Diversity: the art of thinking independently together.

Malcolm Forbes

ERFC 2011

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2011

The Educational Employees'

Supplementary Retirement System

of Fairfax County

A Component Unit

of Fairfax County Public Schools

Fairfax, Virginia

FCPS FAIRFAX COUNTY PUBLIC SCHOOLS

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 *2010 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

2011 ERFC
Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2011
Educational Employees' Supplementary
Retirement System of Fairfax County

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

ADMINISTRATION

Jeanne Carr, Executive Director and CIO
Michael Lunter, Finance Coordinator

PREPARED BY

ERFC Staff
8001 Forbes Place, Suite 300
Springfield, VA 22151-2205

DESIGNED BY

Fairfax County Public Schools
Information Technology
Multimedia 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 to implement 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 implement an annual audit of the System's financial statement in accordance with generally accepted auditing standards.

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GFOA Certificate of Achievement .... *inside front cover*

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Achievements

PUBLIC PENSION STANDARDS *2011 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.

PPC

Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2011

Presented to

Educational Employees' Supplementary Retirement System of Fairfax County

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle
Program Administrator

Introduction

Letter of Transmittal

Letter from the Chairperson

Board of Trustees

Administrative Organization

Professional Services

Letter of Transmittal

ERFC
8001 Forbes Place, Suite 300
Springfield, VA 22151

December 1, 2011

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

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, 2011. The ERFC management holds responsibility for the financial information presented in this report. Proper internal accounting controls exist to provide reasonable, but not absolute, assurance for both the safekeeping of assets and the fair presentation of the financial statements. The concept of reasonable assurance recognizes that costs of controls should not exceed the anticipated benefits these controls provide. This CAFR reflects the careful stewardship of the System's assets, and dedicated service provided by the Board and staff. For financial reporting purposes, the 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. We believe this report also conforms to the Government Finance Officers Association's (GFOA) requirements..

The following provides a summary of the System's historical background, and outlines significant achievements for the Board and management during the fiscal year. A management discussion and analysis (MD&A) narrative is also provided in the Finance Section, immediately following the independent auditor's report.

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 specifically to supplement the benefits of two primary retirement plans: the Virginia Retirement System (VRS) and the federal Social Security System. In 1987, the VRS introduced major increases to the state's early retirement benefits, which required the ERFC to thoroughly re-examine the complementary structure of its supplemental benefits plan. Effective July 1, 1988, the ERFC significantly altered its Legacy Plan benefit structure in order to re-balance the benefit amounts payable to future ERFC members, while also maintaining and protecting the rights of current members. Thirteen years later, the School Board approved further refinements to the ERFC supplemental retirement program with the introduction of a second retirement plan, *ERFC 2001—*

Letter of Transmittal

a streamlined and stand-alone retirement plan structure, provided for all eligible FCPS employees hired on or after July 1, 2001. With prudent management oversight and sustained support from the School Board, the *ERFC* Legacy and *ERFC 2001* plans continue to provide a valuable and secure defined benefit retirement program for over twenty-thousand full-time educational, administrative and support employees of Fairfax County Public Schools (FCPS).

Administration and Technology Updates

The ERFC staff's multi-year effort to fully implement a single, fully-integrated Retirement Benefit Administration and Payroll operating system culminated in April with the launch of ERFC*Direct,* a new online service that provides members and retirees direct and secure access to their individual retirement account information. Active members can now use *ERFCDirect* to track their salary history and contributions, estimate future benefits and plan for retirement. ERFC*Direct* allows retirees to monitor their monthly benefit payments, verify health insurance deductions, make adjustments to tax withholdings, and update their contact information.

Earlier this spring, the ERFC staff welcomed **Patricia Church** to its administrative leadership team, as the System's new Retirement Coordinator. Church was named to the position formerly held by Joyce Cosby, who retired in February after serving the ERFC for more than 25 years. Prior to her promotion, Church spent six years as an ERFC retirement counselor, first joining FCPS in 2000. She began her career working as a personnel staffing and classification specialist in the Office of Personnel Management.

Strategic Plan

The ERFC staff is making strides to implement new directives established in the 2011 Strategic Plan, as honed and updated by the ERFC Board of Trustees last May. With the completion of ERFC's new Retirement Benefit Administration and Payroll operating system, plus the successful launch of ERFC*Direct,* the Board has renewed its focus to support and sustain best management practices for the retirement program. Moving forward, the ERFC will expand its communications outreach efforts to improve understanding of ERFC's benefits and value among its members and stakeholders. Early in 2012, the System will conduct a survey of active ERFC members to measure their overall awareness and appreciation of ERFC's benefits and services. The ERFC staff is also developing new educational content targeted to Plan members in the early to mid-stages of their FCPS careers.

Plan Financial Condition

The ERFC achieved a 22.1 percent return for fiscal year 2011, sustaining the strength generated with the System's healthy 17.1 percent turnaround performance in fiscal year 2010. These back-to-back double-digit returns helped to mitigate the 19.2 percent decline that ERFC experienced in fiscal year 2009. The System's strong results for this fiscal year are tempered nonetheless, by the intemperate financial activities rising subsequent to the fiscal year end. The Eurozone debt crisis, plus high unemployment levels and slowing growth in the U.S. markets, have only been compounded by the

Letter of Transmittal

deficit reduction debate and accompanied by a severe market decline. In response to the harsh realities of the current environment, the ERFC Board continues its risk-balanced approach to asset allocation, adopting strategies to help mitigate the economic risk factors while still seeking to achieve adequate returns.

ERFC's independent actuary reported that the System's funding ratio remained unchanged at 76.5 percent for the valuation period ending December 31, 2010. Due to the favorable returns achieved over the prior two years, all losses from the 2008-09 market down turn were fully recognized in the latest valuation. However, late in 2010, the System's actuary completed a study of plan experience for the 5-year period ending December 31, 2009, which determined new calculation assumptions and improved mortality rates. These findings put upward pressure on the employer contribution rate, offsetting the positive impact of the favorable investment returns. As a result, the recommended contribution rate increased from 4.04 percent to 4.34 percent for fiscal year 2012. The Board also recognizes that the market volatility that has continued since June, increases concern for the 2011 valuation results.

The Financial, Actuarial, and Statistical sections of this report provide detailed information regarding the Fund's overall financial condition. In addition, the *Schedule of Funding Progress,* included in the Financial Section, presents historical data for the ERFC's funding ratio.

Investment Activity

The ERFC's 22.1 percent return for FY 2011 outperformed its peers systems for the second consecutive year. The Fund's longer-term returns also remained strong, with the three, five and ten year return rates each ranked in the top quartile. Active management again proved its worth as ERFC's managers added more than one percent to the System's fiscal year return.

The Board made notable progress toward ERFC's new five percent allocation to private equity markets by committing $30 million to the Audax, Newstone, Lexington and Permal private equity funds. Entering FY 2012, the Trustees continue to evaluate other private equity firms to offer complementary strategies to these existing commitments. In May, the Board revised its Statement of Investment Policy to include an increased commitment to absolute return strategies, and to introduce dedicated positions in emerging market debt and equity securities. The Board anticipates that ERFC will meet its long-term investment objectives by taking these prudent measures to add further diversification in the portfolio with less reliance on the domestic equity markets. The Investment Section of this report provides further details regarding the Fund's activities and performance.

Professional Services

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

Letter of Transmittal

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 its FY 2010 Comprehensive Annual Financial Report (CAFR). This is the 14th 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' 2011 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.

In 2011, the editors of *Money Management Letter* nominated the ERFC as one of three finalists for Institutional Investor's "Small Public Plan of the Year. " Nominees were cited specifically for exemplary achievement in meeting their system goals through best practices, using intelligent and innovative investment strategies.

Conclusion

This report is produced through 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, its Government Finance Offices, and other interested parties. Copies are made available in print and electronically, with the full report posted on the ERFC website. We hope that all recipients find the report informative and useful.

Respectfully submitted,

Jeanne Carr, CFA
Executive Director
and CIO

Michael Lunter
Finance Coordinator

Letter from the Chairperson

ERFC
8001 Forbes Place, Suite 300
Springfield, VA 22151

December 8, 2011

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, 2011. The ERFC Board and staff commit ourselves to maintaining the financial integrity of the fund, and adhering to best practices in all areas of customer service. As participants and stakeholders in ERFC, you can be assured that the Board of Trustees works collectively on your 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 to you by Fairfax County Public Schools.

Last spring, the ERFC proudly introduced **ERFC*Direct*,** the pivotal component in the multi-year development of its new integrated Retirement Benefit and Payroll Administration system. ERFC*Direct* now provides members, retirees and other benefit recipients direct and secure online access to their individual ERFC retirement account information. This new online service, paired with the personal counseling sessions offered by the retirement staff, ensures that ERFC members and retirees receive the fullest possible range of support services. The Board of Trustees gratefully acknowledges the teamwork and tireless dedication provided by the entire ERFC staff throughout the operational development and launch of these important system upgrades.

This annual report details the ERFC system and investment activities specific to the 2011 fiscal year period ending June 30th. Just as the ERFC Board responded with cautious optimism to the Portfolio's very positive 17.1 percent return rate for FY 2010, we now temper our enthusiasm over the Fund's even stronger 22.1 percent return for FY 2011. While achieving double-digit returns in back-to-back years surely helps to mollify the negative results endured with the global collapse of 2009, we also take note of lingering macro-economic activities weighting down market growth. The nation's high unemployment level, compounded by testy, political debates over both foreign and domestic debt crises, challenge market confidence and underscore the diligence required with long-range investment planning. As such, the Board continues to work very closely with the ERFC staff and investment advisors to achieve a well-diversified asset mix, driven by risk-balanced strategies,

Letter from the Chairperson

and managed with the disciplined oversight required to sustain the System's long-term investment goals.

ERFC's defined benefit plan provides a valuable supplement to FCPS' employee members. In an uncertain economy, attentive management of this strong benefit plan structure becomes increasingly important for both retirees and active employee members planning for their futures. The ERFC 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 ERFC members by contributing to the retirement system – and the School Board remains committed to appropriately funding its teachers' retirement system. Effective July 1, 2011, the School Board increased FCPS' employer contribution rate from 4.04 percent of covered payroll to 4.34 percent for FY 2012. These combined employee and employer contributions comprise the initial platform for the ERFC. However, it is the System's investment earnings that provide the integral component necessary to fulfill the guarantee of defined member benefits. Although no one can forecast every turn in the marketplace, the ERFC continues to thrive by implementing prudent long-term investment strategies designed to spread pension costs over the full span of the employees' careers, while maintaining a solid fiscal balance during both strong and weak investment periods.

The ERFC Board and staff value your opinions and welcome your feedback. We encourage you to visit the website at: **www.fcps.edu/erfc/** or contact us directly with any questions regarding your pension fund or payable retirement benefits.

.

Yours sincerely,

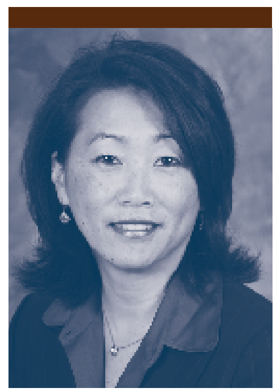
Michael Hairston
Chairperson
ERFC Board of Trustees

Board of Trustees

The Board of Trustees is the governing body of the Educational Employees' Supplementary Retirement System of Fairfax County. The ERFC Board comprises seven members: three appointed by the School Board, three elected by the System's active membership, and one trustee who is neither affiliated with, nor employed by Fairfax County, the Fairfax County School Board, nor by any union or similar organization representing teachers or other Fairfax County employees. The initial six trustees annually select and recommend a seventh ERFC Board member, or "individual Trustee," for approval by the Fairfax County School Board. The ERFC executive committee comprises the chairperson and treasurer. The Board meets monthly throughout the year, excluding August. ERFC trustees receive no compensation, but are reimbursed for business-related expenses.

Michael A. Hairston
Chairperson/Trustee
Elected Member

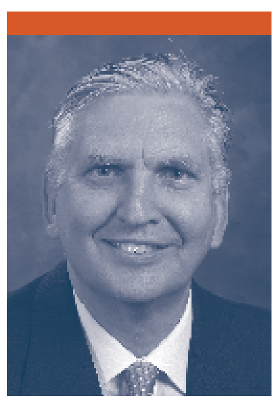
Leonard Bumbaca
Vice Chairperson/
Trustee
Elected Member



