If your actions inspire others to dream more, learn more, do more and become more, you are a leader. —John Quincy Adams

ERFC 2012

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2012

The Educational Employees' Supplementary Retirement System of Fairfax County

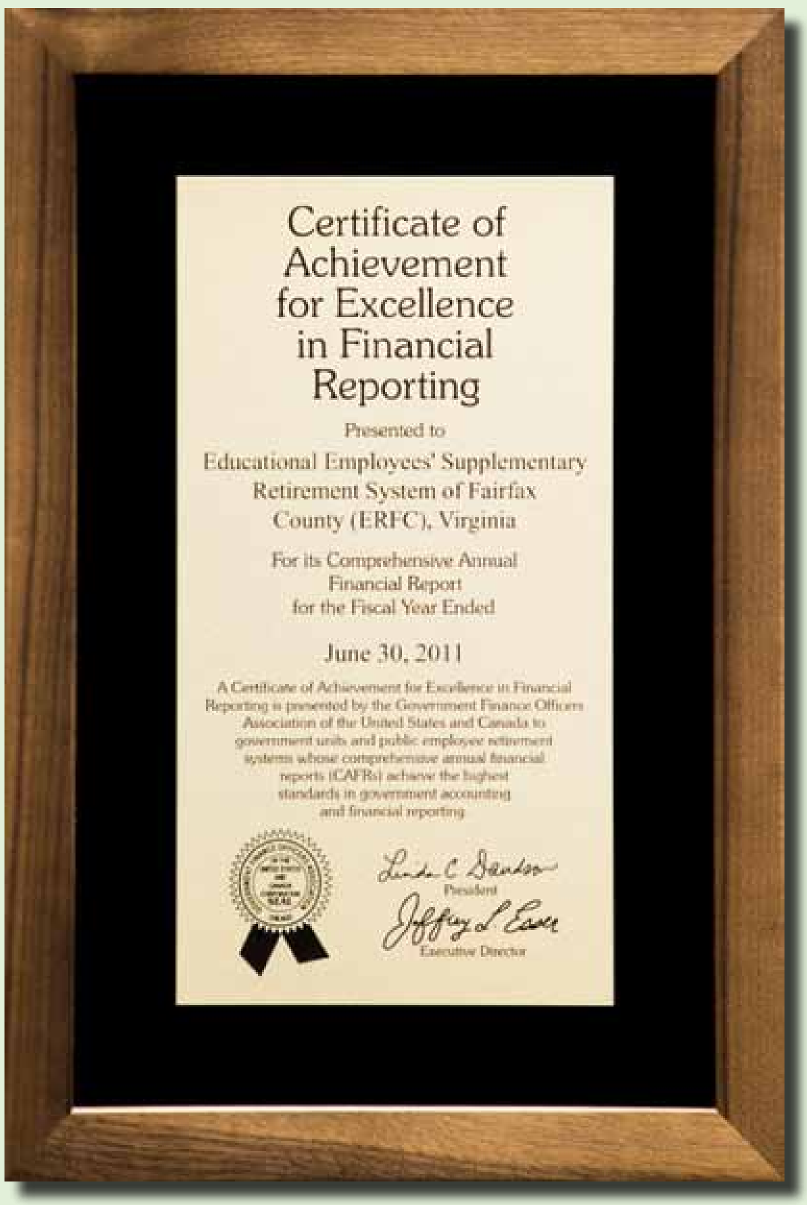
A Component Unit of Fairfax County Public Schools
Fairfax, Virginia

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 *2011 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

2012 ERFC
Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2012
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.

Table of Contents

Achievements

PUBLIC PENSION STANDARDS *2012 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.

