**Note: Duration in years*

Notes to the Financial Statements

CREDIT QUALITY SUMMARY (As of June 30, 2008)

Rating	Category	Percent	Amount	Total	Percent
AAA	Domestic bonds–corporate	2.1%	$ 10,270,452		
	International bonds	4.6%	22,446,647		
	U.S. Government obligations	11.9%	57,675,227		
	Mortgage-backed securities	34.6%	166,989,285		
	Domestic bonds–Municipal	0.3%	1,284,564	$ 258,666,175	53.5%
AA	Convertible bonds	0.0%	186,752		
	Domestic bonds–corporate	10.4%	50,452,913		
	International bonds	0.4%	1,776,185		
	Domestic bonds–Municipal	0.7%	2,713,270		
	Mortgage-backed securities	0.0%	180,496	55,309,616	11.5%
A	Preferred stocks	0.5%	2,196,982		
	Domestic bonds–corporate	4.7%	22,897,926		
	International bonds	0.8%	3,989,303	29,084,211	6.0%
BAA	Domestic bonds–corporate	0.7%	3,303,599		
	International bonds	0.1%	324,132	3,627,731	0.8%
BA	International bonds	1.0%	4,599,878		
	Domestic bonds–corporate	0.9%	4,569,093	9,168,971	1.9%
BBB	Domestic bonds–corporate	9.0%	43,422,097		
	Convertible bonds	0.5%	2,255,369		
	International bonds	1.4%	6,770,056		
	Mortgage-backed securities	0.2%	1,046,285		
	Preferred stocks	0.0%	104,225	53,598,032	11.1%
BB	Domestic bonds–corporate	3.2%	15,244,089		
	International bonds	1.3%	6,365,277	21,609,366	4.5%
B	International bonds	0.5%	2,450,742		
	Domestic bonds–corporate	2.9%	13,982,278		
	Convertible bonds	0.1%	412,462	16,845,482	3.5%
Below B	Domestic bonds–corporate	0.4%	1,919,677		
	Convertible bonds	0.0%	128,282	2,047,959	0.4%
Not Rated	Cash and cash equivalents	1.7%	8,416,301		
	Short-term investments	2.6%	12,724,219		
	Convertible bonds	0.0%	46,797		
	Domestic bonds–corporate	0.0%	110,465		
	International bonds	2.3%	10,805,911		
	Mortgage-backed securities	0.2%	839,202	32,942,895	6.8%
	Total	**100.0%**	**$ 482,900,438**	**$ 482,900,438**	**100%**

FINANCIAL

Notes to the Financial Statements

value of $126.0 million. The market value of the largest issue other than the U.S. Government in the portfolios of the active managers was only .3 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.

Deposits
At June 30, 2008, short-term investments with the custodial bank totaled $30,408,524. 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. 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.

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 custodian, respectively. At year-end, the System had no overall credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts the borrowers owed the System. However, the System could experience a loss of as much as $875,598 due to the

At June 30, 2008, securities on loan for cash and non-cash collateral are as follows:

Securities	Cash Market Value	Cash Collateral	Non-Cash Market Value	Non-Cash
U.S. Government obligations	$ 10,951,293	$ 11,262,788	$ —	$ —
Mortgage-backed securities	1,907,350	1,964,750	—	—
Domestic bonds	5,082,117	5,292,050	442,833	454,500
Convertible bonds	48,187	49,000	—	—
International bonds	61,600	65,450	—	—
Common stocks	98,787,467	103,377,119	5,029,291	5,312,885
Preferred stocks	1,575,646	1,645,800	—	—
Total collateral	**$ 118,413,660**	**$ 123,656,957**	**$ 5,472,124**	**$ 5,767,385**

Notes to the Financial Statements

default of an investment vehicle that was held in the collateral pool. The actual loss will be determined at the time this investment vehicle is liquidated.

Cash received as collateral and the related liability of $123,656,957 as of June 30, 2008, are shown on the Statement of Plan Net Assets. As of June 30, 2008, the market value of securities on loan for cash collateral was $118,413,660. 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.

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.

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 investments in non-U.S. bonds—one at a maximum of 25% and the other at 20%.

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 on the following page provides a summary of ERFC's foreign currency risk.

Notes, *continued on next page*

FINANCIAL

Investments with the custodian as of June 30, 2008, included the following:

Investment Type	Market Value
U.S. Government obligations	$ 7,151,891
Mortgage-backed securities	7,303,871
Domestic bonds	84,536,207
Convertible bonds	3,029,663
International bonds	36,652,616
Common stock	692,113,438
Real Estate	82,887,762
Preferred stock	6,824,099
Global asset allocation	188,062,092
Better beta	101,588,242
Hedge fund of funds	25,268,155
Mutual funds	588,941,817
Sub-total investments	**$ 1,824,359,853**
Cash collateral for securities on loan	123,656,957
Total	**$ 1,948,016,810**

Notes to the Financial Statements

Market Value of Foreign Currency Risk
(As of June 30, 2008)

Currency	Cash & Cash Equivalents	Equity	Convertible and Fixed Income	Futures	Total U.S. Dollar
Australian Dollar	$ 70,474	$ 10,129,506	$ 3,277,947	$ —	$ 13,477,927
Brazil Real	80,043	—	884,944	2,165,988	3,130,975
British Pound Sterling	338,573	37,543,877	—	—	37,882,450
Canadian Dollar	96,456	8,468,435	4,039,230	—	12,604,121
Danish Krone	83,200	3,742,959	—	—	3,826,159
EURO Currency Unit	543,023	90,642,015	736,957	—	91,921,995
Hong Kong Dollar	82,987	7,352,075	—	—	7,435,062
Hungarian Forint	951	—	—	—	951
Indonesian Rupian	1,124	585,376	—	—	586,500
Israeli Shekel	10,497	662,765	—	—	673,262
Japanese Yen	616,916	44,790,179	—	—	45,407,095
Malaysian Ringgit	1,594	471,897	—	—	473,491
Mexican New Peso	86,328	4,926,537	2,634,797	—	7,647,662
New Turkish Lira	2,764	203,490	—	—	206,254
New Zealand Dollar	17,078	—	5,776,820		5,793,898
Norwegian Krone	153,140	2,263,555	—	—	2,416,695
Pakistan Rupee	24,388	—	—	—	24,388
Philippines Peso	678	—	—	—	678
Polish Zloty	427	167,410	—	—	167,837
Singapore Dollar	70,668	5,232,460	7,515,151	—	12,818,279
South Korean Won	—	7,902,949	—	—	7,902,949
Swedish Krona	66,629	2,938,559	—	—	3,005,188
Swiss Franc	361,281	10,702,622	—	—	11,063,903
Thailand Baht	49,606	891,077	1,077,728	—	2,018,411
	$ 2,758,825	**$ 239,617,743**	**$ 25,943,574**	**$ 2,165,988**	**$ 270,486,130**

Notes to the Financial Statements

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 (RSI). 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
2003	$ 34,506,630	100%
2004	37,331,203	100%
2005	32,198,596	100%
2006	34,648,918	100%
2007	36,644,001	100%
2008	38,334,140	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.

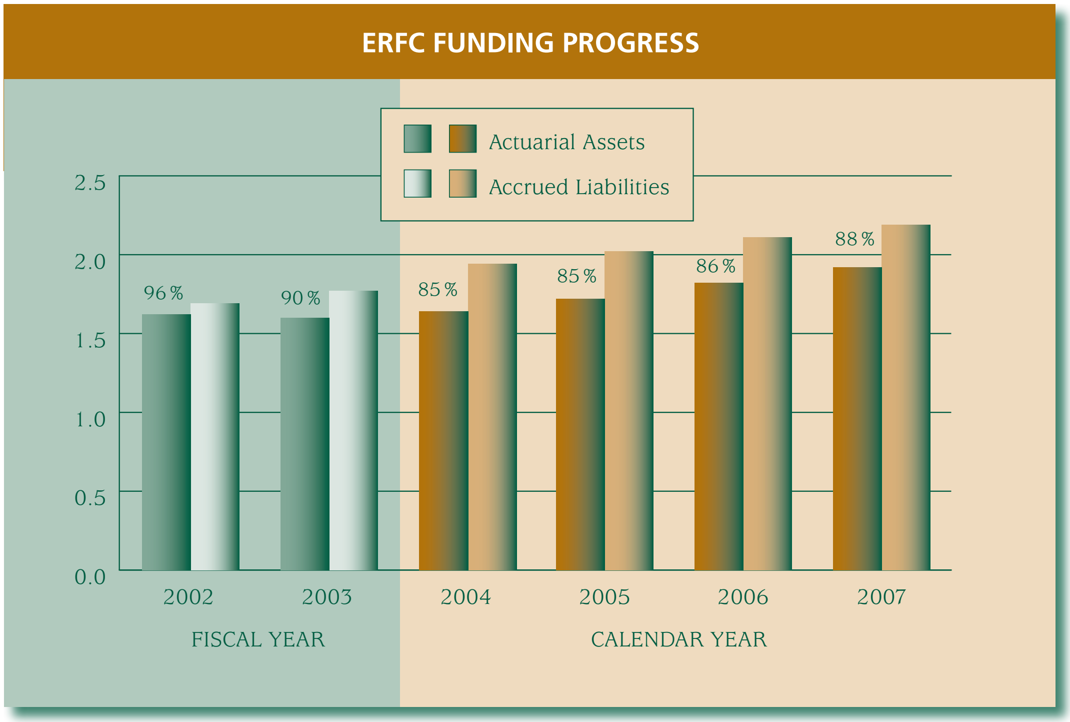
The following Schedule of Funding Progress, presented as RSI, shows multiyear trend information which illustrates whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits. As addressed previously and as noted on the Schedule of Funding Progress, ERFC has transitioned to calendar year valuations. The most recent valuation was effective December 31, 2007. This transition to calendar year valuation was done in order to provide a more current contribution rate which could be included in the school system's 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)
06/30/02	$ 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 %
12/31/06	1,818,930	2,105,552	286,622	86.39 %	1,111,828	25.78 %
12/31/07	1,924,886	2,186,801	261,915	88.02 %	1,161,432	22.55 %