Susan Quinn
Treasurer/Trustee
Appointed Member

Nitin M. Chittal
Individual Trustee
Appointed Member

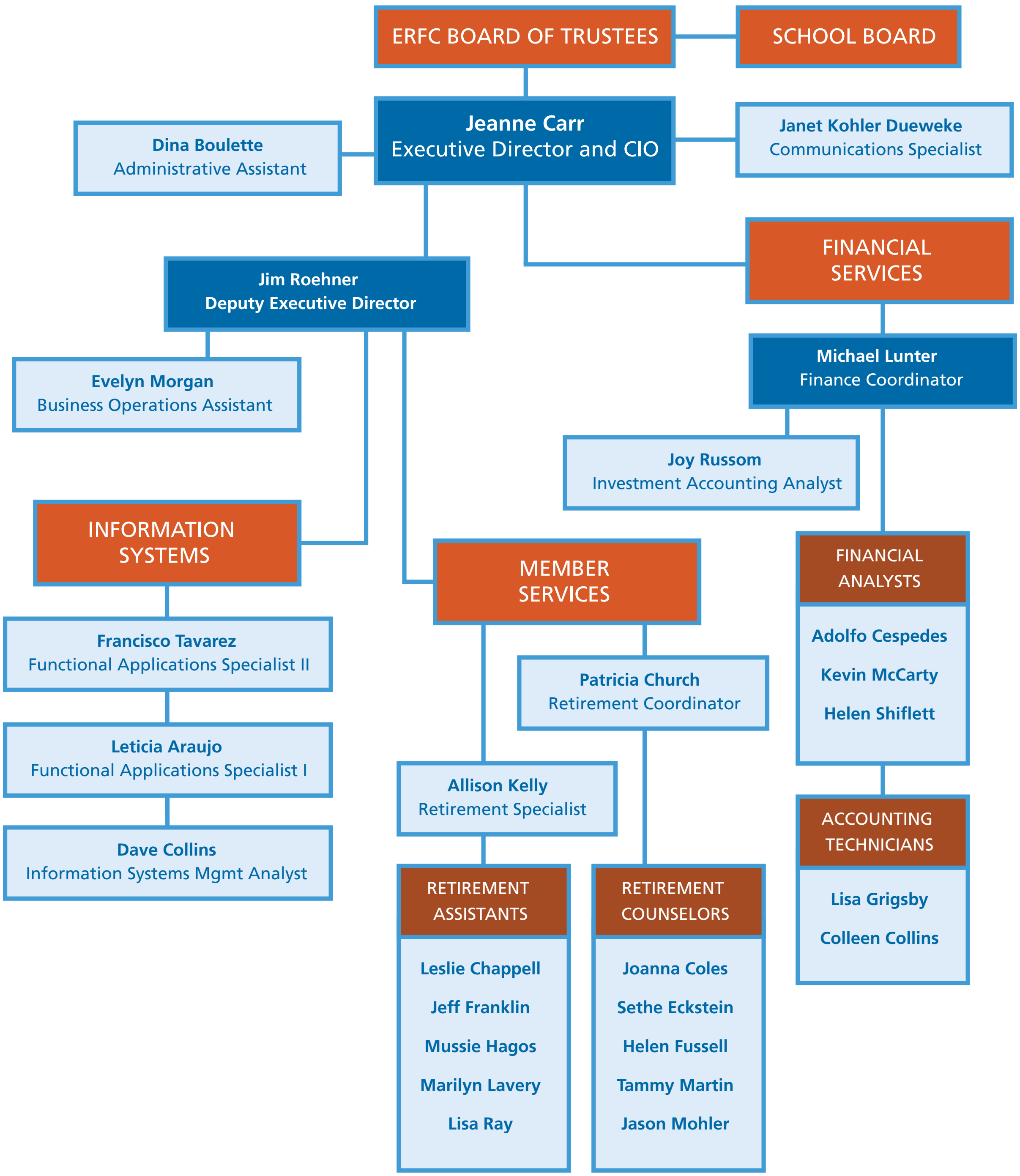
Nancy Hammerer
Trustee
Elected Member



Richard Moniuszko
Trustee
Appointed Member

De Hawley Brown
Trustee
Appointed Member

ERFC Administrative Organization



Professional Services

Investment Managers*

DOMESTIC EQUITY

Aronson+Johnson+Ortiz, LP
Philadelphia, Pennsylvania

Epoch Investment Partners, Inc.
New York, New York

Lazard Asset Management
New York, New York

Mellon Capital Management Corporation
San Francisco, California

Turner Investment Partners, Inc.
Berwyn, Pennsylvania

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.
Westport, Connecticut

Wellington Management
Newark, New Jersey

Pacific Investment Managment Company
Newport Beach, California

HEDGE FUND

Grosvenor Institutional Partners, L.P.
Chicago, Illinois

Permal Investment Management Services, Ltd.
London, England

PRIVATE EQUITY

Audax Management Company, LLC[1]
New York, New York

Lexington Partners[1]
New York, New York

Newstone Capital Partners, LLC[1]
Los Angeles, California

Permal Capital Management, LLC[1]
Boston, Massachusetts

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

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[1] Hired in fiscal year 2011
* See page 48 in the Investment Section

Financial Section

Independent Auditors' Report

Management Discussion and Analysis

Statement of Plan Net Assets

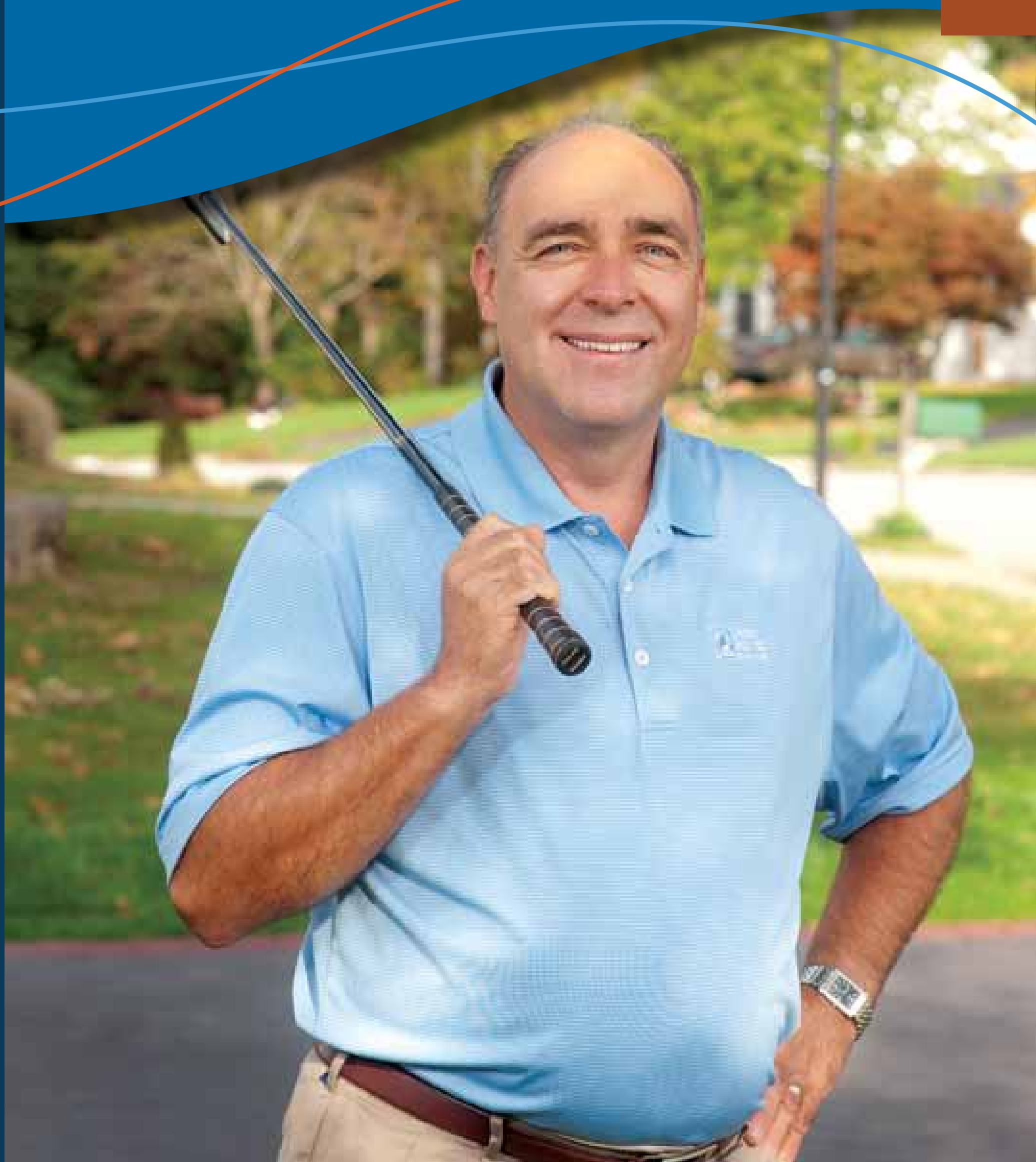
Statement of Changes in Plan Net Assets

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 20036-3389

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, 2011, 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 basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, and 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, 2011, and the respective Changes in Plan Net Assets for the year then ended in conformity with U.S. generally accepted accounting principles.

The Management Discussion and Analysis on pages 14 through 16, Schedule of Employer Contributions on page 28, and Schedule of Funding Progress on page 29 are not required parts 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

November 11, 2011
Page 2 of 2

Our audit was conducted for the purpose of forming an opinion on the System's basic financial statements. The supplementary information on pages 32 through 34 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 2011 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2011 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 it.

KPMG LLP

November 11, 2011

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, 2011. 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 2011 the return on ERFC's assets was 22.1 percent[1]. This resulted in a total asset value of $1.89 billion which reflects an increase of $279.3 million over fiscal year 2010's year end total (as reflected in the accompanying chart). Additional detail on this net increase in fund value is outlined in the Summary of Additions and Deductions table contained within this Financial Section. As shown, it is comprised of four major components. They include $341.7 million in investment income and $94.3 million in employee and employer contributions. The additions are offset by $149.0 million in retiree benefit payments and $7.6 million in member refunds and administrative expenses.

Fiscal year ending June 30, 2011 produced a return of 22.1 percent. ERFC's return exceeded the policy benchmark return of 20.9 percent[2]. Three, five, and ten year returns are 4.9 percent, 5.4 percent, and 6.5 percent, respectively.

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 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.

ERFC Fund Balances ($ in millions)

Fiscal Year	Ending Balance	Net Change Dollars	Net Change Percent
2007	$ 2,015.7	$249.2	14.1%
2008	1,858.6	(157.1)	(7.8)
2009	1,441.5	(417.1)	(22.4)
2010	1,607.7	166.2	11.5
2011	1,887.0	279.3	17.4

At December 31, 2010, the actuarial value of assets totaled $1.823 billion while liabilities totaled $2.384 billion. This resulted in a funding ratio of 76.5 percent. 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.

1 As calculated by New England Pension Consultants

2 Policy Index benchmark is 23.0% Russell 1000, 7.5% Russell 2000, 15% MSCI/ACWI Ex-US, 3.75% NAREIT, 3.75% NCREIF, 19% Barclays Aggregate Bond Index, 4.0% BC Credit, 4.0% BC Long Credit, 7.5% MS World Net, 7.5% Citi World Gov't Bond, 5% HFRI FoF

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 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. Investments generated sound gains. Expenses, or deductions, which consisted of benefit payments, refunds, and administrative costs were slightly higher this fiscal year.

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 30,2011	June 30,2010	Difference
Assets			
Total cash and investments	$ 1,960,012,834	$ 1,677,558,246	$ 282,454,588
Total receivables	123,593,163	65,875,861	57,717,302
Other assets	60,725	74,432	(13,707)
Total assets	2,083,666,722	1,743,508,539	340,158,183
Liabilities			
Accounts payable	1,678,615	1,549,101	129,514
Securities purchased	124,857,904	65,117,582	59,740,322
Securities lending collateral	70,162,084	69,178,433	983,651
Total liabilities	196,698,603	135,845,116	60,853,487
Total Net assets held in trust for pension benefits	**$ 1,886,968,119**	**$ 1,607,663,423**	**$ 279,304,696**

Management Discussion and Analysis

Financial Statements

As indicated in the Summary of Plan Net Assets, the System's net asset value increased $279.3 million or 17.4 percent in fiscal year 2011. This total increase in net assets is due primarily to an increase of $282.5 million in the value of investments, an increase in receivables of $57.7 million, a $59.9 million increase in the value of payables along with an increase of $1.0 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 2010 and 2011 results. These differing results are due mainly to a significant increase in investment income of $110.1 million and net contributions of $8.5 million, offset by an increase in benefit payments of 5.9 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 30,2011	June 30,2010	Difference
Additions			
Contributions			
Employer	$ 47,118,111	$ 37,868,623	$ 9,249,488
Member	47,167,129	47,918,341	(751,212)
Net Investment Income/(Loss)	341,669,367	231,574,404	110,094,963
Other Income/Loss	(1,503)	—	(1,503)
Total	435,953,104	317,361,368	118,591,736
Deductions			
Benefits	149,046,042	143,128,569	5,917,473
Refunds	4,258,033	3,339,910	918,123
Admin. Expenses	3,344,333	4,663,896	(1,319,563)
Total	156,648,408	151,132,375	5,516,033
Net Change	**$ 279,304,696**	**$ 166,228,993**	**$ 113,075,703**

Statement of Plan Net Assets

(As of June 30, 2011)

ASSETS	
Cash and short-term investments	
Cash	$ 935,246
Cash with fiscal agent	1,653,164
Cash collateral for securities on loan	70,162,084
Short-term investments	93,375,073
Total cash and short-term investments	**166,125,567**
Receivables	
Interest and dividends	3,276,920
Securities sold	120,316,243
Total receivables	**123,593,163**
Investments, at fair value	
U.S. Government obligations	9,775,639
Mortgage-backed securities	3,071,802
Domestic corporate bonds	85,788,166
Convertible bonds	9,132,544
International bonds	35,732,993
Common stock	641,400,077
Real estate	142,630,077
Preferred stock	5,904,596
Global asset allocation	189,426,564
Better beta	97,997,738
Hedge funds	84,487,068
Private equity limited partnerships	9,054,940
Mutual funds	479,485,063
Total investments	**1,793,887,267**
Prepaid assets	
Prepaid expenses	24,792
Other assets	
Furniture and equipment, net	35,933
Total assets	**2,083,666,722**
LIABILITIES	
Accounts payable	1,678,615
Securities purchased	124,857,904
Securities lending collateral	70,162,084
Total liabilities	**196,698,603**
Net assets held in trust for pension benefits	**$ 1,886,968,119**

See accompanying Notes to the Financial Statements

FINANCIAL

Statement of Changes in Plan Net Assets

(for the Fiscal Year Ended June 30, 2011)

ADDITIONS	
Contributions	
Employer	$ 47,118,111
Plan members	47,167,129
Total contributions	**94,285,240**
Investment income	
Net appreciation in fair value of investments	306,582,500
Interest and dividends	41,843,597
Real estate income	1,849,906
Other	151,594
Total investment income	**350,427,597**
Less investment expenses	
Investment management fees	8,258,940
Investment consulting fees	299,334
Investment custodial fees	229,985
Investment salaries	193,992
Total investment expenses	**8,982,251**
Income from securities lending activities	
Securities lending income	229,914
Securities lending borrower rebates	68,452
Securities lending management fees	(74,345)
Net securities lending income	**224,021**
Net investment income	**341,669,367**
Other income/Loss	
Loss on disposal of fixed asset	(1,503)
Total additions	**435,953,104**
DEDUCTIONS	
Benefits	149,046,042
Refunds	4,258,033
Administrative expense	3,344,333
Total deductions	**156,648,408**
Net increase	**279,304,696**
Net assets held in trust for pension benefits	
Beginning of year	**1,607,663,423**
End of year	**$1,886,968,119**

See accompanying Notes to the Financial Statements

Notes to the Financial Statements

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. 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 System. The costs of administering the System are paid for by 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, hedge funds of funds and limited partnerships—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*

Notes to the Financial Statements

June 30, 2011, the cash balance of $935,246 represents funds that could not be invested in the County's enhanced cash fund until July 1, 2011.