PPCC

Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2012

Presented to

The Educational Employees'
Supplementary Retirement System of Fairfax County

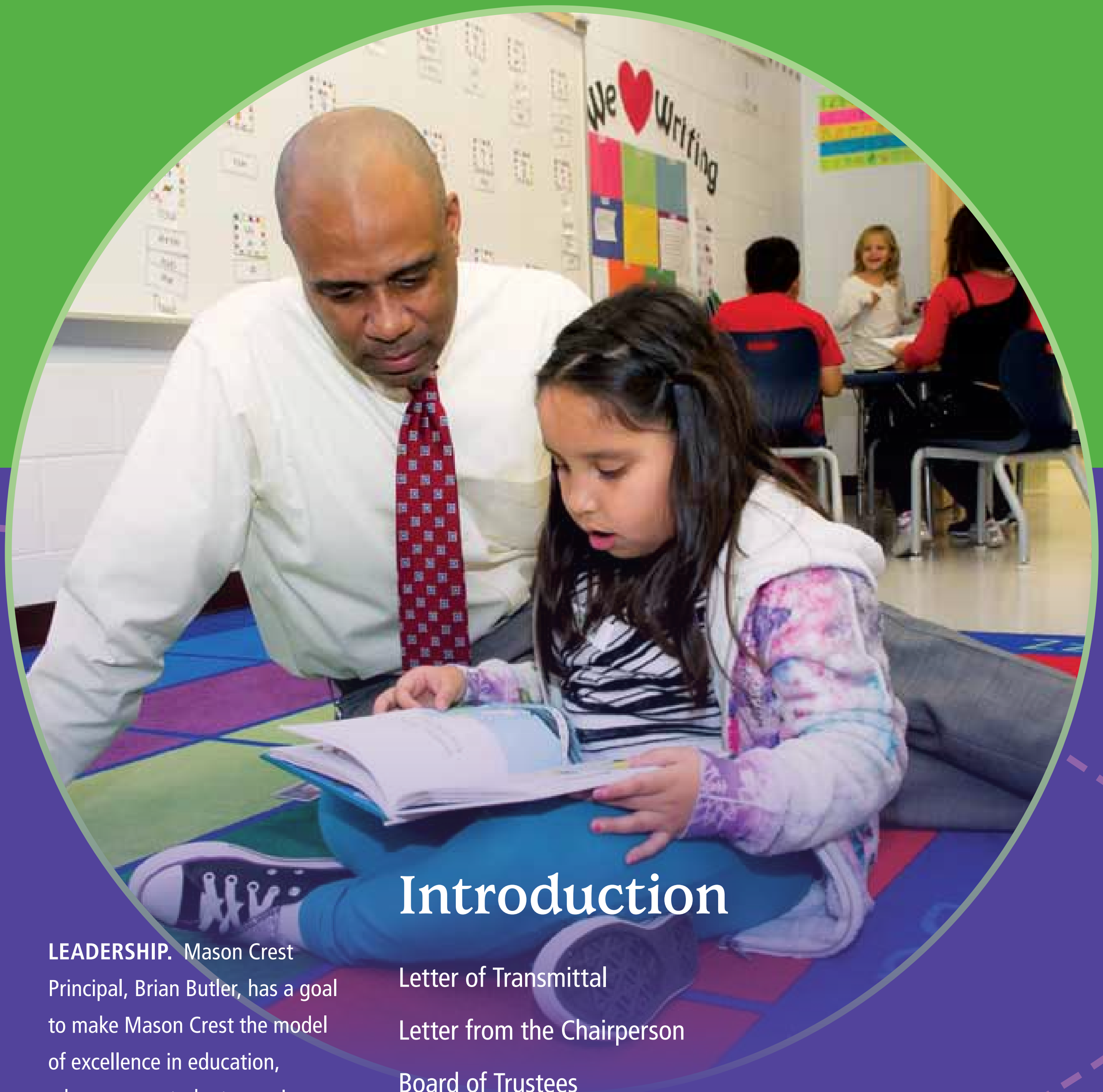
In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

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

Alan H. Winkle
Program Administrator



Introduction

LEADERSHIP. Mason Crest Principal, Brian Butler, has a goal to make Mason Crest the model of excellence in education, where every student experiences the success that they deserve. Butler brings 24 years of experience as an educator and a wealth of knowledge regarding collaborative practices that advance student achievement. He leads by example and encourages his staff and parent community to share their visions for developing a strong school whose fundamental purpose is to ensure high levels of learning for all.

Letter of Transmittal

ERFC
8001 Forbes Place, Suite 300
Springfield, VA 22151

December 1, 2012

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, 2012. 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 auditors' 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

Letter of Transmittal

retirement program with the introduction of a second retirement plan, *ERFC 2001*—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 continued its promotion of the ERFC*Direct* online service during the year. Over five thousand active members and 2,700 retirees now use this service to estimate future benefits, plan for retirement and monitor monthly benefit payments. The System's imaging service was replaced during the year with a more streamlined and responsive system offering ERFC significant cost savings.

ERFC received a favorable determination letter from the Internal Revenue Service in 2012. The IRS letter noted that the ERFC benefit plan continues as a tax-qualified plan under its present form and meets all of the necessary requirements under the Internal Revenue Code section 401(a).

Earlier this year, the ERFC staff welcomed Lisa Scott to its administrative leadership team, as the System's new Communications Specialist. Prior to her promotion, Scott spent sixteen years as an FCPS educator and advanced academic resource specialist. She began her career working as an executive advertising sales representative for *The Washington Post*.