[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, 2007
Actuarial cost method	Entry age
Amortization method	Level percent of payroll closed
Remaining amortization period	25 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.

Notes to the Schedules of Required Supplementary Information

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, 2007 — There were no significant changes.
- 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
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
2007	3.37	4.00	7.37
2008	3.37	4.00	7.37

- 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.

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Notes to the Schedules of Required Supplementary Information

- 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 benefits 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.

Other Supplementary Information

SCHEDULE OF ADMINISTRATIVE EXPENSES

(Year Ended June 30, 2008)

Personnel services	
Salaries and wages	$ 1,923,196
Retirement contributions	358,306
Insurance	223,624
Social security	151,637
Total personnel services	**2,656,763**
Professional services	
Actuarial	105,941
Legal	99,123
Payroll disbursement	138,827
Plan automation	968,729
Audit	31,646
Total professional services	**1,344,266**
Communications	
Printing	22,879
Postage	32,970
Total communications	**55,849**
Supplies	
Office supplies	13,445
Dues and subscriptions	5,255
Total supplies	**18,700**
Other services and charges	
Board travel and staff development	66,258
Equipment	164,340
Building rent	314,392
Depreciation expense	18,232
Miscellaneous	(6,956)
Total other services and charges	**556,266**
Total administrative expenses	**$ 4,631,844**

Other Supplementary Information

SCHEDULE OF INVESTMENT EXPENSES

(Year Ended June 30, 2008)

Investment management fees	
Fixed income managers	
Loomis-Sayles and Company, L.P.	$ 468,668
Mellon Capital Management Corporation	8,835
Pacific Investment Management Company	436,109
Equity managers	
Alliance Bernstein, L.P.	512,215
Aronson + Johnson + Ortiz, LLC	64,305
Dodge & Cox	337,929
Lazard Asset Management	361,136
Mellon Capital Management Corporation	12,542
Westfield Capital Management	421,998
International equity managers	
Acadian Asset Management, Inc.	642,650
AllianceBernstein, L.P.	677,526
Mellon Capital Management Corporation	13,424
William Blair & Company	490,081
Real estate managers	
J.P. Morgan Asset Management	568,390
Prudential Financial	231,381
UBS Realty Investors, LLC	310,599
Urdang Investment Management	327,266
Global asset allocation managers	
Mellon Capital Management Corporation	542,874
Pacific Investment Management Company	566,164
Better beta	
Bridgewater Associates	295,873
Hedge fund of funds	
Grosvenor Capital Management, L.P.	80,001
Total investment management fees	**7,369,966**
Other investment service fees	
Securities lending borrower rebates	5,625,055
Securities lending management fees	331,866
Custodial fees—BNY Mellon Asset Servicing	284,491
Investment consultant fees—	
New England Pension Consultants	214,253
Trading consultants—Plexus Plan Sponsor Group, Inc.	9,790
Investment salaries	180,419
Total other investment service fees	**6,645,874**
Total investment expenses	**$ 14,015,840**

Other Supplementary Information

SCHEDULE OF PROFESSIONAL SERVICE FEES

(Year Ended June 30, 2008)

Service Provider	Nature of Service	
Gabriel, Roeder, Smith & Company	Actuary and plan automation	$ 105,941
	Benefit consulting	21,908
Bredhoff & Kaiser, P.L.L.C.	Legal counsel	47,521
Groom Law Group, Chartered	Legal counsel	51,602
BNY Mellon Asset Servicing	Pension disbursement	138,827
KPMG LLP	Audit	31,646
Levi, Ray & Shoup, Inc.	Plan automation	804,844
Leon Wechsler, LTD	Plan automation	137,638
Various	Miscellaneous	4,339
Total professional service fees		**$ 1,344,266**

FINANCIAL

ERFC

THE EDUCATIONAL EMPLOYEES'
SUPPLEMENTARY RETIREMENT SYSTEM
of Fairfax County

Investment Section

Consultant Report on Investment Activity

NEPC

"Advancing Your Investments"

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October 13, 2008

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

Dear Board Members:

This letter summarizes the structure and performance of the Educational Employees' Supplementary Retirement System of Fairfax County (ERFC) Fund through the Fiscal Year Ending June 30, 2008.

As of the June 30th fiscal year-end, the Fund was in compliance with policy, and had 49.1 percent in equities, 8.0 percent in real estate equity, 25.9 percent in bonds, 1.4 percent in absolute return strategies, and 15.6 percent in global asset allocation/better beta strategies. Over the past year, the Fund has maintained public equity levels slightly higher than the median equity allocation when measured against peers in the Independent Consultants Cooperative (ICC) Universe.

The Fund earned -4.4%[1] in the year ending June 30, 2008, which ranked in the top 59% of public funds over $1 billion within the ICC Universe. Over the last 12 months ending June 30, 2008, ERFC underperformed its assumed actuarial return target of 7.5% by 11.9 percentage points. However, for the five years ending June 30, 2008, the Fund well exceeded its actuarial target by earning 10.5% per annum. This return ranked in the top quartile of its peer universe. Assets decreased by $156 million in fiscal 2008 to approximately $1.8 billion as of June 30, 2008.

US and global equities struggled throughout fiscal year 2008, as all major indices were in negative territory for the year, with the exception of emerging markets being slightly positive. June 2008 was the second worst June in the history of the S&P 500 (-8.4%) trailing only June 1930 (-16.3%). The U.S. stock market completed the worst first half of the calendar year since 1970. For the twelve months ending June 30, the S&P declined 13.1%. Fixed income posted gains through June 30, 2008, boosting results for ERFC.

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[1] Return data for the Fund was reconciled from manager provided time-weighted returns that were calculated in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).® Valuations, where available, are based on published national securities exchange prices, as provided by ERFC's custodian, BNY Mellon.

NEPC, LLC
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Consultant Report on Investment Activity

NEPC

For size and position only.
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The wrenching dislocation in markets that began a [illegible] sub-prime debt has spread broadly across markets, causing blow-ups a[illegible]al companies, massive de-leveraging and drying up of global liquidity, and [illegible]ing U.S. home prices. Many asset classes and investment strategies that behave independently in normal times have become more correlated, causing underperformance among a wide variety of strategies and losses even among supposedly conservative portfolios such as high quality bonds and market-neutral hedge funds.

The investment manager changes in fiscal year 2008 occurred in the Global Asset Allocation (GAA) and Hedge Fund allocations. Bridgewater, Mellon, and PIMCO were hired in the fourth quarter of calendar 2007 in the GAA space, while Grosvenor was hired in the first quarter of calendar 2008 for the Hedge Fund space. The expectation is that these managers will have the flexibility to take advantage of inter-market volatility to generate excess returns; allowing you to weather the current market conditions more effectively than investment programs with more traditional allocations.

Fiscal Year 2008 performance reflected the challenging market environment. With the new initiatives under way, we expect ERFC will be well positioned to continue to take advantage of a wide variety of investment opportunities and be sufficiently diversified to both enhance return and mitigate overall portfolio risk.