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, 2011, cash with fiscal agent totaled $1,653,164. 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, 2010, the date of the most recent actuarial valuation, the System's membership consisted of:

Retirees and beneficiaries currently receiving benefits	9,081
Terminated employees entitled to benefits but not yet receiving them	2,719
Active plan members	20,141
Total	**31,941**

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 System 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 members and the employer are established and may be amended by the ERFC Board of Trustees, subject to School Board approval. 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 4.04 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, 2009 valuation recommended that the contribution rate for the two-year period beginning July 1, 2011 to June 30, 2013 be increased to 4.34 and 4.53 percent respectively.

Annual Pension Cost

ERFC's annual required contribution (ARC) for fiscal year 2011 was $47 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, 2010, the most recent actuarial valuation date, ERFC was 76.5 percent funded. The actuarial accrued liability for benefits was $2.4 billion and the actuarial value of assets was $1.8 billion, resulting in an unfunded actuarial accrued liability (UAAL) of $0.6 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 47.1 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, 2010 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 3.75 to 9.05 percent annual wage increase, of which both include a 3.75 percent inflation assumption. In addition, there is a 3% retiree cost-of-living adjustment. Unfunded actuarial liabilities are amortized over a closed 30 year period using the level percent of payroll method. The remaining amortization period at December 31, 2010 was 28 years. Assets are valued using the 5 year smoothing formula, which recognizes that assets must always be between 75% and 125% of the market. If the method results in an actuarial value of assets that is less than 75% or more than 125%, the actuarial value will be reset and the difference between market and acutuarial value shall be spread over 4 future years. There is no legal maximum requirement on the employer contribution rate.

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 future derivatives that were not reported on the financial statements as of June 30, 2011. 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, 2011 the market value of these stock index futures was

Notes, *continued on next page*

Notes to the Financial Statements

$223,285. Throughout the fiscal year, the exposure to off-balance sheet derivatives was insignificant and ranged from .01 percent to .05 percent of the total portfolio.

In addition, the System had indirect investments in derivatives through its ownership interest in Better Beta and Global Asset Allocation portfolios, plus with two of the Private Real Estate managers. These portfolios are commingled funds in which ERFC has a percentage ownership. Derivatives in these portfolios consisted of interest rate swaps which reduce the effect of interest rate fluctuations by converting floating rate financing into fixed rate loans for real estate investments. Futures, because they are more liquid than over the counter derivatives, have among the lowest transaction costs available, carry minimal counterparty risk and are de facto currency hedged. FX currency forwards which are utilized for hedging non US dollar- denominated physical instruments (such as Inflation Linked Bonds) back to the base currency. At June 30, 2011 exposure to interest rate swaps and futures was $737,144, while exposure to forward currency contracts was $(656,939) .

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: interest rate risk, credit risk, concentration of credit risk, and foreign currency risk.

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 its fixed income managers. However, it does expect the average duration to be within 25 percent of the portfolio's benchmark.

Notes, *continued on page 24*

Investment Combined Duration as of June 30, 2011

Investment Category	Amount	Modified Duration
U.S. Treasuries	$ 60,396,231	4.14
Agencies	13,961,848	2.37
Corporate bonds	146,912,229	6.68
Municipals	2,604,124	0.9
Mortgages	88,975,143	2.78
Asset-backed securities	3,042,415	7.43
CMBS	3,200,345	3.88
Emerging market	842,020	3.04
Foreign bonds	68,179,049	4.08
Convertible and preferred	10,590,869	7.92
Cash and cash equivalents	66,805,467	—
Other positive	201,353	—
Other negative	(183,838)	7.8
Total	**$ 465,527,255**	**4.13***

* *Duration in years*

Notes to the Financial Statements

CREDIT QUALITY SUMMARY (As of June 30, 2011)

Rating	Category	Percent	Amount	Total	Percent
AAA	Domestic bonds	2.6%	$ 12,186,115		
	International bonds	5.8%	26,784,489		
	Mortgage backed securities	19.5%	90,636,181		
	US Government obligations	16.3%	75,756,377	$ 205,363,162	44.2%
AA	Municipal bonds	0.4%	2,010,377		
	Domestic bonds	1.0%	4,855,622		
	Mortgage backed securities	1.0%	4,858,155		
	International bonds	0.9%	4,094,655	15,818,809	3.3%
	Domestic bonds	11.4%	53,206,821		
	Convertible bonds	0.0%	195,200		
	International bonds	0.2%	799,168		
	Mortgage backed securities	0.1%	465,713	54,666,902	11.7%
BAA	International bonds	2.0%	9,353,582		
	Mortgage backed securities	0.0%	157,906		
	Domestic bonds	2.7%	12,726,178	22,237,666	4.7%
BA	Domestic bonds	0.0%	48,725	48,725	0.0%
BBB	Convertible bonds	0.5%	2,337,902		
	Mortgage backed securities	0.1%	258,840		
	International bonds	0.9%	4,054,851		
	Domestic bonds	8.2%	38,005,421		
	Preferred stocks	0.0%	109,275	44,766,289	9.7%
BB	Convertible bonds	0.5%	2,558,350		
	Domestic bonds	1.3%	5,824,918		
	International bonds	0.2%	1,146,000	9,529,268	2.0%
B	Convertible bonds	0.1%	325,613		
	Domestic bonds	4.6%	21,272,136		
	International bonds	0.2%	925,795	22,523,544	4.9%
Below B	Domestic bonds	0.1%	242,813		
	Preferred stocks	0.0%	186,083	428,896	0.1%
Not Rated	Cash and Cash equivalent	10.7%	49,775,217		
	Convertible Bonds	0.8%	3,715,480		
	Mortgage backed securities	0.2%	1,043,410		
	International bonds	3.2%	15,008,572		
	Domestic bonds	1.9%	8,653,077		
	US Government obligations	2.1%	9,775,639	87,971,395	18.9%
Withdrawn Rating	Domestic bonds	0.3%	1,304,265		
	Mortgage backed securities	0.1%	643,697		
	International bonds	0.0%	224,637	2,172,599	0.4%
Total		**100.0%**	**$465,527,255**	**$465,527,255**	**100.0%**

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Notes to the Financial Statements

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, 2011, 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, 2011, 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 $205.5 million and $153.1 million. The indexed portfolio had a value of $106.9 million. The market value of the largest issue other than the U.S. Government in the portfolios of the active managers was only 4.1 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.

Deposits
At June 30, 2011, short-term investments with the custodial bank totaled $93,375,073. 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

Summary of Security Lending June 30, 2011:

Securities	Cash Market Value	Cash Collateral
Corporate mortgage	$ 8,737	$ 8,992
Convertible bonds	1,075,369	1,103,744
Domestic corporate bonds	4,409,163	4,578,137
International stock	4,595,860	4,771,522
Domestic stock	58,623,616	59,699,689
Total collateral	**$ 68,712,745**	**$ 70,162,084**

Notes to the Financial Statements

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 $831,258 due to the 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 $70,162,084 as of June 30, 2011, are shown on the Statement of Plan Net Assets. As of June 30, 2011, the market value of securities on loan for cash collateral was $68,712,745. Securities received as collateral are not reported as assets and liabilities 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.

Notes, *continued on next page*

Investments with the custodian as of June 30, 2011, included the following:

Investment Type	Market Value
U.S. Government obligations	$ 9,775,639
Mortgage-backed securities	3,071,802
Domestic corporate bonds	85,788,166
Convertible bonds	9,132,544
International bonds	35,732,993
Common stock	641,400,077
Real estate	142,630,077
Preferred stock	5,904,596
Global asset allocation	189,426,564
Better beta	97,997,738
Hedge funds	84,487,068
Private equity limited partnerships	9,054,940
Mutual funds	479,485,063
Sub-total investments	**$ 1,793,887,267**
Cash collateral for securities on loan	70,162,084
Total	**$ 1,864,049,351**

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Notes to the Financial Statements

Market Value of Foreign Currency Risk
(As of June 30, 2011)

Currency	Cash & Cash Equivalents	Equity	Convertible & Fixed Income	Preferred Stocks	Futures	Total U.S. Dollar
AUSTRALIAN DOLLAR	$ 8,043,075	$ 8,209,935	$ 3,787,713	—	—	$ 20,040,723
BRAZIL REAL	—	892,559	1,767,032	—	—	2,659,591
BRITISH POUND STERLING	(14,327,807)	43,850,207	269,471	—	—	29,791,871
CANADIAN DOLLAR	(2,541,930)	11,626,932	6,557,576	—	—	15,642,578
CZECH KORUNA	123,306	—	—	—	—	123,306
DANISH KRONE	76,514	2,267,794	—	—	—	2,344,308
EURO CURRENCY UNIT	(2,583,496)	73,038,597	224,637	349,863	15,136	71,044,737
HONG KONG DOLLAR	93,601	5,952,528	—	—	—	6,046,129
HUNGARIAN FORINT	103	—	—	—	—	103
INDONESIAN RUPIAN	6,648	221,665	—	—	—	228,313
ISRAELI SHEKEL	—	632,054	—	—	—	632,054
JAPANESE YEN	(10,709,869)	52,255,704	—	—	—	41,545,835
MALAYSIAN RINGGIT	1	3,189,500	—	—	—	3,189,501
MEXICAN NEW PESO	102	456,048	2,624,360	—	—	3,080,510
NEW TAIWAN DOLLAR	71,640	3,753,648	—	—	—	3,825,288
NEW TURKISH LIRA	17,769	1,255,518	—	—	—	1,273,287
NEW ZEALAND DOLLAR	7,025,895	31,073	7,193,501	—	—	14,250,469
NORWEGIAN KRONE	7,448,826	1,346,450	2,641,107	—	—	11,436,383
PHILIPPINES PESO	12,627	420,302	—	—	—	432,929
POLISH ZLOTY	101	2,289,943	—	—	—	2,290,044
S AFRICAN COMM RAND	109	29,909	—	—	—	30,018
SINGAPORE DOLLAR	56,500	6,352,753	4,540,950	—	—	10,950,203
SOUTH KOREAN WON	—	10,061,514	—	—	—	10,061,514
SWEDISH KRONA	7,228,126	3,951,858	—	—	—	11,179,984
SWISS FRANC	2,263,387	8,878,129	—	—	—	11,141,516
THAILAND BAHT	24,736	1,538,066	—	—	—	1,562,802
GRAND TOTAL	**$ 2,329,964**	**$ 242,502,686**	**$ 29,606,347**	**$ 349,863**	**$ 15,136**	**$ 274,803,996**

Notes to the Financial Statements

Foreign Currency Risk
The System's Investment Guidelines on active fixed income holdings are limited to debt instruments of U.S. entities denominated in U.S. dollars which includes U.S. denominated sovereign bonds. However, with Trustee approval, ERFC's two active fixed income managers have been granted exceptions that allow 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 at left provides a summary of ERFC's foreign currency risk.

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
2006	$ 34,648,918	100%
2007	36,644,001	100%
2008	38,334,140	100%
2009	37,281,658	107%
2010	35,146,816	108%
2011	47,118,111	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, 2010. 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.

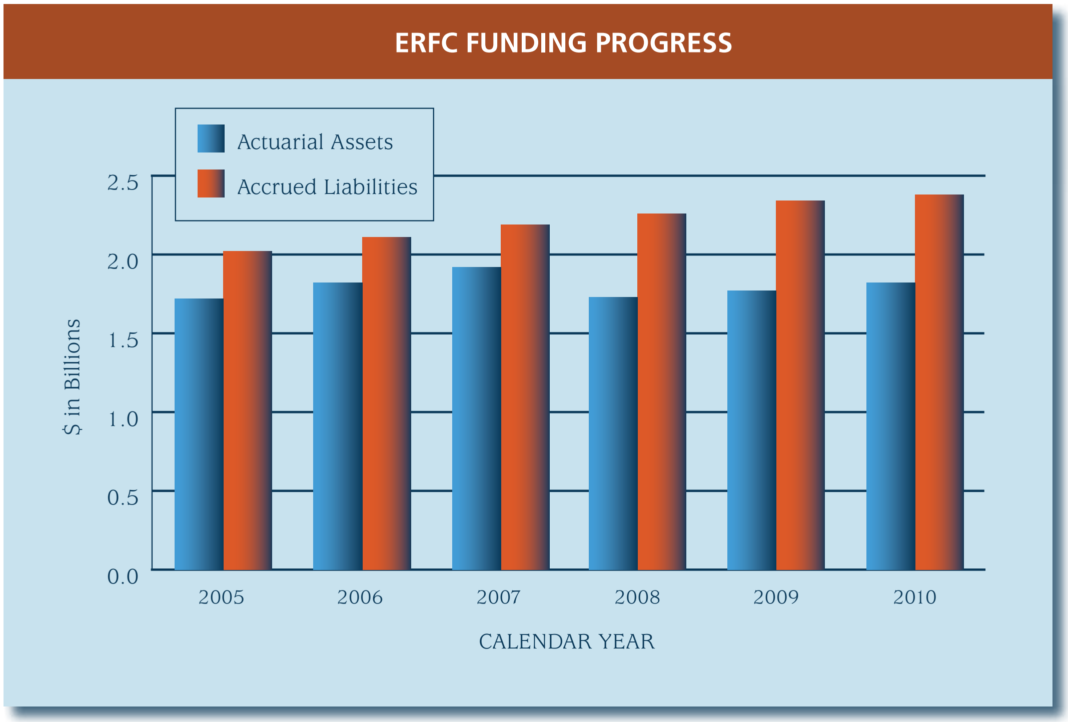
Required Supplementary Information

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)
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%
12/31/08	1,733,946	2,255,298	521,352	76.88%	1,211,140	43.05%
12/31/09	1,769,540	2,339,869	570,329	75.62%	1,208,093	47.21%
12/31/10	1,822,603	2,384,061	561,458	76.45%	1,191,290	47.13%

[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, 2010
Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Remaining amortization period	28 years
Asset valuation method	5-year smoothed market which recognizes asset values should be between 75% and 125% of the market value
Actuarial assumptions:	
Investment rate of return	7.5%*
Projected active member salary increases	3.75–9.05%*
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, 2011 — The employer rate increased from 4.04 to 4.34 percent of salaries.
- July 1, 2010 — The employer contribution rate is increased from 3.2 percent to 4.04 percent.
- July 1, 2009 — The employer contribution rate is decreased from 3.37 percent to 3.2 percent.
- 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.

Contribution Rates (as a percent of salary)

Fiscal Year	Composite Employer	Employee	Total
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
2009	3.37	4.00	7.37
2010	3.20	4.00	7.20
2011	4.04	4.00	8.04

- 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.

FINANCIAL

Other Supplementary Information

SCHEDULE OF ADMINISTRATIVE EXPENSES

(Year Ended June 30, 2011)

Personnel services	
Salaries and wages	$ 1,712,896
Retirement contributions	225,366
Insurance	207,698
Social security	137,976
Total personnel services	**2,283,936**
Professional services	
Actuarial	161,418
Legal	119,838
Payroll disbursement	26,983
Plan automation	105,898
Strategic planning	17,465
Audit	46,702
Total professional services	**478,304**
Communications	
Printing	16,741
Postage	28,706
Total communications	**45,447**
Supplies	
Office supplies	10,263
Dues and subscriptions	6,520
Total supplies	**16,783**
Other services and charges	
Board travel and staff development	24,873
Equipment	107,329
Building rent	356,652
Depreciation expense and asset disposal	18,460
Miscellaneous	12,549
Total other services and charges	**519,863**
Total administrative expenses	**$ 3,344,333**

Other Supplementary Information

SCHEDULE OF INVESTMENT EXPENSES

(Year Ended June 30, 2011)

Investment management fees	
Fixed income managers	
Loomis-Sayles and Company, L.P.	$ 570,557
Mellon Capital Management Corporation	13,654
Pacific Investment Management Company	476,398
Equity managers	
Aronson+Johnson+Ortiz, LLC	313,906
Epoch Investment Partners, Inc.	470,542
Lazard Asset Management	369,186
Mellon Capital Management Corporation	48,695
Westfield Capital Management	368,801
International managers	
Acadian Asset Management, Inc.	531,363
AllianceBernstein L.P.	582,950
William Blair & Company	303,135
Real Estate managers	
J.P. Morgan Asset Management	272,350
Prudential Financial	167,419
UBS Realty Investors, LLC	221,745
Urdang Investment Management	472,673
Global Asset Allocation managers	
Pacific Investment Management Company	769,788
Wellington Management Company LLP	994,063
Better Beta	
Bridgewater Associates	464,988
Hedge fund of funds	
Grosvenor Capital Management, L.P.	477,222
Permal Investment Management Services. Ltd.	286,850
Private equity	
Audax Mezzanine Fund III, L.P.	20,964
Lexington Capital Partners VII	24,503
Newstone Capital Partners, LLC	5,938
Permal Private Equity Opportunities IV, L.P.	31,250
Total investment management fees	8,258,940
Other investment service fees	
Custodial fees - Mellon Trust	229,985
Investment consultant fees—New England Pension Consulting, Inc.	286,152
Monitor managers' trading processes—Zeno consulting group	10,000
Foreign tax consulting—Pricewaterhousecoopers	3,182
Investment salaries	193,992
Total other investment service fees	**723,311**
Total investment expenses	**$ 8,982,251**

FINANCIAL

Other Supplementary Information

SCHEDULE OF PROFESSIONAL SERVICE FEES

(Year Ended June 30, 2011)

Service Provider	Nature of Service	Amount
Gabriel, Roeder, Smith & Company	Actuary	$ 161,418
Mary Ann Swanson	Plan automation	105,898
Bredhoff & Kaiser, P.L.L.C.	Legal counsel	56,687
Groom Law Group, Chartered	Legal counsel	62,115
ADP payroll services	Pension disbursement	23,112
Aon Hewitt consulting	Strategic planning	17,465
KPMG, LLP	Audit	46,702
Various	Legal	1,036
Various	Pension disbursement	3,871
Total professional service fees		**$ 478,304**

Investment Section

Consultant Report on Investment Activity

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Asset Structure

Investment Results

Ten Largest Equity and Fixed Income Holdings

Brokerage Commissions

Investment Summary

Investment Management Fees

Consultant Report on Investment Activity

NEPC, LLC

November 3, 2011

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, 2011.

As of the June 30th fiscal year-end, the Fund was in compliance with policy, and had 46.2 percent in equities, 7.4 percent in real estate equity, 24.7 percent in bonds, 6.0 percent in absolute return strategies, 0.5 percent in private equity, and 15.2 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 22.1%[1] in the year ending June 30, 2011, which ranked in the top 45% of public funds over $1 billion within the ICC Universe. Over the last 12 months ending June 30, 2011, ERFC outperformed its assumed actuarial return target of 7.5% by 14.6%. Assets increased from $1.61 billion at the end of fiscal 2010 to approximately $1.89 billion as of June 30, 2011[2].

Fiscal Year 2011 Market Review

Fiscal year 2011 continued the recovery process that began in fiscal year 2010 from the lows experienced during fiscal year 2009. Market sentiment and macroeconomic events played key roles as drivers of global markets throughout the fiscal year. Support from governments and central banks continued for much of the fiscal year until the last quarter which saw a relenting of quantitative easing by the Federal Reserve and fiscal austerity measures across Europe being implemented in an attempt to reign in public debt. Investors flocked to riskier assets during most of the fiscal year until global concerns mounted; causing a pullback and flight to safer assets during the 2nd quarter of calendar year 2011. Sentiment began to shift negative as the European debt crisis, increased inflation concerns, and multiple geopolitical risks weighed heavily on investors' minds. Further compounding

[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.
[2] The fund assets presented in the following Investment Section are reported at fair value.

One Main Street | Cambridge, MA 02142 | TEL: 617.374.1300 | www.nepc.com
CAMBRIDGE | ATLANTA | CHARLOTTE | CHICAGO | DETROIT | LAS VEGAS | SAN FRANCISCO

25 Years 1986-2011

Consultant Report on Investment Activity

investor sentiment was an inability of Congress to reach a deal on the US debt ceiling which remained unresolved as of June 30th, 2011.

The broad domestic equity market, as measured by the S&P 500 Index, continued its strong recovery from fiscal year 2009, producing a +30.7% return for fiscal year 2011. The domestic bond market, as measured by the Barclays Aggregate Bond Index, returned +3.9% in fiscal year 2011 representing a drop from the previous two years at +6.1% in 2009 and +9.5% in 2010. The global equity market, as measured by the MSCI All Country World Index (net), returned +30.1% in fiscal year 2011 relative to a positive +11.8% in fiscal year 2010.

The quarter ended September 30th, 2010 proved to be a volatile start to the fiscal year as markets moved each month along with investor sentiment, eventually rallying in September to post strong gains for the quarter. Hints of more quantitative easing from the Federal Reserve helped drive the rally as the S&P 500 posted its best September since 1939 and finished the quarter at +11.3%. These hints also helped global markets as US dollar depreciation contributed heavily to the MSCI EAFE which returned +16.5% for the quarter. Foreign currency gains against the dollar contributed +9.4% to the MSCI EAFE index. The late September rally masked overall concerns in the global economy as sovereign debt levels remained unattractively high and further quantitative easing providing only a short-term measure to stimulate the market and improve liquidity.

The quarter ended December 31, 2010 saw a continuation of volatile, sentiment driven markets. The Fed's initiation of another round of quantitative easing (QE2) in November along with a tax deal that included a payroll tax cut, extension of unemployment benefits, and a tax credit for business capital expenditures helped boost equity market returns. Small cap stocks led the way as the Russell 2000, Russell 2000 Growth, and Russell 2000 Value each posted gains of +16.3%, +17.1%, and +15.3% for the quarter. International markets also benefitted from QE2 as it overshadowed the lingering European debt issue. Interest rates rose sharply during the quarter which caused most fixed income markets to turn negative as investors shifted to riskier assets.

The first quarter of 2011 featured a plethora of external events that dominated headlines across global markets. Political turmoil in the Middle East, multiple natural disasters in Japan, a deepening civil war in Libya, and the downgrading of Greek, Portuguese, and Spanish government bonds all played a role in the volatile quarter. Though the markets continued to be volatile, equity markets, with the exception of Japan, posted positive returns for the quarter. The S&P 500 posted a +5.9% return while small cap stocks continued to outperform other indices as the Russell 2000 posted a +7.9% return. International markets fared well but were weighed down by performance in Japan as the MSCI Japan was down -4.9%, while the MSCI EAFE was +3.4% for the quarter. Fixed Income markets proved to be resilient through the first quarter with US credit sectors posting strong results based on improving business and unemployment indicators. Rising commodity prices and further QE2 sparked concern over high inflation, causing yields on 10-year Treasuries to rise 17 basis points. The Federal Reserve also announced that it would maintain a fed funds rate near zero for an extended period.

The quarter ended June 30, 2011 began on a positive trend but macroeconomic headlines dominated in May and June, wiping away most gains. The European debt crisis, growing

INVESTMENT

Consultant Report on Investment Activity

inflation concern in China, and poor US job reports fed investor sentiment that the global recovery was stalling. Fiscal austerity measures in Europe and the Fed's decision to forgo any additional quantitative easing further reduced support systems for the global recovery. Overall, most US equity markets posted relatively flat returns for the quarter with mid-cap stocks performing best. Internationally, the developed markets outperformed emerging markets as the MSCI EAFE posted a +1.6% return compared to -1.1% for the MSCI EM. The MSCI EAFE was boosted by the sell-off of the US dollar, which in local currency terms returned -0.8% for the quarter. Fixed income markets posted positive returns for the quarter as investors sought safety, driving yields downward across the yield curve. The BC TIPS index posted a +5.3% return over the quarter highlighting increased attention towards hedging the risk against inflation. A looming concern that had yet to be addressed by the end of the quarter was the US debt ceiling which Congress had yet to reach a deal on. A deal was struck on August 1st to raise the debt ceiling which averted the threat of a default by the US government. However, this did not stop Standard & Poor's from downgrading US debt to AA+ on August 5th. Standard & Poor's cited "political brinkmanship" and a debt deal that did not go far enough in trying to reign in US debt levels as contributing factors. While the move was anticipated, the event triggered a global sell-off with increasing volatility.

Asset allocation changes during fiscal year 2011 included a reduction in the target weights to both domestic and international equities, and an increase in the target weight to private equity. With the exception of some additional commitments to the private equity space, there were no manager changes during the fiscal year.

Fiscal Year 2011 performance was strong and above target. 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,

Douglas Moseley
Partner

Keith Stronkowsky
Consultant

Strategic Review and Investment Policy

Introduction

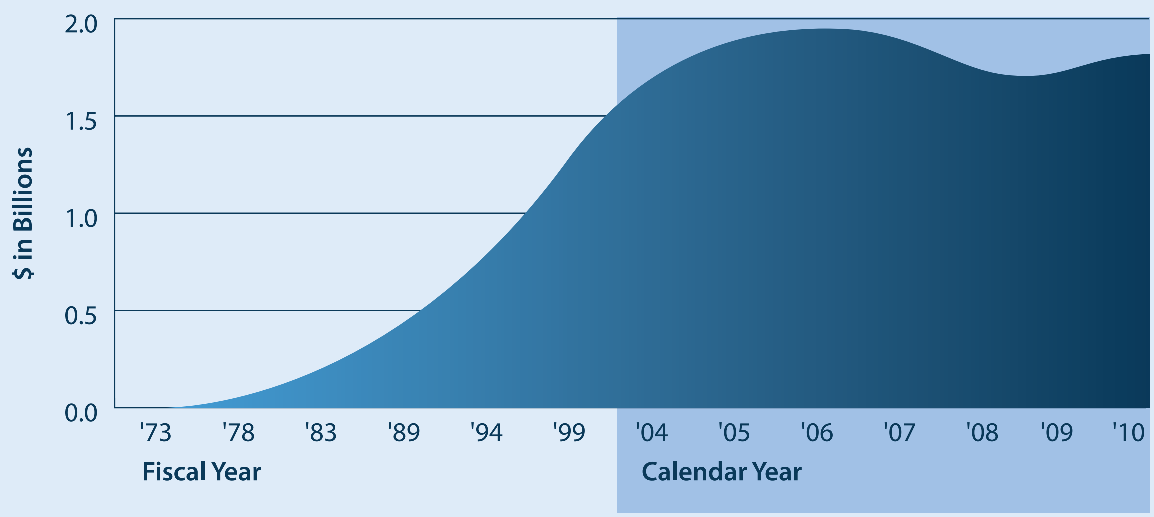
The members of the ERFC Board of Trustees have jurisdiction over and ultimate fiduciary responsibility for the investment of the System's assets. In carrying out their responsibilities, they must adhere to applicable laws, regulations, and rulings with respect to the duties of investment fiduciaries. 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, 2010 actuarial valuation)



Investment Managers

ASSETS UNDER MANAGEMENT

As of June 30, 2011 (Dollars in millions)

Investment Manager	Investment Type	Amount
Equities		
Large Capitalization		
Aronson + Johnson + Ortiz	Value	$ 108.3
Mellon Capital Management Corp.	Core Index (Russell 1000)	187.3
Turner Investment Partners	Growth	121.2
Small/Mid Capitalization		
Epoch Investment Partners, Inc.	Value	53.1
Lazard Asset Management	Core	53.0
Westfield Capital Management	Growth	54.1
International		
Acadian Asset Management	Core	101.0
AllianceBernstein L.P.	Value	93.8
William Blair & Company	Growth	101.9
Fixed Income		
Loomis-Sayles & Company	Core Plus	153.1
Mellon Capital Management Corp.	Core Index	106.9
Pacific Investment Management Co.	Core Plus	205.5
Global Asset Allocation/Better Beta		
Bridgewater Associates, Inc.	Better Beta	98.0
Wellington Management Co.	Global Asset Allocation	96.6
Pacific Investment Management Co.	Global Asset Allocation	92.9
Hedge fund of funds		
Grosvenor Institutional Partners, L.P.	Hedge Fund of Funds	70.6
Permal Group of Funds	Hedge Fund of Funds	42.4
Private Equity		
Audax Mezzanine Fund III, L.P.	Private	0.4
Lexington Capital Partners VII, L.P.	Private	4.2
Newstone Capital Partners II, L.P.	Private	1.4
Permal Private Equity Opportunities IV, L.P.	Private	3.0
Real Estate		
JP Morgan Asset Management	Private	15.8
Prudential Financial	Private	16.0
UBS Realty Investors, LLC	Private	21.8
Urdang Investment Management	Public	85.6
Cash (temporary cash)		(0.3)
Total		**$ 1,887.6**

Asset Structure

Interim Strategic Target Allocation*

The asset structure shown below represents the Trustees' assessment of their optimal asset allocation as of June 30, 2011. 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.