Sincerely,

Richard J Harper

Richard J. Harper, CFA, CAIA

INVESTMENT

Strategic Review and Investment Policy

Introduction

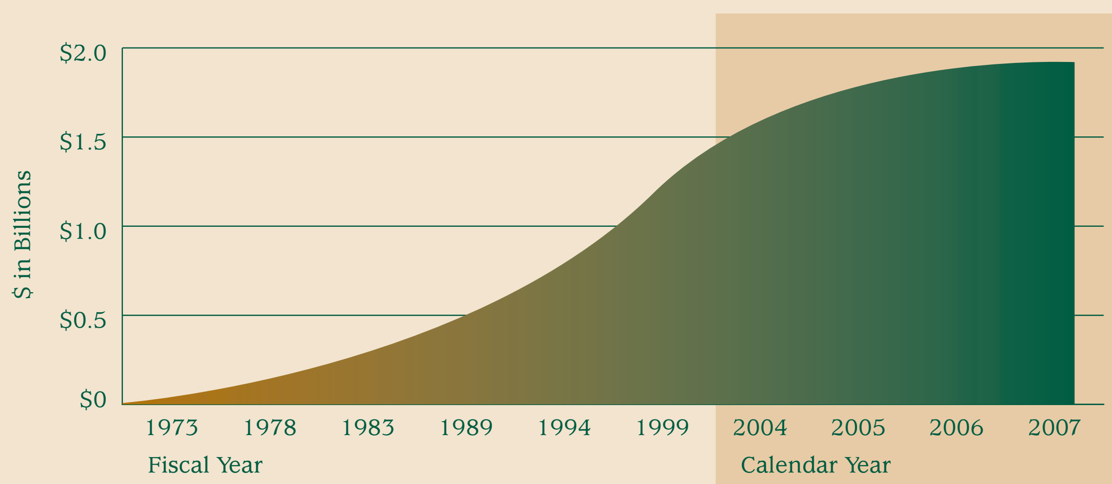
The members of the ERFC Board of Trustees have jurisdiction over and ultimate fiduciary responsibility for the investment of the System's assets. In carrying out their responsibilities, they must adhere to applicable laws, regulations, and rulings with respect to the duties of investment fiduciaries. 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, 2007 actuarial valuation)



Investment Managers

ASSETS UNDER MANAGEMENT

As of June 30, 2008 (Dollars in millions)

Investment Manager	Investment Type	Amount
Equities		
Large Capitalization		
AllianceBernstein	Growth	$ 103.2
Aronson + Johnson + Ortiz	Value	94.9
Dodge & Cox	Value	88.2
Mellon Capital Management Corp.	Core Index (Russell 1000)	103.1
Mellon Capital Management Corp.	Growth Index (Russell 1000 Growth)	104.6
Small/Mid Capitalization		
Lazard Asset Management	Core	42.1
Mellon Capital Management Corp.	Core Index (Russell 2000)	42.4
Westfield Capital Management	Growth	52.2
International		
Acadian Asset Management	Core	94.3
AllianceBernstein	Value	92.0
William Blair & Company	Growth	95.4
Fixed Income		
Loomis-Sayles & Company	Core Plus	145.5
Mellon Capital Management Corp.	Core Index (Lehman Bros. Aggregate)	126.0
Pacific Investment Management Co.	Core Plus	211.4
Global Asset Allocation/Better Beta		
Bridgewater Associates, Inc.*	Better Beta	101.6
Mellon Capital Management Corp.*	Global Asset Allocation	88.3
Pacific Investment Management Co.*	Global Asset Allocation	99.8
Hedge Fund		
Grosvenor Institutional Partners, L.P.*	Hedge Fund of Funds	25.3
Real Estate		
JP Morgan Asset Management	Private	28.8
Prudential Investment Mgt. Services	Private	27.0
UBS Realty Investors	Private	27.0
Urdang Investment Management	Public	65.5
Cash		0.6
Total		**$ 1,859.2**

* New managers in fiscal year 2008

INVESTMENT

Asset Structure

Interim Strategic Target Allocation*

The asset structure shown below represents the Trustees' assessment of their optimal asset allocation as of June 30, 2008. This interim strategic allocation provides a reasonable expectation that the fund's investment objective can be achieved based on historic relationships of asset class performance.

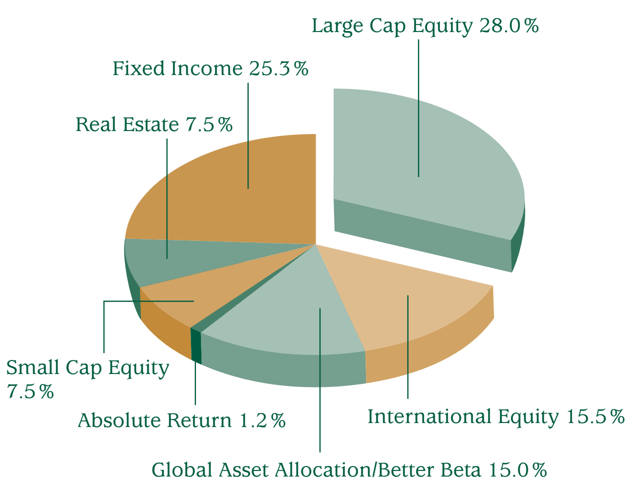
The table below provides a comparison between the target asset mix, consistent with the achievement of the long-term objective of the fund, and the actual asset allocation as of June 30, 2008.

* These are referred to as interim targets because the approved target of 7.5% for the Absolute Return asset class is being funded incrementally.

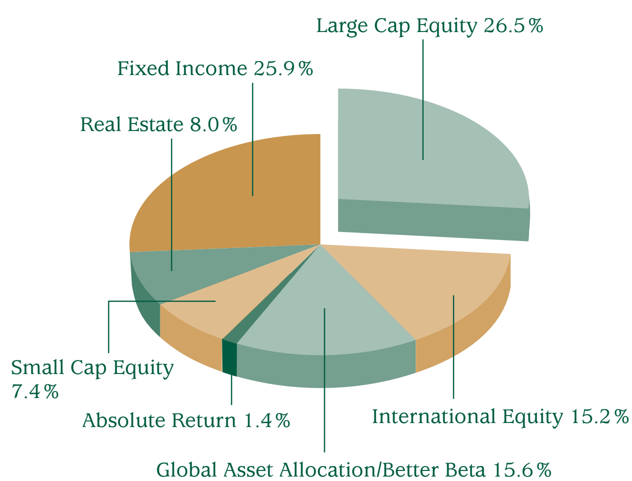
Actual Asset Allocation as of June 30, 2008

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.

INTERIM STRATEGIC TARGETS



ACTUAL ASSET ALLOCATION



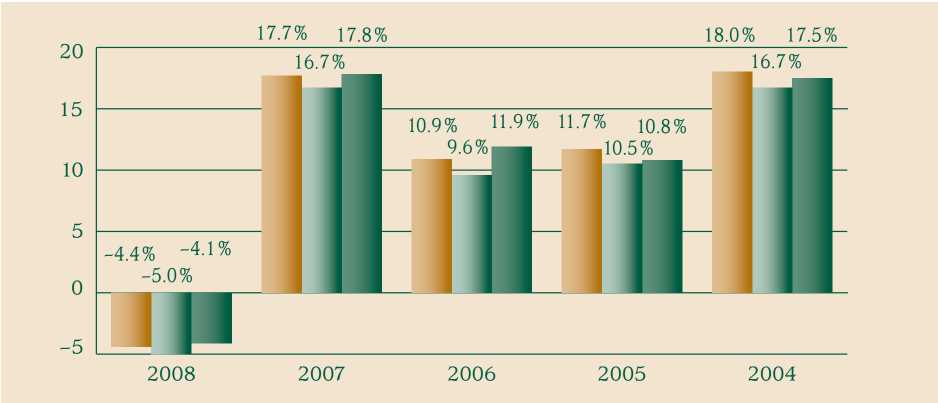
Security Class	Interim Strategic Targets as of June 30, 2008	Actual Asset Allocation as of June 30, 2008
Domestic Large Cap Equity	28.0 %	26.5 %
Domestic Small Cap Equity	7.5	7.4
International Equity	15.5	15.2
Real Estate	7.5	8.0
Fixed Income	25.3	25.9
Global Asset Allocation/Better Beta	15.0	15.6
Absolute Return	1.2	1.4
Total	**100.0%**	**100.0%**

Investment Results

Fiscal Years Ending Ending June 30

TOTAL FUND RETURNS

- ERFC
- Benchmark*
- Public Funds**



* Diversified benchmark is 28.5% Russell 1000, 7.5% Russell 2000, 16% MSCI ACWI Ex-US, 3.75% NAREIT, 3.75% NCREIF, 18.0% Lehman Bros Aggregate, 3.75% LB Credit, 3.75% LB Long Credit, 7.5% MS World Net, 7.5% CitiWorld Govt Bond