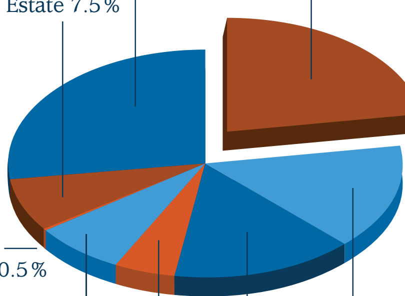
The table below provides a comparison between the target asset mix, consistent with the achievement of the long-term objective of the fund, and the actual asset allocation as of June 30, 2011.

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

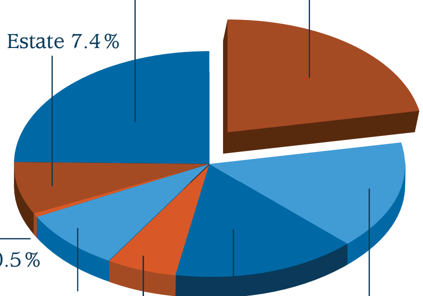
Actual Asset Allocation as of June 30, 2011

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



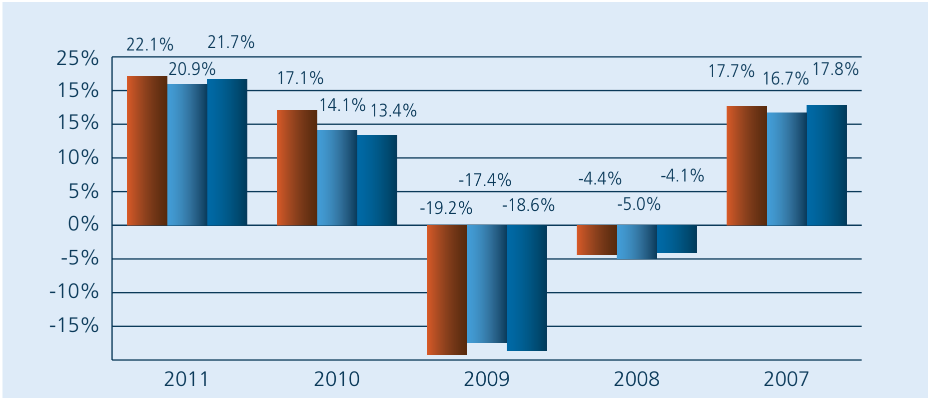
Security Class	Interim Strategic Targets as of June 30, 2011	Actual Asset Allocation as of June 30, 2011
Domestic Large Cap Equity	22.5 %	22.1 %
Domestic Small Cap Equity	7.5	8.5
International Equity	15.0	15.6
Real Estate	7.5	7.4
Fixed Income	27.0	24.7
Global Asset Allocation/Better Beta	15.0	15.2
Absolute Return	5.0	6.0
Private Equity	0.5	0.5
Cash	—	—
Total	**100.0%**	**100.0%**

Investment Results

Fiscal Years Ending June 30

TOTAL FUND RETURNS

- ERFC
- Benchmark*
- Public Funds**



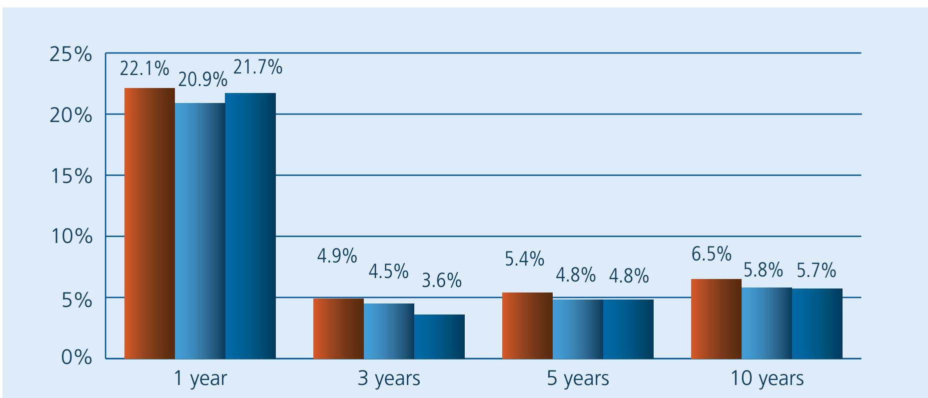
* Diversified benchmark is 23.0% Russell 1000, 7.5% Russell 2000, 15% MSCI ACWI Ex-US, 3.75% NAREIT, 3.75% NCREIF, 19.0% Barclays Aggregate Bond Index, 4.0% BC Credit, 4.0% BC Long Credit, 7.5% MS World Net, 7.5% CitiWorld Govt Bond, 5% HFRI FoF

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

For the Periods Ending June 30, 2011

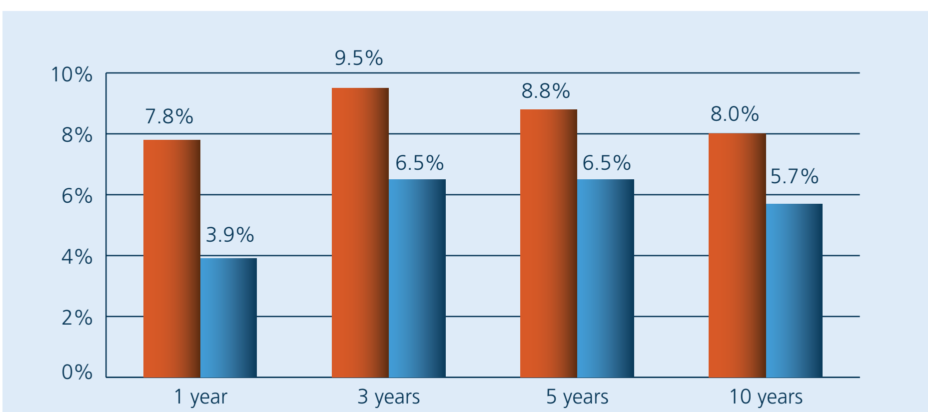
TOTAL FUND

- ERFC
- Benchmark*
- Public Funds**



FIXED INCOME

- Fixed Income
- Benchmark: Barclays Capital Aggregate Bond



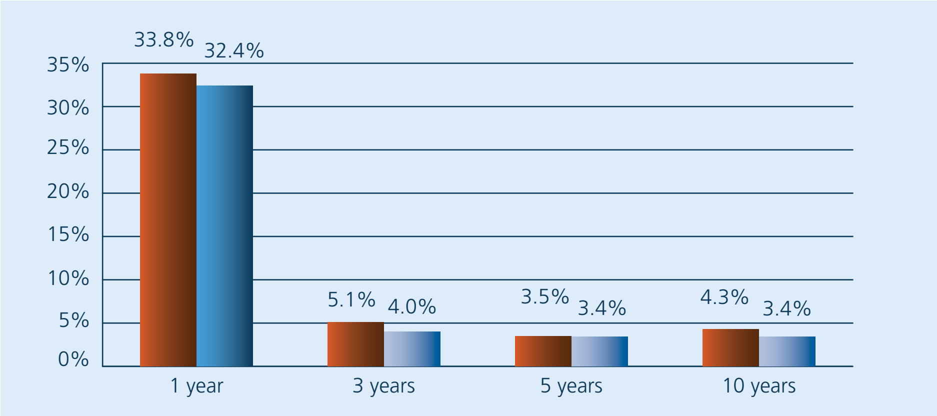
Investment Results

(For the Periods Ending June 30, 2011)

DOMESTIC EQUITY

Domestic Equity

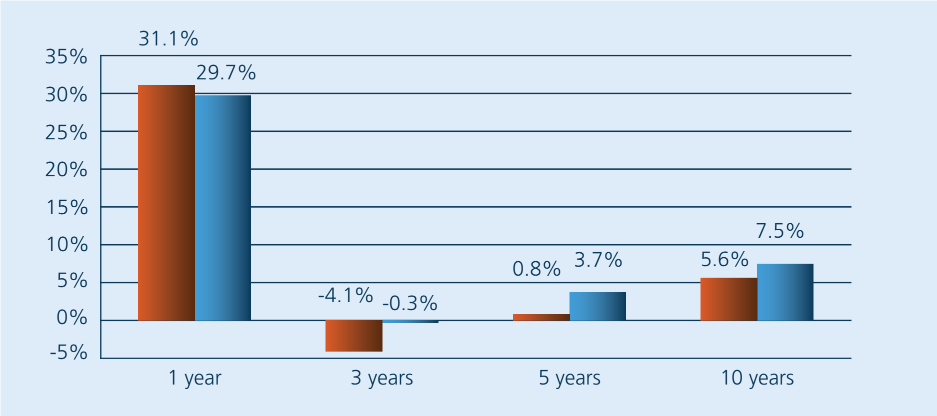
Benchmark: Russell 3000 Index



INTERNATIONAL EQUITY

International Equity

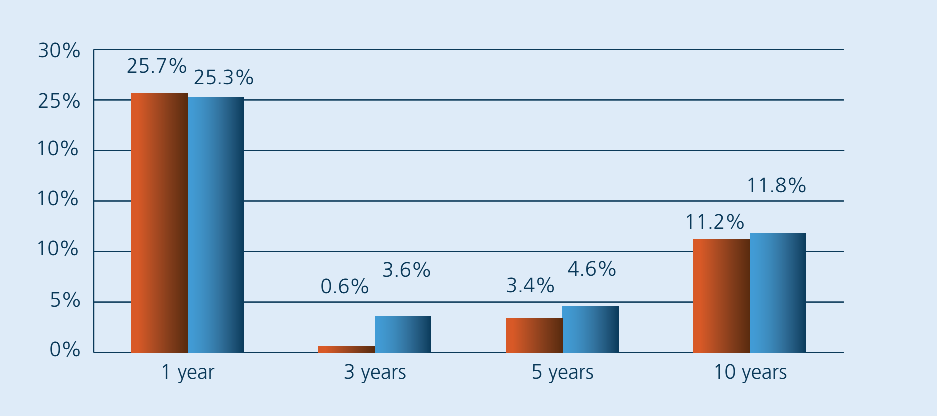
Benchmark: MSCI/ACWI Ex-USA Index



REAL ESTATE

Real Estate

Benchmark: 50% NAREIT 50% NCREIF



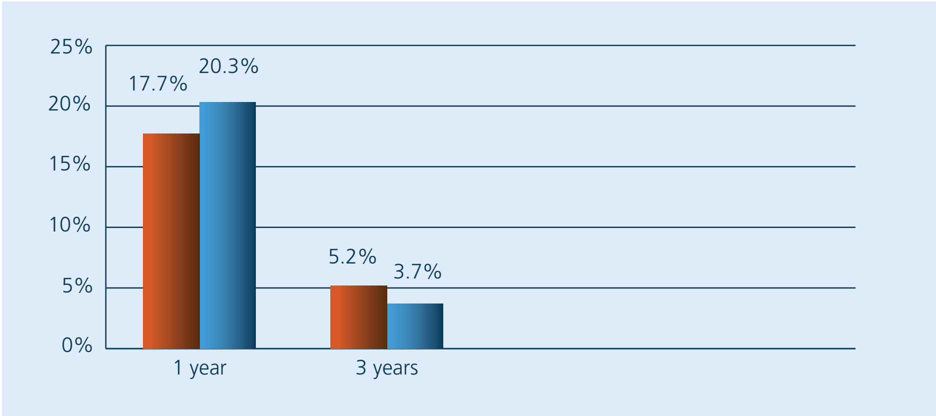
Note: All investment performance figures were calculated using a time-weighted rate of return based on market values.

Investment Results

(For the Periods Ending June 30, 2011)

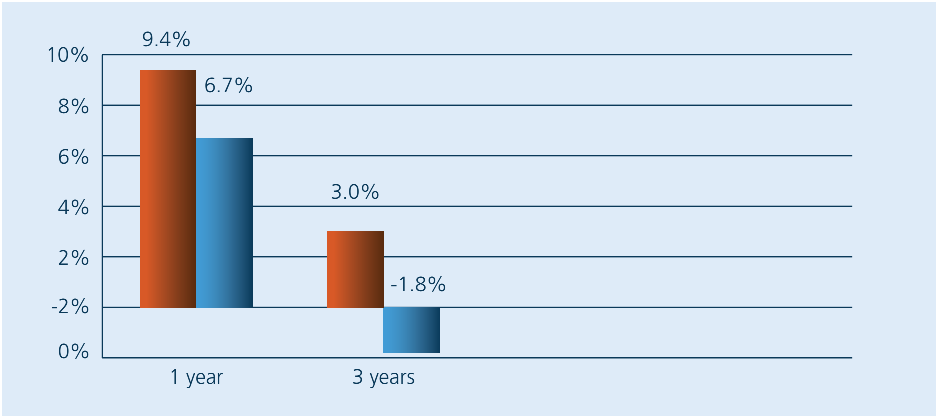
GLOBAL ASSET ALLOCATION

- GAA
- Benchmark: 50% MSCI World / 50% S & P Citi World Govt



HEDGE FUND

- Hedge Fund of Funds
- Benchmark: HFRI Fund of Funds



Schedules of Ten Largest Equity & Fixed Income Holdings

(As of June 30, 2011)

TEN LARGEST EQUITY HOLDINGS*

No. Shares	Description	Cost	Fair Value	% of Total Portfolio
20,640	APPLE INC	$ 3,443,466	$ 6,928,229	0.37%
40,700	CHEVRON CORP	2,847,643	4,185,588	0.22%
68,210	QUALCOMM INC	3,250,668	3,873,646	0.22%
89,500	JPMORGAN CHASE & CO	3,612,173	3,664,130	0.19%
46,700	RIO TINTO ORD	2,718,034	3,366,731	0.18%
63,400	ASTRAZENECA ORD	2,773,370	3,163,494	0.17%
112,400	WELLS FARGO & CO	2,990,715	3,153,944	0.17%
40,950	ANADARKO PETROLEUM CORP	2,770,971	3,143,322	0.17%
33,640	CONCHO RESOURCES INC	2,498,543	3,089,834	0.16%
6,050	**GOOGLE INC**	**3,384,672**	**3,063,599**	**0.16%**
	Total	**$ 30,290,255**	**$ 37,632,517**	**2.01%**

TEN LARGEST FIXED INCOME HOLDINGS*

Par Value	Security	Coupon	Maturity	Cost	Fair Value	% of Total Portfolio
7,250,000.000	U S TREASURY NOTE	0.875%	1/13/2012	$ 7,290,522	$ 7,281,755	0.39%
7,255,000.000	INTER-AMERICAN DEVELOPMENT BK	6.0%	12/15/2017	4,980,586	6,289,169	0.33%
5,500,000.000	INTL BK RECON & DEVELOP	1.43%	3/5/2014	3,581,312	4,540,950	0.24%
3,070,000.000	GEORGIA-PACIFIC LLC	7.75%	11/15/2029	2,713,566	3,533,754	0.19%
2,800,000.000	BMC SOFTWARE INC	7.25%	6/1/2018	2,783,368	3,228,568	0.17%
2,675,000.000	NEW STH WALES TSY BDS AUD	6.0%	5/1/2012	2,719,180	2,890,804	0.15%
2,735,714.280	TRINITY RAIL LEASING LP	5.194%	10/16/2040	2,735,714	2,735,824	0.14%
2,490,000.000	U S TREASURY NOTE	1.0%	8/31/2011	2,490,106	2,493,884	0.13%
12,205,000.000	NORWAY	4.25%	5/19/2017	1,841,944	2,427,044	0.13%
2,190,000.000	GOVERNMENT OF CANADA	1.25%	12/1/2011	2,159,933	2,271,132	0.12%
	Total			**$ 33,296,231**	**$ 37,692,885**	**1.99%**

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

Schedule of Brokerage Commissions

(Year Ended June 30, 2011)

Broker Name	Base Volume	Total Shares	Base Commission	Commission Percentage
CREDIT SUISSE, NEW YORK (CSFBUS33XXX)	$117,214,470	11,975,631	$75,851	0.06%
DEUTSCHE BK SECS INC, NY (NWSCUS33)	96,615,451	3,670,593	51,887	0.05
BNY CONVERGEX / LJR, HOUSTON	89,501,395	2,795,789	108,992	0.12
UBS SECURITIES LLC, STAMFORD	72,573,870	1,946,829	44,070	0.06
LIQUIDNET INC, BROOKLYN	69,698,186	2,487,248	55,612	0.08
SG AMERICAS SECURITIES LLC, NEW YORK	46,449,706	1,261,483	13,012	0.03
INVESTMENT TECHNOLOGY GROUP, NEW YORK	35,333,339	1,356,597	24,178	0.07
MORGAN STANLEY & CO INC, NY	30,665,890	2,676,411	27,468	0.09
BARCLAYS CAPITAL LE, JERSEY CITY	28,389,122	867,756	21,503	0.08
INSTINET EUROPE LIMITED, LONDON	26,148,018	3,445,603	34,609	0.13
GOLDMAN SACHS & CO, NY	24,019,409	1,209,110	18,406	0.08
J P MORGAN SECURITIES INC, BROOKLYN	20,962,464	683,277	19,603	0.09
UBS EQUITIES, LONDON	20,728,394	2,080,832	20,825	0.1
BROADCOURT CAP CORP/SUB OF MLPF&S,NY	16,345,942	823,127	32,423	0.2
PULSE TRADING LLC, BOSTON	15,174,254	1,217,930	23,695	0.16
MERRILL LYNCH PIERCE FENNER SMITH INC NY	14,326,474	625,840	18,604	0.13
CITIGROUP GBL MKTS INC, NEW YORK	13,901,513	423,571	14,819	0.11
CREDIT SUISSE (EUROPE), LONDON	13,618,021	1,467,427	13,254	0.1
JEFFERIES & CO INC, NEW YORK	13,561,688	485,530	17,190	0.13
NOMURA SECS INTL INC, NEW YORK	13,371,080	2,283,279	11,111	0.08
MERRILL LYNCH INTL LONDON EQUITIES	12,363,222	1,422,350	14,173	0.11
ROYAL BANK OF SCOTLAND N.V, LONDON	11,608,526	2,479,800	5,418	0.05
J.P. MORGAN CLEARING CORP, NEW YORK	11,016,445	996,034	7,814	0.07
CITIGROUP GBL MKTS/SALOMON, NEW YORK	9,936,834	1,808,314	7,603	0.08
KNIGHT EQUITY MARKETS L.P.,JERSEY CITY	9,572,108	505,381	19,333	0.2
BARCLAYS CAPITAL, LONDON (BARCGB33)	8,620,751	849,542	6,200	0.07
MORGAN STANLEY & CO, LONDON (MSLNGB2X)	7,357,154	397,258	9,041	0.12
J P MORGAN SECS LTD, LONDON	7,255,652	439,891	7,134	0.1
BOUZET (DU) S A SOCIETE DE BOURSE, PARIS	6,817,227	241,751	3,409	0.05
GOLDMAN SACHS INTL, LONDON (GSILGB2X)	6,299,459	497,573	5,615	0.09
KNIGHT SEC BROADCORT, JERSEY CITY	6,287,891	460,055	17,771	0.28
MACQUARIE SECURITIES LIMITED, HONG KONG	6,109,872	2,393,450	6,798	0.11
HSBC BANK PLC (MIDLAND BK)(JAC), LONDON	5,597,495	510,625	3,875	0.07
RBC CAPITAL MARKETS CORP, MINNEAPOLIS	5,543,205	255,882	6,082	0.11
SG SEC (LONDON) LTD, LONDON	5,498,023	438,863	4,220	0.08
ITG HONG KONG LIMITED, HONG KONG	5,356,838	1,693,738	3,809	0.07
CITIGROUP GLOBAL MARKETS LTD, LONDON	5,257,145	511,336	5,915	0.11
BAIRD, ROBERT W & CO INC, MILWAUKEE	4,920,110	206,625	8,554	0.17
MERRILL LYNCH PIERCE FENNER, WILMINGTON	4,808,343	1,791,074	4,295	0.09
RAYMOND JAMES & ASSOC INC, ST PETERSBURG	4,605,571	143,501	6,192	0.13
CITIGROUP GLOBAL MARKETS U.K., LONDON	4,583,023	862,749	5,344	0.12
REDBURN PARTNERS LLP, LONDON	4,334,701	130,227	6,085	0.14
DEUTSCHE BK INTL EQ, LONDN (DEUTGB22EEQ)	4,281,784	1,039,983	5,901	0.14
GUZMAN & CO, NEW YORK	4,005,533	241,300	3,265	0.08
STIFEL NICOLAUS	3,797,794	180,658	6,975	0.18
BLOOMBERG TRADEBOOK LLC, NEW YORK	3,703,439	264,650	5,293	0.14
UBS WARBURG ASIA LTD, HONG KONG	3,694,607	1,748,445	3,665	0.1
BROCKHOUSE AND COOPER, MONTREAL	3,290,524	182,095	1,412	0.04
OTHER BROKERS	144,392,347	18,093,634	165,119	0.11
TOTAL	**$ 1,099,514,309**	**84,570,647**	**$ 1,003,422**	**0.09%**

Investment Summary

	As of June 30, 2011		As of June 30, 2010	
	Market Value	% Market Value	Market Value	% Market Value
Fixed Income				
U.S. Government obligations	$ 9,775,639	0.5%	$ 2,506,135	0.2%
Mortgage-backed securities	3,071,802	0.2%	2,926,721	0.2%
Domestic corporate bonds	85,788,166	4.5%	88,503,776	5.5%
Convertible bonds	9,132,544	0.5%	2,374,447	0.1%
International bonds	35,732,993	1.9%	29,996,723	1.9%
Preferred stocks	5,904,596	0.3%	3,494,000	0.2%
Index / Commingled fund	272,156,889	14.5%	255,166,910	15.9%
Total fixed income	421,562,629	22.4%	384,968,712	24.0%
Domestic Equities:				
Basic industry	36,504,517	1.9%	12,662,006	0.8%
Consumer and services	197,776,579	10.5%	175,918,718	11.0%
Financial and utility	66,722,085	3.5%	51,380,866	3.2%
Technological	53,620,785	2.8%	62,042,646	3.9%
Index / Commingled fund	187,934,937	10.0%	165,366,431	10.3%
Total domestic stock	542,558,903	28.7%	467,370,667	29.2%
International Equity				
Basic industry	38,926,423	2.1%	25,100,179	1.5%
Consumer and services	161,563,116	8.6%	121,265,612	7.5%
Financial and utility	68,734,423	3.6%	50,991,586	3.2%
Technological	17,552,149	0.9%	20,686,249	1.3%
Index / Commingled fund	19,393,237	1.0%	21,998,614	1.4%
Total international stock	306,169,348	16.2%	240,042,240	14.9%
Real Estate				
Commercial	41,227,913	2.2%	72,804,056	4.5%
Commingled	101,402,164	5.4%	45,403,668	2.8%
Total real estate	142,630,077	7.6%	118,207,724	7.3%
Alternative investments				
Better beta	97,997,738	5.2%	89,324,001	5.6%
Global asset allocation	189,426,564	10.0%	164,349,788	10.2%
Hedge fund of funds	84,487,068	4.5%	77,259,135	4.8%
Limited partnerships	9,054,940	0.5%	—	—
Total alternative investments	380,966,310	20.2%	330,932,924	20.6%
Subtotal investments at fair value	1,793,887,267	95.1%	1,541,522,267	96.0%
Short-term Investments				
Money Market	93,375,073	4.9%	64,259,915	4.0%
Total short-term investments	93,375,073	4.9%	64,259,915	4.0%
Total	**$ 1,887,262,340**	**100.0%**	**$ 1,605,782,182**	**100.0%**

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

Schedule of Investment Management Fees

(Year Ended June 30, 2011)

Investment Category	Assets Under Management	FY 2011
Better beta	$ 97,997,738	$ 464,988
Domestic equity managers	542,558,903	1,571,130
Fixed income managers	421,562,629	1,060,609
Global asset allocation managers	189,426,564	1,763,851
Hedge fund of funds	84,487,068	764,072
International equity managers	306,169,348	1,417,448
Private equity	9,054,940	82,655
Real estate managers	142,630,077	1,134,187
Total	**$ 1,793,887,267**	**$ 8,258,940**

Note: Excludes cash and cash equivalents

Actuarial Section

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Short-Term Solvency Test

Analysis of Financial Experience

Summary of Benefit Provisions

Contribution Rates

Summary of Plan Changes

Actuary's Certification Letter

GRS
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June 3, 2011

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, 2010.

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

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Sample Pay Increase Assumptions for an Individual Member

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June 3, 2011
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Summary of Member Data Included in Valuation as of December 31, 2010

Active Members by Years of Service on December 31, 2010

All Active Members in Valuation on December 31, 2010 by Attained Age and Years of Service

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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 a 75% to 125% 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, 2010 valuation was based upon assumptions that were recommended in connection with a study of experience during the period from January 1, 2005 to December 31, 2009.

Based upon the results of the December 31, 2010 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.

Respectfully submitted,

Brian B. Murphy, FSA, EA, FCA, MAAA

Judith A. Kermans, EA, FCA, MAAA

BBM:JAK:clh

Gabriel Roeder Smith & Company

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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 85–115% market value corridor was added in the December 31, 2005 valuation. Additionally, the market value corridor on assets was changed from 75% to 125% in the December 31, 2008 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		
Service Index	Merit & Seniority	Base (Economy)	Increase Next Year
1	5.30%	3.75%	9.05%
2	3.80%	3.75%	7.55%
3	3.30%	3.75%	7.05%
4	3.10%	3.75%	6.85%
5	2.90%	3.75%	6.65%
6	2.70%	3.75%	6.45%
7	2.70%	3.75%	6.45%
8	2.30%	3.75%	6.05%
9	2.10%	3.75%	5.85%
10–19	1.80%	3.75%	5.55%
20–24	1.00%	3.75%	4.75%
25	0.00%	3.75%	3.75%

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
25	4 & over	0.03%	0.01%	0.00%	0.00%	0.03%	0.02%	0.01%	0.00%	11.20	15.40
30		0.03	0.01	0.00	0.00	0.03	0.02	0.01	0.01	7.60	11.20
35		0.03	0.02	0.00	0.00	0.05	0.04	0.01	0.01	5.40	7.60
40		0.04	0.02	0.00	0.00	0.07	0.06	0.02	0.02	3.80	4.20
45		0.05	0.03	0.01	0.00	0.10	0.09	0.03	0.02	3.00	3.00
50		0.08	0.04	0.01	0.01	0.17	0.15	0.04	0.04	2.00	3.00
55		0.13	0.07	0.02	0.01	0.29	0.25	0.07	0.06	3.20	4.20
60		0.22	0.12	0.03	0.01	0.49	0.35	0.12	0.09	4.00	5.00

Rates of separation for members with less than 4 years of service are assumed to be 16% in the first year, 13% in the second and thid years for men, and 14% in the second and third years for women.