** New England Pension Consultants Universe (Funds in excess of $1 billion)

For the Periods Ending June 30, 2008

TOTAL FUND

- ERFC
- Benchmark*
- Public Funds**

FIXED INCOME

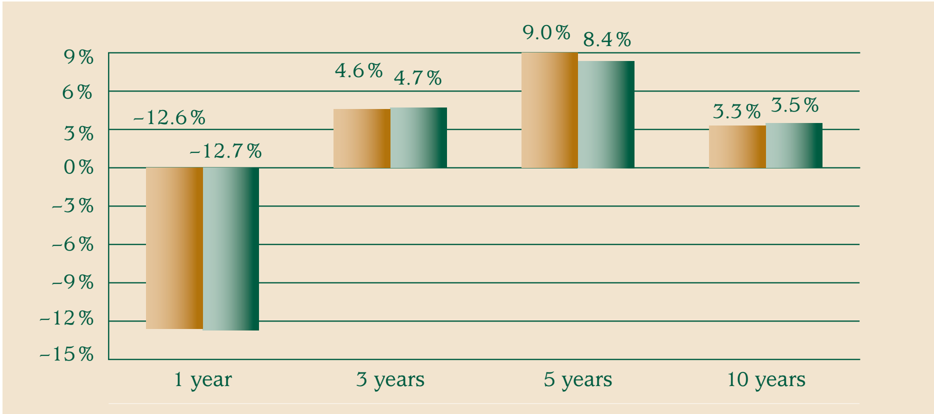
- Fixed Income
- Benchmark: Lehman Bros. Agg

Investment Results

(For the Periods Ending June 30, 2008)

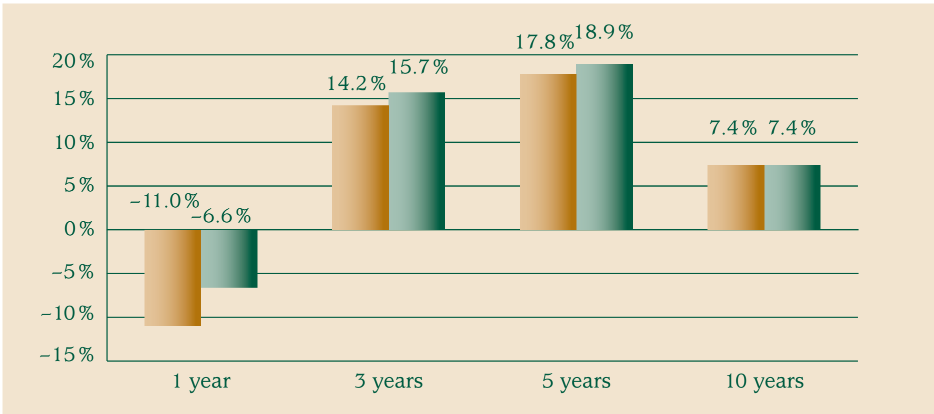
DOMESTIC EQUITY

- Domestic Equity
- Benchmark: Russell 3000 Index



INTERNATIONAL EQUITY

- International Equity
- Benchmark: MSCI/ACWI 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, 2008)

TEN LARGEST EQUITY HOLDINGS*

No. Shares	Description	Cost	Fair Value	% of Total Portfolio
42,130	APPLE INC	$ 4,629,041	$ 7,054,247	0.38%
13,195	GOOGLE INC CL A	5,618,690	6,946,112	0.37%
71,100	EXXON MOBIL CORP	4,045,483	6,266,043	0.34%
118,300	HEWLETT PACKARD CO COM	5,072,339	5,230,043	0.28%
53,460	SIMON PPTY GROUP INC NEW COM	2,994,261	4,805,519	0.26%
112,700	ROYAL DUTCH SHELL A SHS	3,768,553	4,640,648	0.25%
49,590	VORNADO RLTY TR COM	4,503,572	4,363,920	0.23%
39,600	SCHLUMBERGER LTD COM	3,028,726	4,254,228	0.23%
42,100	CHEVRON CORPORATION COM	2,983,072	4,173,373	0.22%
32,910	MONSANTO CO NEW COM	2,309,999	4,161,140	0.22%
	Total	**$ 38,953,736**	**$ 51,895,273**	**2.78%**

TEN LARGEST FIXED INCOME HOLDINGS*

Par Value	Security	Coupon	Maturity	Cost	Fair Value	% of Total Portfolio
6,435,000	U S TREASURY BONDS	5.375%	12/15/2031	$ 6,488,937	$ 7,151,891	0.38%
5,177,000	BRAZIL FEDERATIVE REP BD	8.250%	01/20/2034	5,559,892	6,365,277	0.34%
7,255,000	INTER-AMERICAN DEVELOPMENT BK	6.000%	12/15/2017	4,980,586	5,071,916	0.27%
5,500,000	ASIF GLOBAL FING XXVII 144A	2.380%	02/26/2009	3,297,757	4,043,586	0.22%
4,500,000	FEDERAL NATL MORTGAGE BDS	2.290%	02/19/2009	2,658,004	3,323,011	0.18%
2,800,000	BMC SOFTWARE INC NT	7.250%	06/01/2018	2,783,368	2,837,184	0.15%
2,740,000	TELEFONICA EMISIONES S A U	7.045%	06/20/2036	2,740,000	2,811,925	0.15%
3,070,000	GEORGIA PAC CORP DEB	7.750%	11/15/2029	2,713,566	2,701,600	0.15%
2,055,000	GOVERNMENT OF CANADA	4.250%	09/01/2008	1,914,408	2,030,477	0.11%
2,225,000	AMERICAN GEN FIN CORP MEDIUM	6.900%	12/15/2017	2,209,203	1,939,221	0.10%
	Total			**$ 35,345,721**	**$ 38,276,088**	**2.05%**

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

Schedule of Brokerage Commissions

(Year Ended June 30, 2008)

Broker Name	Base Volume	Total Shares	Base Commission	Commission Percentage
CREDIT SUISSE, NEW YORK (CSFBUS33XXX)	$ 101,126,198	9,462,012	$57,643	0.06%
STATE STREET BROKERAGE SVCS, BOSTON	86,694,731	2,763,836	41,516	0.05
MORGAN STANLEY & CO INC, NY	65,178,237	3,156,123	65,516	0.10
GOLDMAN SACHS & CO, NY	64,502,755	2,117,776	33,498	0.05
LEHMAN BROS INC, NEW YORK	61,390,597	2,407,730	52,914	0.09
DEUTSCHE BK SECS INC, NY (NWSCUS33)	55,274,220	4,965,430	34,729	0.06
UBS SECURITIES LLC, STAMFORD	49,550,502	1,322,670	36,182	0.07
MORGAN J P SECS INC, NEW YORK	44,342,418	1,151,826	34,038	0.08
MERRILL LYNCH PIERCE FENNER SMITH INC NY	42,397,719	1,168,648	41,085	0.10
CITIGROUP GBL MKTS INC, NEW YORK	42,224,901	945,245	30,259	0.07
INVESTMENT TECHNOLOGY GROUPS, NEW YORK	39,403,872	1,204,009	13,127	0.03
LIQUIDNET INC, BROOKLYN	32,169,224	1,332,781	29,840	0.09
BNY CONVERGEX, NEW YORK	25,880,174	782,360	6,011	0.02
CITIGROUP GBL MKTS/SALOMON, NEW YORK	24,884,534	4,812,611	25,830	0.10
INSTINET EUROPE LIMITED, LONDON	21,562,563	1,076,008	26,178	0.12
BNY ESI & CO INC, JERSEY CITY	21,033,188	634,344	25,209	0.12
BROADCOURT CAP CORP/SUB OF MLPF&S,NY	20,111,014	634,758	30,075	0.15
NOMURA SECS INTL INC, NEW YORK	19,515,801	820,330	10,009	0.05
UBS WARBURG ASIA LTD, HONG KONG	19,303,622	6,943,462	13,217	0.07
STATE STREET BK & TR CO (SEC), LONDON	18,478,851	876,908	11,095	0.06
LEHMAN BROS INTL, LONDON	17,826,843	873,311	13,808	0.08
BANC OF AMERICA SECS LLC, CHARLOTTE	17,683,312	493,388	19,671	0.11
CITATION GROUP, NY	17,130,696	394,325	6,667	0.04
GOLDMAN SACHS EXECUTION & CLEARING, NY	16,937,113	309,505	4,612	0.03
MERRILL LYNCH INTL LONDON EQUITIES	16,718,986	745,818	10,853	0.06
BEAR STEARNS & CO INC, NY	12,672,518	438,290	7,865	0.06
WACHOVIA CAPITAL MARKETS LLC, CHARLOTTE	12,508,143	544,850	22,401	0.18
WEEDEN & CO, NEW YORK	12,163,071	301,000	6,294	0.05
PERSHING DIVISION OF DLJ,NY	11,301,685	361,966	5,839	0.05
UBS EQUITIES, LONDON	11,113,901	602,078	10,341	0.09
DAIWA SECS AMER INC, NEW YORK	10,945,492	724,940	6,425	0.06
SG SECURITIES, HONG KONG	10,415,529	3,269,849	7,752	0.07
ABN AMRO BANK NV, LONDON	10,164,593	326,666	4,826	0.05
CANTOR FITZGERALD & CO INC, NEW YORK	9,716,677	380,316	10,883	0.11
BERNSTEIN SANFORD C & CO, NEW YORK	9,645,145	238,750	3,123	0.03
BNY CONVERGEX / LJR, HOUSTON	9,250,590	448,786	17,951	0.19
RAYMOND JAMES & ASSOC INC, ST PETERSBURG	8,928,150	301,861	13,827	0.15
LABRANCHE FINANCIAL SVCS LLC, NEW YORK	8,879,916	216,500	4,330	0.05
BEAR STEARNS SEC CORP, BROOKLYN	8,329,804	195,521	7,816	0.09
MERRILL LYNCH PIERCE FENNER, WILMINGTON	8,243,410	1,147,740	7,843	0.10
J P MORGAN SECS LTD, LONDON	8,122,083	322,360	7,908	0.10
JONESTRADING INSTL SVCS LLC, WESTLAKE	7,901,677	354,215	9,685	0.12
INSTINET CORP, LONDON	7,566,468	887,108	10,027	0.13
AVIAN SECURITIES INC, BOSTON	7,355,161	193,100	3,862	0.05
INSTINET, PARIS	6,330,307	133,486	11,498	0.18
STIFEL NICOLAUS	6,265,984	193,877	9,171	0.15
SG SEC (LONDON) LTD, LONDON	5,519,391	287,757	3,108	0.06
PIPER JAFFRAY & CO, MINNEAPOLIS	5,052,451	207,793	8,312	0.16
GOLDMAN SACHS INTL, LONDON (GSILGB2X)	4,958,451	233,710	3,558	0.07
OTHER BROKERS	179,673,980	13,546,495	181,954	0.10
TOTAL	**$ 1,334,346,649**	**77,254,228**	**$1,060,180**	**0.08%**

Investment Summary

	As of June 30, 2007		As of June 30, 2008	
	Market Value	**% Market Value**	**Market Value**	**% Market Value**
Fixed Income				
U.S. Government obligations	$ 33,454,994	1.8%	$ 7,151,891	0.4%
Mortgage-backed securities	6,357,280	0.5%	7,303,871	0.4%
Domestic corporate bonds	57,050,594	2.8%	84,536,207	4.4%
Convertible bonds	6,230,531	0.3%	3,029,663	0.2%
International bonds	35,899,298	1.8%	36,652,616	2.0%
Preferred stocks	1,430,385	0.0%	6,824,099	0.4%
Index / Commingled fund	369,345,031	19.5%	320,784,462	17.3%
Total fixed income	509,768,113	26.8%	466,282,809	25.1%
Domestic Equities:				
Basic industry	14,648,064	1.2%	8,449,338	0.4%
Consumer and services	270,920,592	13.4%	194,195,143	10.5%
Financial and utility	103,382,879	9.7%	56,797,437	3.1%
Technological	106,041,438	4.9%	64,749,120	3.5%
Index / Commingled fund	377,420,070	13.4%	250,104,463	13.5%
Total domestic stock	872,413,043	42.6%	574,295,501	31.0%
International Equity				
Basic industry	36,911,981	0.8%	29,085,492	1.5%
Consumer and services	234,549,523	8.1%	181,609,000	9.8%
Financial and utility	127,837,060	4.9%	70,654,317	3.8%
Technological	25,900,318	1.1%	19,975,837	1.1%
Index / Commingled fund	31,719,833	5.8%	18,052,892	1.0%
Total international stock	456,918,715	20.8%	319,377,538	17.2%
Real Estate				
Public	65,175,754	4.2%	66,597,754	3.6%
Private Real Estate	83,663,075	4.0%	82,887,762	4.5%
Total real estate	148,838,829	8.2%	149,485,516	8.1%
Alternative investments				
Better beta	—	0.0%	101,588,242	5.5%
Global asset allocation	—	0.0%	188,062,092	10.1%
Hedge fund of funds	—	0.0%	25,268,155	1.4%
Total alternative investments	—	0.0%	314,918,489	17.0%
Subtotal investments at fair value	1,987,938,700	98.4%	1,824,359,853	98.4%
Short-term Investments				
Money Market	17,323,078	1.3%	17,684,305	0.9%
Commercial paper	4,930,320	0.3%	12,724,219	0.7%
Total short-term investments	22,253,398	1.6%	30,408,524	1.6%
Total	**$ 2,010,192,098**	**100.0%**	**$ 1,854,768,377**	**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, 2008)

Investment Category	Assets Under Management	Fees
Better Beta	$ 101,588,242	$ 295,873
Domestic Equities	331,015,137	1,697,583
Fixed Income	459,458,711	1,059,647
Global Asset Allocation	188,062,092	963,004
Hedge Fund of Funds	25,268,155	80,001
Index Funds	250,104,463	25,967
International Equities	319,377,537	1,810,256
Real Estate	149,485,516	1,437,635
Total	**$ 1,824,359,853**	**$ 7,369,966**

Note: Excludes short-term investments.

Actuarial Section

Actuary's Certification Letter

GRS

Gabriel Roeder Smith & Company
Consultants & Actuaries

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June 6, 2008

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Board of Trustees
Educational Employees' Supplementary
Retirement System of Fairfax County (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, 2007.

The plan's 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 6, 2008
Page 2

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Summary of Member Data Include ... , 2007

Active Members by Years of Servic ... , 2007

All Active Members in Valuation on ... mber 31, 2007 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, 2007 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, 2007 valuation, we are pleased to report to the Board that the Educational Employees' Supplementary Retirement System of Fairfax County (ERFC) is meeting its basic financial objective and continues to operate 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:mrb

Gabriel Roeder Smith & Company

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 and used initially 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 **individual 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				DISABILTY				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	12.00
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: Probability of Retirement for Members Eligible to Retire

ERFC (Hired before 7/1/2001) Type of Retirement			*ERFC 2001* (Hired on or after 7/1/2001) Type of Retirement		
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

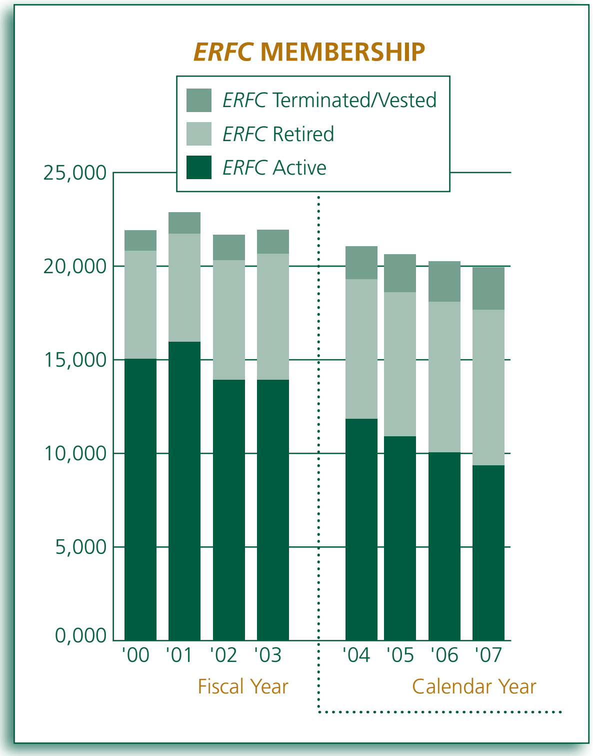
TABLE E: Rates of Forfeiture Following Vested Separation

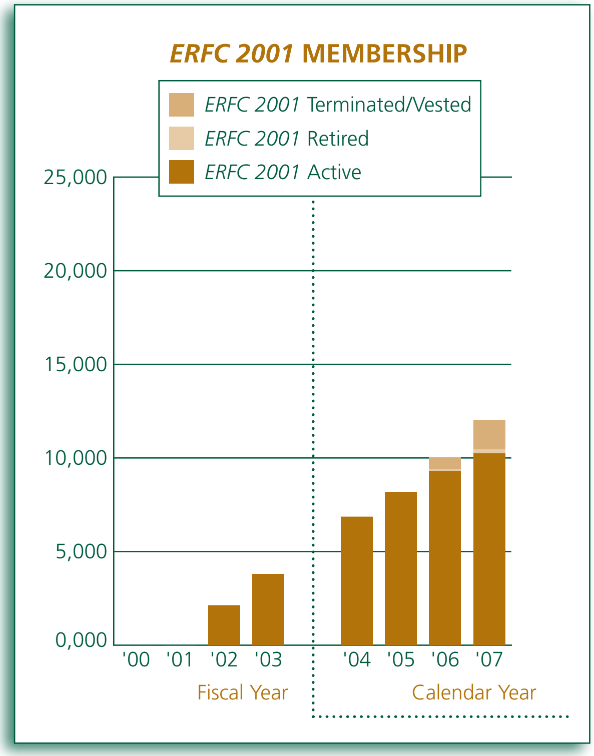
Forfeiture occurs when a vested person separates from service and withdraws contributions thereby forfeiting future rights to an employer financed benefit. The total probability of forfeiture is obtained by multiplying the probability of "other separation" from Table B by the probability of forfeiture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