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		2%			
46		2			
47		2			
48		2			
49		2			
50		2			
51		3			
52		6			
53		8			
54		8			
55	45%	9	22.5%	30	22.5%
56	35	4	17.5	31	17.5
57	25	4	12.5	32	12.5
58	25	4	12.5	33	12.5
59	25	4	12.5	34	12.5
60	30	8	15.0%	35	15.0
61	35	9	17.5	36	17.5
62	35	15	17.5	37	17.5
63	30	18	15.0	38	35.0
64	25	18	12.5	39	50.0
65	25		12.5	40 & up	100
66	25		12.5		
67	25		25.0		
68	25		25.0		
69	20		20.0		
70	20		20.0		
71	20		20.0		
72	20		20.0		
73	30		30.0		
74	30		30.0		
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	$ 187.03	$ 201.44	28.85	32.99
60	169.63	185.77	24.39	28.31
65	150.45	167.93	20.18	23.82
70	130.51	148.72	16.37	19.65
75	110.33	128.05	12.98	15.78
80	89.95	106.03	9.96	12.22

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

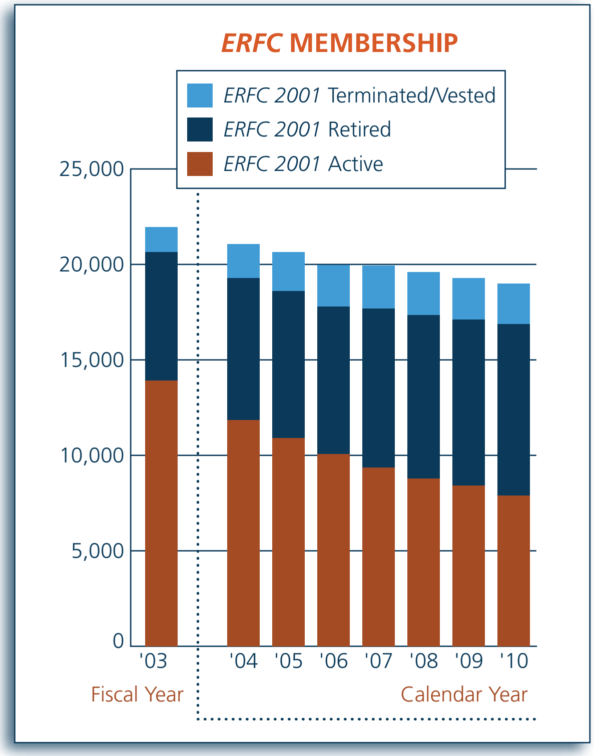
TABLE E: Rates of Forfeiture Following Vested Separation

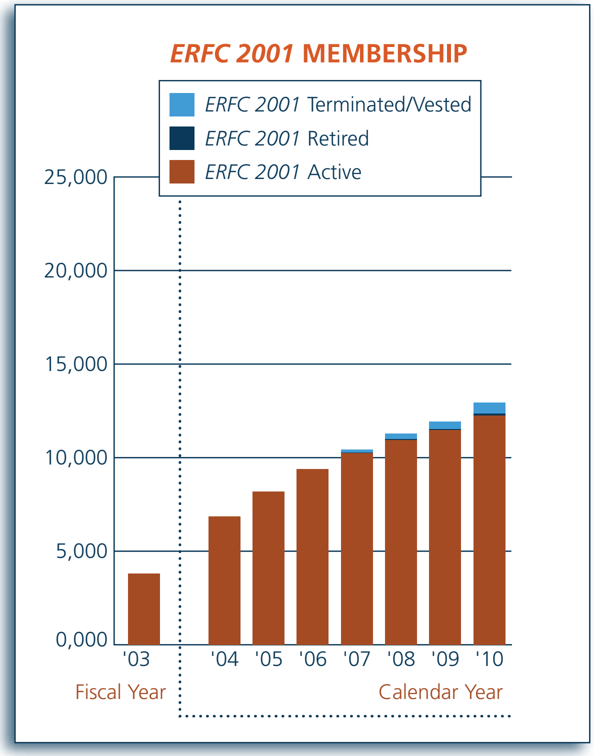
Forfeiture occurs when a vested person separates from service and withdraws contributions thereby forfeiting future rights to an employer financed benefit. The total probability of forfeiture is obtained by multiplying the probability of "other separation" from Table B by the probability of forfeiture 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	0.4750				
32	0.4500				
33	0.4250				
34	0.4000				
35	0.3750	0.5000			
36	0.3500	0.4667			
37	0.3250	0.4333			
38	0.3000	0.4000			
39	0.2750	0.3667			
40	0.2500	0.3333	0.5000		
41	0.2250	0.3000	0.4500		
42	0.2000	0.2667	0.4000		
43	0.1750	0.2333	0.3500		
44	0.1500	0.2000	0.3000		
45	0.1250	0.1667	0.2500	0.5000	
46	0.1000	0.1333	0.2000	0.4000	
47	0.0750	0.1000	0.1500	0.3000	
48	0.0500	0.0667	0.1000	0.2000	
49	0.0250	0.0333	0.0500	0.1000	
50	0.0000	0.0000	0.0000	0.0000	0.0000

Summary of Member Data

(Last Eight Years)





		ERFC			*ERFC 2001*			
	Year	**Active**	**Retired**	**Terminated/ Vested**	**Active**	**Retired**	**Terminated/ Vested**	**Total**
Fiscal Year	2002	13,940	6,375	1,362	2,134			23,811
(As of June 30)	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	29,331
	2007	9,350	8,333	2,249	10,249	21	157	30,359
	2008	8,791	8,556	2,243	10,940	39	317	30,886
	2009	8,417	8,707	2,177	11,474	65	390	31,230
	2010	7,900	8,968	2,137	12,241	113	582	31,941

Summary of Member Data

(As of December 31, 2010)

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

	YEARS OF SERVICE TO VALUATION DATE							TOTALS		
Age Group	**0-4**	**5-9**	**10-14**	**15-19**	**20-24**	**25-29**	**30 & Up**	**No.**	**Salary**	**Average**
15-19										
20-24										
25-29										
30-34	2	53	154					209	$ 12,708,369	$ 60,806
35-39	11	115	590	53				769	51,806,665	67,369
40-44	13	103	545	338	48	2		1,049	75,212,844	71,700
45-49	11	77	443	262	239	55	1	1,088	78,600,090	72,243
50-54	10	65	541	263	277	224	44	1,424	104,490,302	73,378
55-59	1	64	679	317	338	181	75	1,655	119,761,227	72,363
60	1	11	106	83	55	25	19	300	21,780,589	72,602
61		7	108	72	63	34	18	302	22,677,277	75,090
62		5	96	78	56	26	4	265	18,498,531	69,806
63	2	2	78	58	66	20	3	229	16,149,301	70,521
64		5	66	48	63	17	4	203	14,187,863	69,891
65		2	30	47	33	11		123	9,052,281	73,596
66		1	34	19	18	5	2	79	5,750,208	72,787
67		1	18	15	13	6	3	56	3,898,973	69,625
68		4	17	14	17	8	5	65	4,473,029	68,816
69		1	5	5	9	4	2	26	1,854,718	71,335
70			7	3	1	6	1	18	1,102,671	61,260
71			5	3	2			10	509,027	50,903
72			3	1	2	2		8	425,925	53,241
73			2	1	3	2	1	9	533,531	59,281
74				1	2		2	5	305,683	61,137
75 over			2	2	1	1	2	8	319,024	39,878
Total	**51**	**516**	**3,529**	**1,683**	**1,306**	**629**	**186**	**7,900**	**$ 564,098,128**	**$ 71,405**

Summary of Member Data

(As of December 31, 2010)

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	2							2	$ 38,800	$ 19,400
20-24	516	1						517	21,250,553	41,104
25-29	2,231	328						2,559	120,463,864	47,075
30-34	1,157	1,322						2,479	131,374,140	52,995
35-39	612	737						1,349	75,322,558	55,836
40-44	663	585						1,248	67,769,810	54,303
45-49	672	569						1,241	61,224,311	49,335
50-54	608	680						1,288	64,363,452	49,972
55-59	332	590						922	49,690,563	53,894
60	43	86						129	7,186,548	55,710
61	40	77						117	6,344,689	54,228
62	33	76						109	6,264,551	57,473
63	23	57						80	4,396,328	54,954
64	21	54						75	4,677,598	62,368
65	8	27						35	2,043,223	58,378
66	10	21						31	1,458,991	47,064
67	2	15						17	1,050,499	61,794
68	4	10						14	776,087	55,435
69	3	7						10	473,202	47,320
70	1	5						6	346,032	57,672
71		2						2	150,468	75,234
72	1	1						2	106,187	53,094
73	1	2						3	83,293	27,764
74		1						1	73,254	73,254
75 OVER	3	2						5	263,061	52,612
Total	**6,986**	**5,255**						**12,241**	**$ 627,192,062**	**$ 51,237**

ACTUARIAL

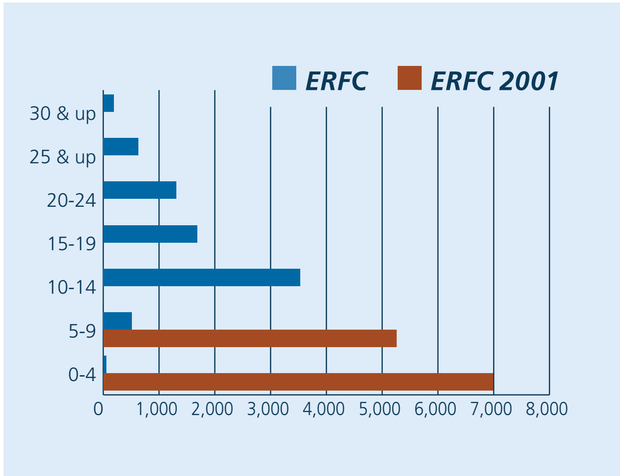
Summary of Member Data

(As of December 31, 2010)

ACTIVE MEMBER YEARS OF SERVICE

Average Service = 9 years

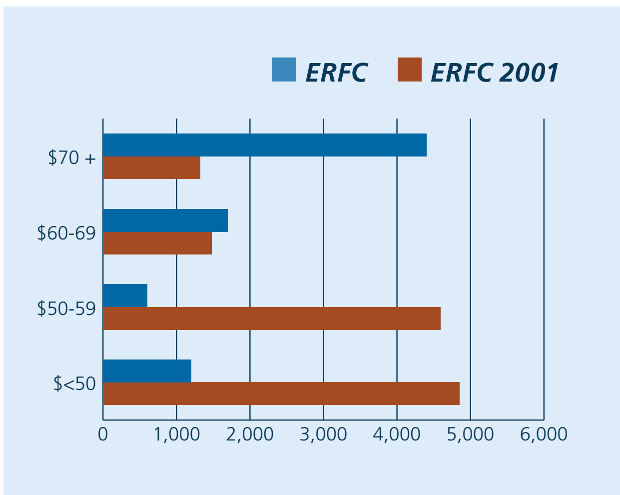
	0-4	5-9	10-14	15-19	20-24	25-29	30 & up
ERFC	51	516	3,529	1,683	1,306	629	186
ERFC 2001	6,986	5,255	–	–	–	–	–



ACTIVE MEMBER SALARIES ($ in thousands)

Average Annual Pay = $59,148

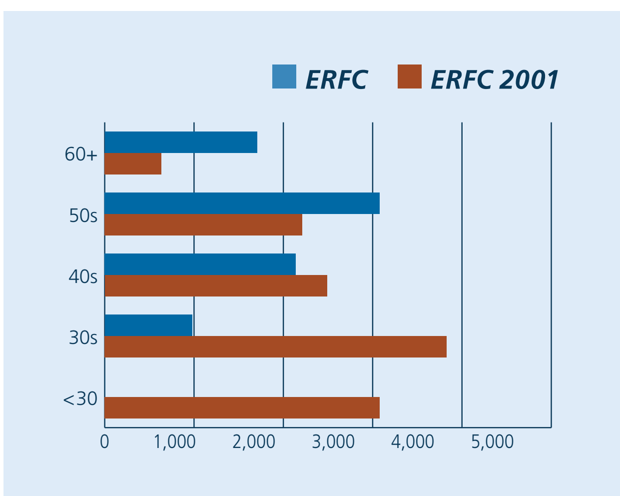
	<$ 50	$ 50-59	$ 60-69	$ 70+
ERFC	1,202	601	1,696	4,401
ERFC 2001	4,850	4,594	1,477	1,320



ACTIVE MEMBER AGES

Average Age = 44.0 years
Total Active Members = 20,141

	<30	30's	40's	50's	60+
ERFC	0	978	2,137	3,079	1,706
ERFC 2001	3,078	3,828	2,489	2,210	636



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, 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
December 31, 2008	19,731	1,211,140,009	61,383	3.6
December 31, 2009	19,891	1,208,092,606	60,735	(0.01)
December 31, 2010	20,141	1,191,290,190	59,148	(0.03)

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								
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
2008	461	660,186	220	147,638	8,595	11,189,751	1,302	4.52
2009	426	596,102	249	162,485	8,772	11,565,358	1,318	3.36
2010	563	774,606	254	170,078	9,081	11,916,352	1,312	3.03

* 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)						
6/30/1991	$ 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
@12/31/2008	302,910	1,237,613	714,775	1,733,946	100	100	27
12/31/2009	342,663	1,264,675	706,944	1,769,540	100	100	23
# 12/31/2009	342,663	1,314,885	682,321	1,769,540	100	100	16
@ 12/31/2010	374,086	1,355,093	654,882	1,822,603	100	100	14

@ After change in asset valuation method. $ After changes in benefit structure. # After changes in actuarial assumptions.

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								
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
2008	4.1	(277.5)	5.2	(0.4)	(4.0)	13.5	(259.1)	(11.8)
2009	45.0	(34.6)	8.8	(0.8)	(10.0)	(11.6)	(3.2)	(0.1)
#2010	53.1	(16.9)	5.2	0.2	(5.3)	(4.2)	32.1	1.4

\# Experience Study

* Updated Gain Formulas

@ Gain Loss analysis not performed

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 member's benefit includes service credit that the member would have earned between the date of death and eligibility for service retirement (with a minimum of 10 years of service used).