	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

Summary of Member Data

(Last Eight Years)





		ERFC			ERFC 2001			
	Year	Active	Retired	Terminated/ Vested	Active	Retired	Terminated/ Vested	Total
Fiscal Year	2000	15,050	5,344	1,107				21,501
(As of June 30)	2001	15,955	5,766	1,157				22,878
	2002	13,940	6,375	1,362	2,134			23,811
	2003	13,934	6,729	1,301	3,804			25,768
Calendar Year	2004	11,856	7,430	1,780	6,864			27,930
(As of December 31)	2005	10,895	7,710	2,030	8,186			28,821
	2006	10,065	7,710	2,179	9,306	6	65	29,644
	2007	9,350	8,333	2,249	10,249	21	157	30,359

Summary of Member Data

(As of December 31, 2007)

Active *ERFC* Members by Attained Age and Years of Service

Age Group	YEARS OF SERVICE TO VALUATION DATE 0-4	5-9	10-14	15-19	20-24	25-29	30 & Up	TOTALS No.	Salary	Average
15-19								-		
20-24								-		
25-29	4	46						50	$ 2,571,640	$ 51,433
30-34	21	593	59					673	40,311,345	59,898
35-39	25	530	469	42	1			1,067	70,503,383	66,076
40-44	15	381	323	234	44	1		998	67,943,469	68,080
45-49	22	425	327	267	224	36		1,301	90,104,284	69,258
50-54	6	541	410	312	328	261	47	1,905	137,413,107	72,133
55-59	14	489	498	374	335	176	64	1,950	139,298,515	71,435
60		75	72	97	64	25	1	334	23,433,281	70,160
61	2	58	79	98	64	17	1	319	22,058,695	69,150
62	1	34	55	68	41	10	1	210	15,399,199	73,330
63		38	36	38	29	14	1	156	11,073,382	70,983
64	2	19	31	24	27	7	3	113	7,834,845	69,335
65	1	27	20	30	30	9		117	8,340,092	71,283
66		6	7	18	10	5	1	47	3,401,013	72,362
67		6	5	10	7	3		31	2,035,668	65,667
68		7	6	2	6	4		25	1,541,832	61,673
69		2	3	4	3	1		13	782,126	60,164
70		1	2	3	3	2	1	12	770,202	64,184
71				2	4	1	1	8	475,052	59,382
72			3			1		4	185,095	46,274
73		1	2		1		1	5	187,350	37,470
74					2			2	177,436	88,718
75 & Up		1	3	2	2	1	1	10	440,601	44,060
Totals	**113**	**3,280**	**2,410**	**1,625**	**1,225**	**574**	**123**	**9,350**	**$ 646,281,612**	**$ 69,121**

Summary of Member Data

(As of December 31, 2007)

Active *ERFC 2001* Members by Attained Age and Years of Service

Age Group	Years of Service to Valuation Date: 0-4	5-9	10-14	15-19	20-24	25-29	30 & Up	Totals: No.	Salary	Average
15-19	3							3	$ 68,853	$ 22,951
20-24	587							587	24,842,536	42,321
25-29	2,473	261						2,734	132,464,891	48,451
30-34	1,239	412						1,651	87,478,152	52,985
35-39	885	248						1,133	60,622,864	53,506
40-44	788	187						975	49,054,498	50,312
45-49	888	254						1,142	53,078,831	46,479
50-54	714	300						1,014	52,299,564	51,577
55-59	472	197						669	36,164,683	54,058
60	61	30						91	4,784,495	52,577
61	59	25						84	5,121,399	60,969
62	27	19						46	2,614,557	56,838
63	22	12						34	1,794,288	52,773
64	16	6						22	1,330,463	60,476
65	11	10						21	1,112,304	52,967
66	14	2						16	786,404	49,150
67	5	3						8	452,964	56,621
68	3	1						4	293,282	73,321
69	2	1						3	164,608	54,869
70	2	1						3	77,822	25,941
71	2							2	137,609	68,805
72	4							4	208,511	52,128
73	1							1	91,915	91,915
74	1							1	49,239	49,239
75 & UP	1							1	55,324	55,324
TOTALS	**8,280**	**1,969**	—	—	—	—	—	**10,249**	**$ 515,150,056**	**$ 50,263**

ACTUARIAL

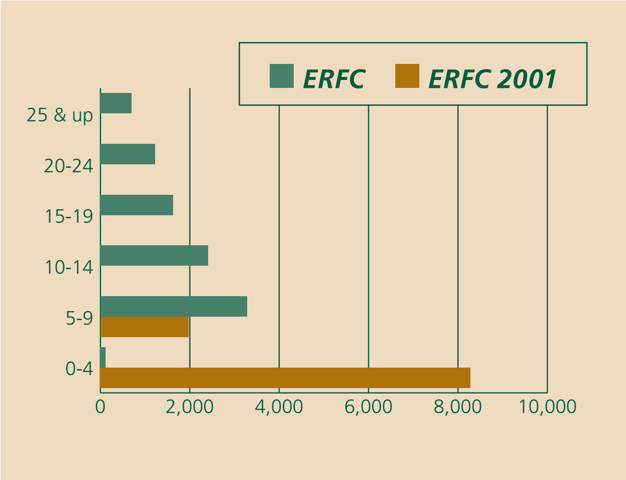
Summary of Member Data

(As of December 31, 2007)

ACTIVE MEMBER YEARS OF SERVICE

Average Service = 8.2 years

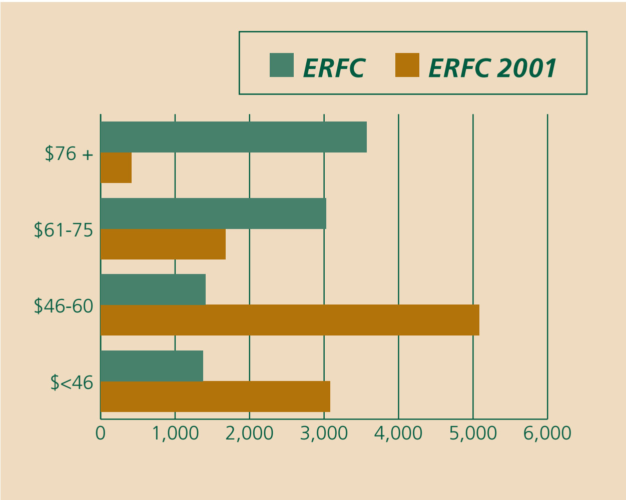
	0-4	5-9	10-14	15-19	20-24	25 & up
ERFC	113	3,280	2,410	1,625	1,225	697
ERFC 2001	8,280	1,969	–	–	–	–



ACTIVE MEMBER SALARIES ($ in thousands)

Average Annual Pay = $59,260

	<$ 46	$ 46-60	$ 61-75	$ 76+
ERFC	1,375	1,410	3,028	3,537
ERFC 2001	3,077	5,082	1,676	414

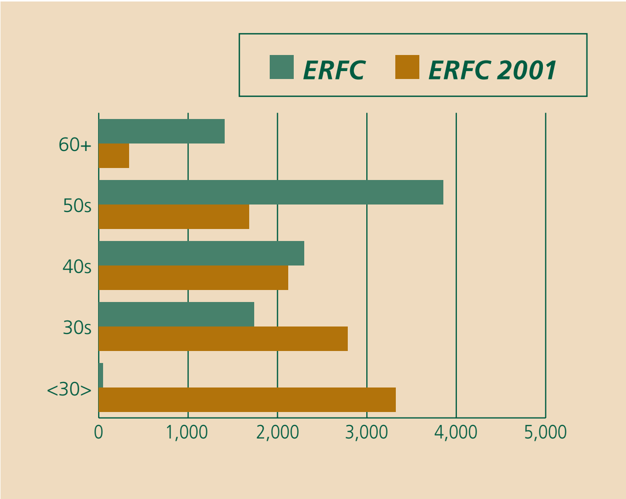


ACTIVE MEMBER AGES

Average Age = 43.5 years

Total Active Members = 19,599

	<30	30's	40's	50's	60+
ERFC	50	1,740	2,299	3,855	1,406
ERFC 2001	3,324	2,784	2,117	1,683	341



Summary of Member Data

(Last Eight Years)

ACTIVE MEMBER VALUATION DATA

Valuation Date	Annual Number	Annual Payroll	Annual Average Pay	% Increase in Annual Pay
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
December 31, 2006	19,371	1,111,827,576	57,396	4.3
December 31, 2007	19,599	1,161,431,668	59,260	3.2

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								
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
2006	531	729,364	212	124,532	8,029	10,124,699	1,261	5.60
2007	539	727,585	214	129,189	8,354	10,705, 991	1,282	5.74

* 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
Last 20 years

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)						
$# 6/30/1988	$ 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
12/31/2006	239,780	1,176,979	688,793	1,818,930	100	100	58
12/31/2007	269,404	1,221,969	695,428	1,924,886	100	100	62

@ 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 and Service Retirement	Disability and 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.*							
@#2005	(7.1)	1.9	1.0	0.1	0.0	(3.2)	(7.3)	(0.4)
2006	(4.7)	23.6	2.0	0.0	(0.8)	2.6	22.7	1.1
2007	10.0	25.1	1.9	(0.2)	(2.2)	(7.2)	27.4	1.4

\# 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 as early as age 45. A member with less than 25 years service and younger than age 65 may retire on or 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 is actuarially reduced to reflect that the retirement age is 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 that the retirement age is 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 menber'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 of 5 percent 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 members or beneficiaries who retired in the immediately preceding calendar year are increased by 1.489 percent (½ 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) ½ 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) ½ 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 members or beneficiaries who retired in the immediately preceding calendar year are increased by 1.489 percent.

ERFC Contribution Rates

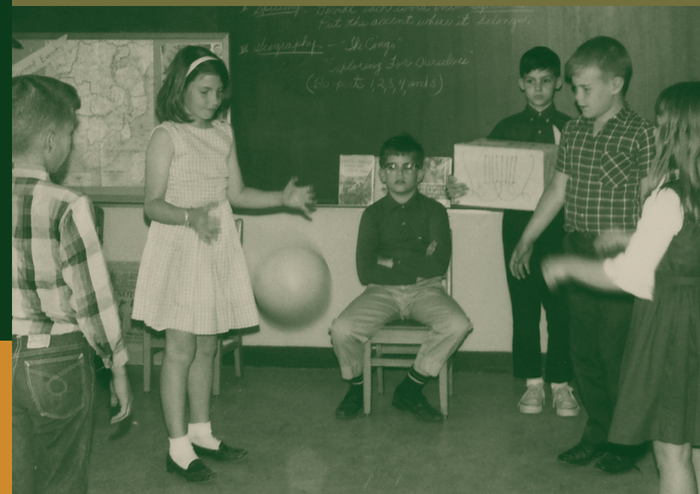
(Last 20 Years)

	Support Employees			Instructional Employees		
Fiscal Year	**Employee**	**Employer**	**Total**	**Employee**	**Employer**	**Total**
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			
2007	4.0	3.37	7.37			
2008	4.0	3.37	7.37			

ACTUARIAL

Summary of Plan Changes

There were no significant plan changes during the valuation period ending December 31, 2007.



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

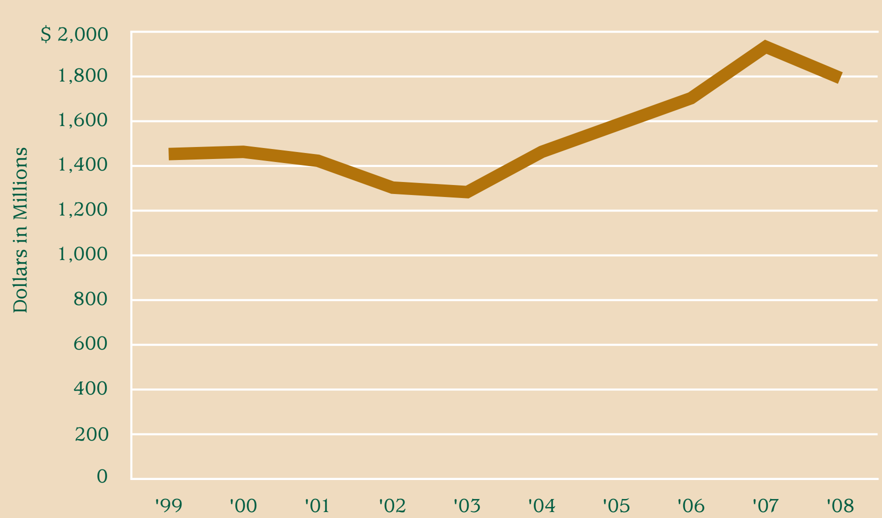
- Retired Members by Type of Benefit
- Average Benefit Payments by Years of Service
- Average Composite Monthly Benefit Payments
- Current Benefits by Attained Ages
- Deferred Benefits by Attained Ages

Net Assets

Last Ten Fiscal Years

FISCAL YEARS	NET ASSETS
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
2007	2,015,738,092
2008	1,858,571,973

NET ASSETS

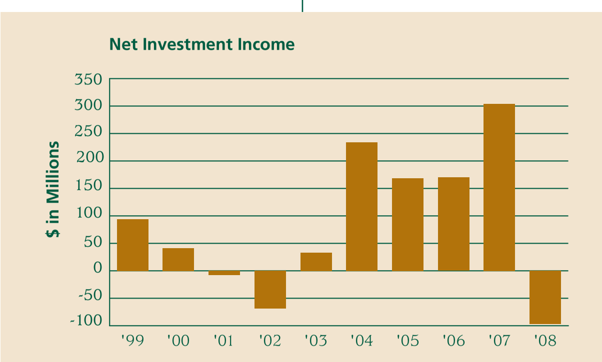


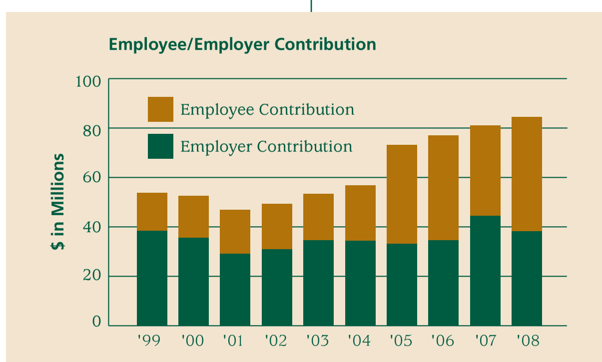
Changes in Net Assets

Last Ten Fiscal Years

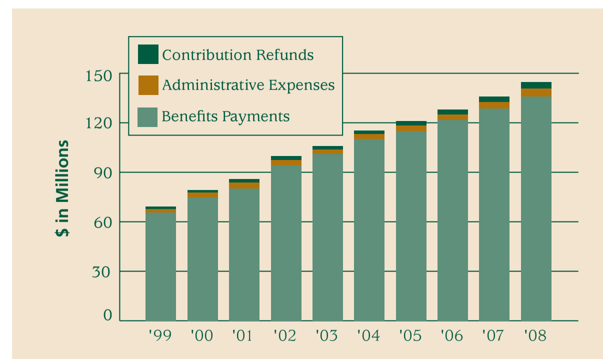
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
ADDITIONS										
Employee contributions	$ 15,284,341	$ 16,936,454	$ 17,744,273	$ 18,472,712	$ 18,750,568	$ 22,340,870	$ 39,818,585	$ 42,292,828	$ 44,453,617	$ 46,143,803
Employer contributions	38,422,667	35,655,898	29,145,883	30,849,067	34,506,630	37,331,203	32,198,596	34,648,918	36,644,001	38,334,140
Investment income (net of expenses)	94,248,096	41,186,381	(7,290,226)	(69,121,464)	32,857,465	233,807,964	168,479,920	169,944,356	304,119,327	(96,855,060)
Donated fixed assets									27,632	
Total additions to plan net assets	**147,955,104**	**93,778,733**	**39,599,930**	**(19,799,685)**	**86,114,663**	**293,480,037**	**240,497,101**	**246,886,102**	**385,244,577**	**(12,377,117)**
DEDUCTIONS										
Benefit payments	65,716,547	74,803,741	79,969,985	94,247,498	100,979,864	110,236,424	114,999,379	121,687,318	128,739,638	135,927,308
Contribution refunds	1,599,786	1,777,493	2,092,580	2,153,958	1,848,428	1,996,947	2,794,118	3,087,501	3,583,007	4,229,850
Administrative expenses	1,818,172	2,734,139	3,759,617	3,190,667	2,867,018	2,918,778	3,110,563	3,289,518	3,718,761	4,631,844
Total deductions to plan net assets	**69,134,505**	**79,315,373**	**85,822,182**	**99,592,123**	**105,695,310**	**115,152,149**	**120,904,060**	**128,064,337**	**136,041,406**	**144,789,002**
Change in net assets net of expenses	**$ 78,820,599**	**$ 14,463,360**	**$ (46,222,252)**	**$ (119,391,808)**	**$ (19,580,647)**	**$ 178,327,888**	**$ 119,593,041**	**$ 118,821,765**	**$ 249,203,171**	**$ (157,166,119)**