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

Member Contributions: Members contribute 4 percent of their salaries. Interest credits 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**
1992	2.00	5.08	7.08	2.00	5.53	7.53
1993	2.00	5.08	7.08	2.00	5.53	7.53
1994	2.00	5.08	7.08	2.00	5.53	7.53
1995	2.00	5.08	7.08	2.00	5.53	7.53
1996	2.00	5.08	7.08	2.00	5.53	7.53
1997	2.00	5.58	7.58	2.00	6.03	8.03
1998	2.00	5.58	7.58	2.00	6.03	8.03
1999	2.00	5.58	7.58	2.00	6.03	8.03
ERFC began using composite rates effective July 1, 1999						
2000	2.00	4.99	6.99			
2001	2.00	3.69	5.69			
2002	2.00	3.69	5.69			
2003	2.00	4.00	6.00			
2004						
7/1 to 5/30	2.00	4.29	6.29			
6/1 to 6/30	4.00	2.53	6.53			
2005	4.00	3.37	7.37			
2006	4.00	3.37	7.37			
2007	4.00	3.37	7.37			
2008	4.00	3.37	7.37			
2009	4.00	3.37	7.37			
2010	4.00	3.20	7.20			
2011	4.00	4.04	8.04			

Summary of Plan Changes

There were no significant plan changes during the valuation period ending December 31, 2010.

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

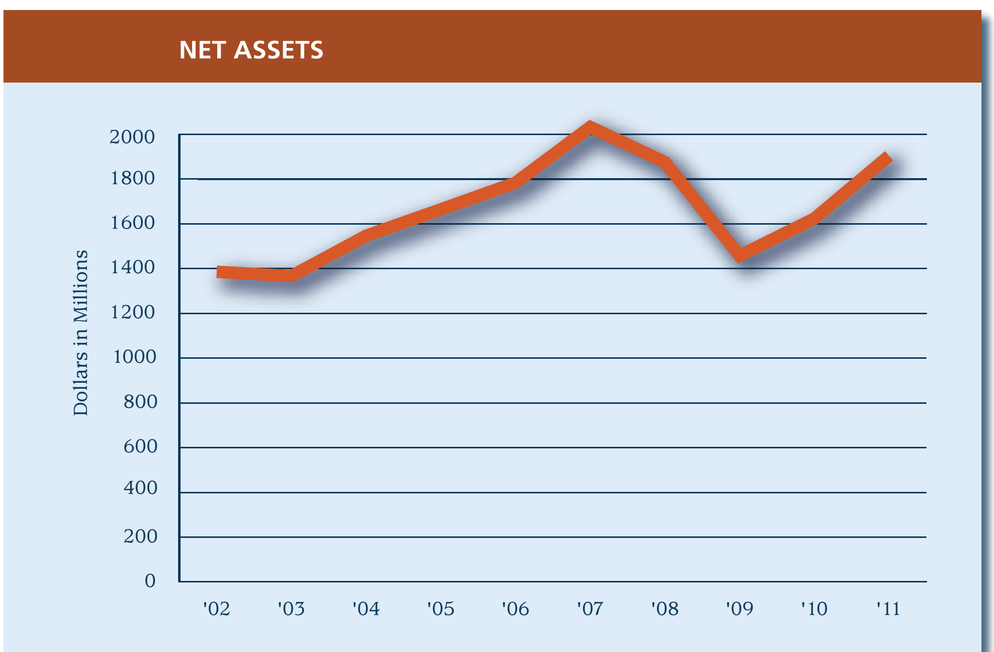
Current Benefits by Attained Ages

Deferred Benefits by Attained Ages

Net Assets

Last Ten Fiscal Years

FISCAL YEARS	NET ASSETS
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
2009	1,441,434,430
2010	1,607,663,423
2011	1,886,968,119

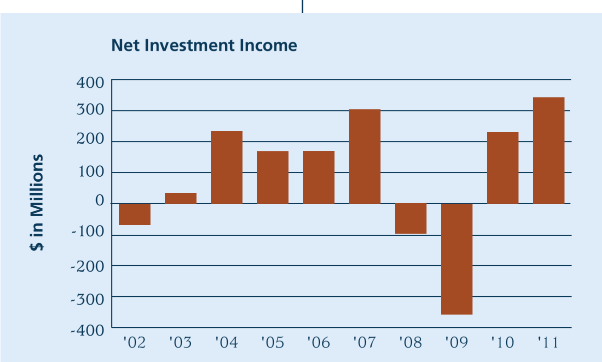


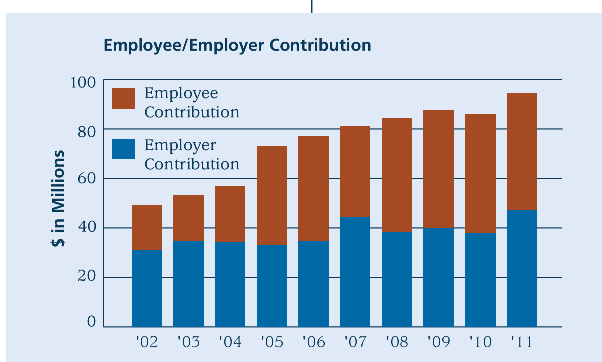
Changes in Net Assets

Last Ten Fiscal Years

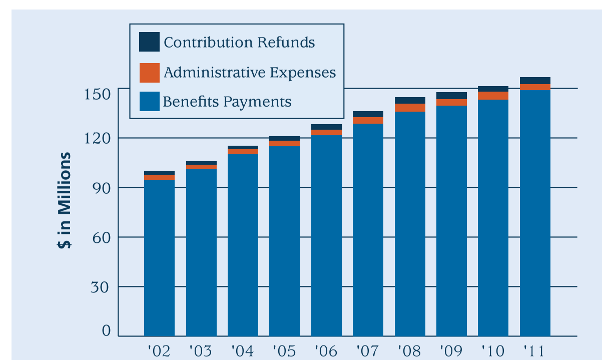
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
ADDITIONS										
Employee contributions	$ 18,472,712	$ 18,750,568	$ 22,340,870	$ 39,818,585	$ 42,292,828	$ 44,453,617	$ 46,143,803	$ 47,996,408	$ 47,918,341	$ 47,167,129
Employer contributions	30,849,067	34,506,630	37,331,203	32,198,596	34,648,918	36,644,001	38,334,140	40,012,480	37,868,623	47,118,111
Investment income (net of expenses)	(69,121,464)	32,857,465	233,807,964	168,479,920	169,944,356	304,119,327	(96,855,060)	(357,672,266)	231,574,404	341,669,367
Fixed assets	—	—	—	—	—	27,632	—	(5,494)	—	(1,503)
Total additions to plan net assets	(19,799,685)	86,114,663	293,480,037	240,497,101	246,886,102	385,244,577	(12,377,117)	(269,668,872)	317,361,368	435,953,104
DEDUCTIONS										
Benefit payments	94,247,498	100,979,864	110,236,424	114,999,379	121,687,318	128,739,638	135,927,308	139,594,144	143,128,569	149,046,042
Contribution refunds	2,153,958	1,848,428	1,996,947	2,794,118	3,087,501	3,583,007	4,229,850	3,975,907	3,339,910	4,258,033
Administrative expenses	3,190,667	2,867,018	2,918,778	3,110,563	3,289,518	3,718,761	4,631,844	3,898,620	4,663,896	3,344,333
Total deductions to plan net assets	99,592,123	105,695,310	115,152,149	120,904,060	128,064,337	136,041,406	144,789,002	147,468,671	151,132,375	156,648,408
Change in net assets net of expenses	$ (119,391,808)	$ (19,580,647)	$ 178,327,888	$ 119,593,041	$ 118,821,765	$ 249,203,171	$ (157,166,119)	$ (417,137,543)	$ 166,228,993	$ 279,304,696

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
6/30/1991	$ 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
@ 12/31/2008	1,211,140	1,237,613	1,017,685	2,255,298	1,733,946	521,352	76.9
12/31/2009	1,208,093	1,264,675	1,049,607	2,314,282	1,769,540	544,742	76.5
# 12/31/2009	1,208,093	1,314,885	1,024,984	2,339,869	1,769,540	570,329	75.6
12/31/2010	1,191,290	1,355,093	1,028,968	2,384,061	1,822,603	561,458	76.5

@ After change in asset valuation method.
$ After change in benefits.
# After changes in actuarial assumptions.

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												
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
2008	4,476	94,522,827	3,760	37,401,953	124	1,059,054	25	319,262	210	1,043,164	8,595	134,346,260
2009	4,615	96,983,027	3,791	38,266,346	134	1,105,438	24	294,234	208	1,043,259	8,772	137,692,304
Fiscal Years												
2010	4,600	100,020,271	3,783	40,614,214	145	1,167,515	23	308,454	194	1,018,115	8,745	143,128,569
2011	4,717	104,792,727	3,990	41,654,507	160	1,276,445	22	300,684	189	1,021,679	9,078	149,046,042

STATISTICAL

Benefit Refunds by Type

Last Ten Years

Fiscal Year	Separation No.	Separation Amount	Deaths No.	Deaths Amount	TOTAL No.	TOTAL Amount
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
2009	722	3,644,789	25	331,118	747	3,975,907
2010	648	3,201,604	15	138,306	663	3,339,910
2011	725	4,046,929	26	211,104	751	4,258,033

n/a — Information not readily available

Retired Members by Type of Benefit

(As of December 31, 2009)

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	1,581	241	1,263	24	45	8	1,157	56	8	37	13	310
251–500	1,258	345	787	12	110	4	890	46	12	25	19	266
501–750	791	326	431	10	22	2	567	22	10	21	15	156
751–1,000	848	537	285	6	20	-	582	17	25	35	8	181
1,001–1,250	735	524	197	5	9	-	575	13	10	29	5	103
1,251–1,500	617	475	138	2	2	-	444	14	9	29	6	115
1,501–1,750	568	450	115	2	-	1	405	7	14	30	5	107
1,751–2,000	434	322	108	2	-	2	295	6	10	30	3	90
Over 2,000	2,249	1,673	565	5	-	6	1,004	99	10	135	23	978
Total	**9,081**	**4,893**	**3,889**	**68**	**208**	**23**	**5,919**	**280**	**108**	**371**	**97**	**2,306**

*** 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.*

STATISTICAL

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 1/1/06 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
Period 1/1/08 to 12/31/08						
Avg Monthly Benefit	$ 273.32	$ 360.11	$ 730.56	$ 905.71	$ 2,442.16	$ 2,721.16
Avg Final Average Salary	$ 4,807.02	$ 4,918.32	$ 5,626.34	$ 5,648.77	$ 6,985.58	$ 7,405.08
No. of Retired Members	64	60	80	45	146	49
Period 1/1/09 to 12/31/09						
Avg Monthly Benefit	$ 237.69	$ 390.72	$ 791.10	$ 1,067.98	$ 2,451.95	$ 2,782.62
Avg Final Average Salary	$ 4,839.74	$ 4,776.32	$ 5,974.65	$ 6,496.54	$ 7,376.69	$ 7,595.88
No. of Retired Members	58	63	58	59	115	56
Period 1/1/10 to 12/31/10						
Avg Monthly Benefit	$ 295.81	$ 296.64	$ 669.73	$ 1,031.12	$ 2,439.18	$ 2,625.63
Avg Final Average Salary	$ 4,964.70	$ 4,995.25	$ 5,724.04	$ 6,377.40	$ 7,307.50	$ 7,871.13
No. of Retired Members	82	90	77	80	146	80

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	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	822	475
	2008	1,760	829	469
	2009	1,751	841	480
	2010	1,727	849	495

Retirees and Beneficiaries Current Annual Benefits Tabulated by Attained Ages

(As of December 31, 2010)

	Total	
Attained Ages	**No.**	**Annual Amount**
Under 40	5	$ 29,857
40–44	4	8,091
45	1	2,174
46	1	764
47	6	18,704
48	4	19,575
50	3	94,881
51	9	176,894
52	9	204,909
53	15	296,277
54	28	649,316
55	94	1,999,231
56	152	3,508,400
57	171	3,849,974
58	231	5,241,371
59	274	6,130,909
60	351	7,462,885
61	400	9,381,513
62	492	10,885,035
63	622	13,549,667
64	626	12,968,330
65	499	10,011,282
66	453	5,112,740
67	424	4,464,802
68	423	4,426,171
69	329	3,375,681
70–74	1,462	16,408,818
75–79	1,019	12,515,598
80 & up	974	9,572,811
Total	**9,081**	**$ 142,366,660**

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

Inactive Vested Members
Deferred Benefits by Attained Ages

(As of December 31, 2010)

	Total	
Attained Ages	**No.**	**Annual Amount**
26	1	$ 2,691
27	7	21,858
28	11	34,945
29	34	119,682
30	40	134,276
31	53	170,880
32	83	240,464
33	92	238,410
34	97	220,564
35	89	181,684
36	117	211,373
37	111	212,410
38	114	213,815
39	119	245,450
40	133	300,800
41	117	254,075
42	113	267,606
43	112	280,673
44	87	165,953
45	95	222,040
46	86	186,111
47	87	228,122
48	78	180,078
49	72	256,459
50	69	186,875
51	73	273,087
52	66	250,792
53	66	207,580
54	84	263,670
55	56	140,437
56	44	138,958
57	57	184,070
58	52	146,146
59	55	206,009
60	34	110,513
61	23	75,401
62	28	157,353
63	22	106,705
64	18	67,134
65 & over	**24**	**59,203**
Total	**2,719**	**$ 7,164,352**

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

STATISTICAL

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THE EDUCATIONAL EMPLOYEES'
SUPPLEMENTARY RETIREMENT SYSTEM
of Fairfax County

DIVERSITY: OUR PEOPLE, OUR INVESTMENTS

Intelligent investing requires diversification in order to balance risk levels, especially in today's volatile economic climate. Throughout FY 2011, the ERFC Board studied and implemented new investment strategies to further diversify the Portfolio, and ultimately achieved a very solid 22.1% return rate. Nevertheless, the Board continues to evaluate new initiatives realizing the constancy of change in today's environment. Adapting to change is equally true of ERFC's membership—highly varied and talented people whose individual skills and contributions never stagnate. Facing an uncertain future in an increasingly global marketplace, the ERFC continues to pursue balanced strength with prudent long-term investment planning to preserve and protect the financial integrity of the Fund for the diverse needs—and people—it serves.

With special thanks to our featured staff (pictured top to bottom):

Annette Almedina-Cabrera, *Principal,* Weyanoke Elementary School

Joanne Chen, Special Services, *Coordinator, Student Registration,* Gatehouse Administrative Center

Mussie Hagos, *Retirement Assistant,* ERFC Retirement Office

Dale Rumberger, FCPS Secondary Schools, *Principal,* Retired

Mari Lee, Information Technology, *Multimedia Designer,* Sprague Technology Center

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