ADDITIONS BY SOURCE





DEDUCTIONS BY TYPE



STATISTICAL

Assets and Liabilities Comparative Statement

Last 20 Years—Dollars in Thousands

Valuation Date	Active Member Payroll	Computed Liabilities: Retired	Computed Liabilities: Members	Computed Liabilities: Total	Valuation Assets	[Excess of Assets] Unfunded Accrued Liabilities	Funded Percent
$!# 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
12/31/2006	1,111,828	1,176,979	928,573	2,105,552	1,818,930	286,662	86.4
12/31/2007	1,161,432	1,221,969	964,832	2,186,801	1,924,886	261,915	88.0

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

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												
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
2006	4,156	87,010,607	3,513	34,096,345	112	910,194	27	318,947	221	1,066,747	8,029	123,402,840
2007	4,334	91,777,998	3,658	36,100,474	120	1,048,496	26	322,317	216	1,057,794	8,354	130,307,079

Benefit Refunds by Type

Last Ten Years

	Separation		Deaths		TOTAL	
Fiscal Year	**No.**	**Amount**	**No.**	**Amount**	**No.**	**Amount**
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
2007	746	3,407,248	18	175,759	764	3,583,007
2008	857	4,064,627	24	165,223	881	4,229,850

n/a — Information not readily available

Retired Members by Type of Benefit

(As of December 31, 2007)

Amount of Monthly Benefit	Number of Retired Members	Type of Retirement*					Option Selected**					
		1	2	3	4	5	Basic Benefit	1	2	3	4	5
$ 1–$250	1,478	189	1,197	19	62	11	1,122	29	9	25	11	282
251–500	1,147	285	748	11	99	4	821	26	11	16	12	261
501–750	793	350	400	14	29	—	586	14	17	19	8	149
751–1,000	782	476	282	5	19	—	600	9	14	27	2	130
1,001–1,250	612	411	190	6	4	1	482	5	9	24	5	87
1,251–1,500	529	399	125	2	3	—	424	5	12	20	3	65
1,501–1,750	430	318	106	4	—	2	340	4	12	20	—	54
1,751–2,000	339	190	147	1	—	1	212	7	3	21	—	96
Over 2,000	2,244	1,752	482	3	—	7	991	65	23	121	25	1019
Total	**8,354**	**4,370**	**3,677**	**65**	**216**	**26**	**5,578**	**164**	**110**	**293**	**66**	**2,143**

*** TYPE OF RETIREMENT:**

1 Full Service

2 Reduced Service

3 Ordinary Death

4 Ordinary Disability

5 Service Connected Disability

**** OPTION SELECTED:**

Basic Benefit

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 partial lump sum and reduced monthly benefit

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

Average Benefit Payments by Years of Service

	YEARS CREDITED SERVICE					
	5-10	10-15	15-20	20-25	25-30	30+
Retirement Effective Dates						
Period 1/1/05 to 12/31/05						
Avg Monthly Benefit	$ 234.91	$ 406.79	$ 617.89	$ 828.81	$ 2,388.75	$ 2,557.08
Avg Final Average Salary	$ 4,466.69	$ 4,914.15	$ 4,924.77	$ 5,230.64	$ 6,541.46	$ 6,989.21
No. of Retired Members	62	59	103	48	128	60
Period 1/1/06 to 12/31/06						
Avg Monthly Benefit	$ 205.22	$ 394.76	$ 647.03	$ 880.16	$ 2,436.76	$ 2,596.68
Avg Final Average Salary	$ 4,218.58	$ 4,440.82	$ 5,200.61	$ 5,547.99	$ 6,707.84	$ 7,076.66
No. of Retired Members	54	83	87	60	162	61
Period 1/1/07 to 12/31/07						
Avg Monthly Benefit	$ 247.08	$ 413.63	$ 691.25	$ 943.45	$ 2,425.67	$ 2,757.24
Avg Final Average Salary	$ 4,806.27	$ 4,496.84	$ 5,343.67	$ 5,809.65	$ 6,778.91	$ 7,061.31
No. of Retired Members	56	78	97	69	155	59

Average Composite Monthly Benefit Payments for Retirees

Last Ten Years

By Type of Benefit Being Paid

	Year	Service Retirement	Reduced Service	Ordinary Disability
Fiscal Year	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
	2006	1,745	809	466
	2007	1,765	754	475

STATISTICAL

Retirees and Beneficiaries Current Annual Benefits Tabulated by Attained Ages

(As of December 31, 2007)

	Total	
Attained Ages	**No.**	**Annual Amount**
under 40	6	$ 45,881
40–44	7	18,055
46	2	8,386
47	1	3,927
48	3	7,721
49	4	33,606
50	6	27,927
51	7	46,251
52	18	305,262
53	32	752,447
54	39	924,464
55	155	3,343,308
56	200	4,227,081
57	256	5,405,754
58	308	7,150,893
59	385	8,524,810
60	491	10,510,057
61	513	10,576,344
62	430	8,308,844
63	476	9,897,914
64	487	9,701,013
65	462	9,251,137
66	326	3,111,205
67	329	3,155,946
68	290	2,723,773
69	312	3,332,886
70–74	1,248	14,414,419
75–79	772	8,498,411
80 & up	789	5,999,357
Total	**8,354**	**$ 130,307,079**

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, 2007)

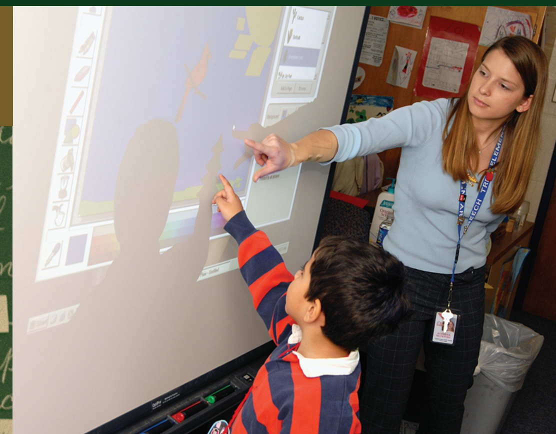
	Total	
Attained Ages	**No.**	**Annual Amount**
24	1	$ 840
25	1	937
27	5	8,327
28	18	49,103
29	29	56,843
30	51	97,502
31	56	105,221
32	69	127,461
33	98	177,882
34	89	175,210
35	113	226,644
36	95	189,656
37	133	281,229
38	119	277,197
39	109	252,094
40	117	259,320
41	92	173,609
42	94	199,968
43	78	148,628
44	80	199,906
45	71	167,635
46	60	180,091
47	72	171,056
48	60	234,764
49	49	141,185
50	54	167,162
51	69	194,798
52	74	221,407
53	74	211,545
54	85	271,388
55	56	179,172
56	39	103,939
57	38	87,961
58	26	65,361
59	33	108,985
60	26	97,863
61	26	68,443
62	21	53,452
63	12	24,028
64	9	46,169
Over 65	5	22,598
Total	**2,406**	**$ 5,826,579**

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

THE EDUCATIONAL EMPLOYEES'
SUPPLEMENTARY RETIREMENT SYSTEM
of Fairfax County

On July 1, 1973, Fairfax County Public Schools established the ERFC—*The Educational Employees' Supplementary Retirement System of Fairfax County*—to provide its employee members an independent retirement plan to supplement their primary benefits from the Virginia Retirement System (VRS) and Social Security. The 1973 launch of ERFC stands among many significant FCPS benchmarks of that year, including the opening of Lake Braddock Secondary School in Burke, whose new office equipment included electric typewriters, mimeograph machines, and slide projectors. "Post-It Notes" were still six years away, and documents sent by fax or "Quipp" took six minutes per page. As ERFC entered the stage in 1973, the Dow Jones industrial average closed the year at 850, with the U.S. facing a severe recession.

Thirty-five years later, ERFC stands strong, working in parallel with FCPS to embrace the constancy of change in a new century, as we continue to prepare our students—and their teachers—for a bright and secure future.




Educational Employees' Supplementary Retirement System of Fairfax County

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