Strategic Plan

The ERFC staff completed several new directives established in the Board of Trustees' 2011 Strategic Plan. Under the *Communications* directives, ERFC conducted its first Membership Survey in March. The Survey provided valuable information on how best to support ERFC's membership. The ERFC staff also developed new educational content for a hands-on workshop targeted to Plan members in the mid-stages of their FCPS careers and conducted its first web conferences for *ERFC* and *ERFC 2001* members. Under the *ERFC Services and Internal Management* directives, ERFC completed development of a Business Continuity and Disaster Recovery Plan for its headquarters at Forbes Place and for its server operation located at the FCPS Network Operating Center.

Plan Financial Condition

The ERFC achieved a .4 percent return for fiscal year 2012, a lackluster result following the strong double-digit returns of the previous two fiscal years. For the calendar year-to-date through September 30, the Fund is up 11.6 percent illustrating the continued volatility in the markets. Central banks across the globe have caused market boosts by purchasing securities and lowering interest rates in the face of weak economic growth. Nevertheless, the same fundamental economic challenges remain that were cited last year—the Eurozone debt crisis, the U.S. high unemployment and

Letter of Transmittal

deficit reduction debate and slower growth in China. The Board continues with its risk-balanced approach to asset allocation in light of the difficult issues confronting the major world economies.

ERFC's independent actuary reported that the System's funding ratio declined slightly to 75.6 percent for the valuation period ending December 31, 2011 causing upward pressure on the employer contribution rate. Additionally, due to legislation passed during the 2012 Session of the Virginia General Assembly which mandated employee contributions to the Virginia Retirement System, the School Board adjusted the ERFC employee contribution downward by one percent to three percent of creditable compensation. As a result, the employer contribution rate increased from 4.34 percent to 5.34 percent of payroll for fiscal year 2013.

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 .4 percent return for FY 2012 underperformed its peers systems for the fiscal year. Active management struggled during the year as ERFC's managers detracted from the System's fiscal year return. The Fund's longer-term returns, however, remained strong, with the three, five and ten year return rates each ranked above median.

The Board completed implementation of its revised asset allocation policy adopted in May, 2011. It committed $10 million to the Private Advisors and $30 million to the Harbourvest private equity funds which offer complementary strategies to the existing commitments. The Board introduced dedicated positions in emerging market debt and equity securities with investments of $55 million to Mondrian Investment Partners and $55 million to William Blair & Company. 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 2011 Comprehensive Annual Financial Report (CAFR). This is the 15th 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' 2012 Award.** The ERFC earned the award in recognition for meeting or exceeding professional standards for plan design and administration, as set forth in the Public Pension Standards.

Conclusion

This report is 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, 2012

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 the fiscal year ending June 30, 2012. 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.

The fiscal year introduced one change to the composition of ERFC's Board. Kevin North retired from his long-term career as Assistant Superintendent for the Department of Human Resources. Upon Mr. North's retirement, the School Board appointed De Hawley Brown, FCPS' Director of the Office of Benefit Services. Ms. Hawley Brown joined FCPS in 2004 and prior to joining FCPS, she spent more than 13 years in private sector Human Resources management.

The ERFC Board continues to emphasize that ERFC members and retirees should receive the fullest possible range of support services and it has made communication activities a high priority for the ERFC staff. The personal counseling sessions offered by the ERFC staff, the ERFC*Direct* online service which provides members, retirees and other benefit recipients direct and secure online access to their individual ERFC retirement account information and the added workshops and web conferencing services offered in 2012 contributed to accomplishment of this goal during the year. The Board of Trustees gratefully acknowledges the teamwork and tireless dedication provided by the entire ERFC staff

This annual report details the ERFC system and investment activities specific to the 2012 fiscal year period ending June 30th. The Board is disappointed in the 0.4 return for the 2012 fiscal year period even though the double-digit returns in the previous two fiscal years helped moderate the results. The same issues mentioned in last year's letter remain—the nation's high unemployment level and the foreign and domestic debt crises— and they continue to challenge market confidence and underscore the diligence required with long-range investment planning. As such, the

Letter from the Chairperson

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, 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. 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. In April, 2012 the Virginia Governor signed into law significant changes to the VRS including reduced pension benefits for employees with less than five years of service and a new hybrid plan for new employees hired on or after January 1, 2014. Legislation enacted in 2012 also mandated that employees contribute five percent to the VRS. To mitigate the increased VRS employee contribution, the School Board reduced the ERFC employee contribution from 4 percent to 3 percent of compensation for FY 2013. At the same time, the School Board increased FCPS' employer contribution rate to ERFC from 4.34 percent of covered payroll to 5.34 percent. These combined employee and employer contributions comprise the initial platform for the ERFC. However, it is the System's investment earnings that provide an integral component necessary to fulfill the guarantee of defined member benefits. Although concerned about the continued market volatility, the Board believes ERFC will continue 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

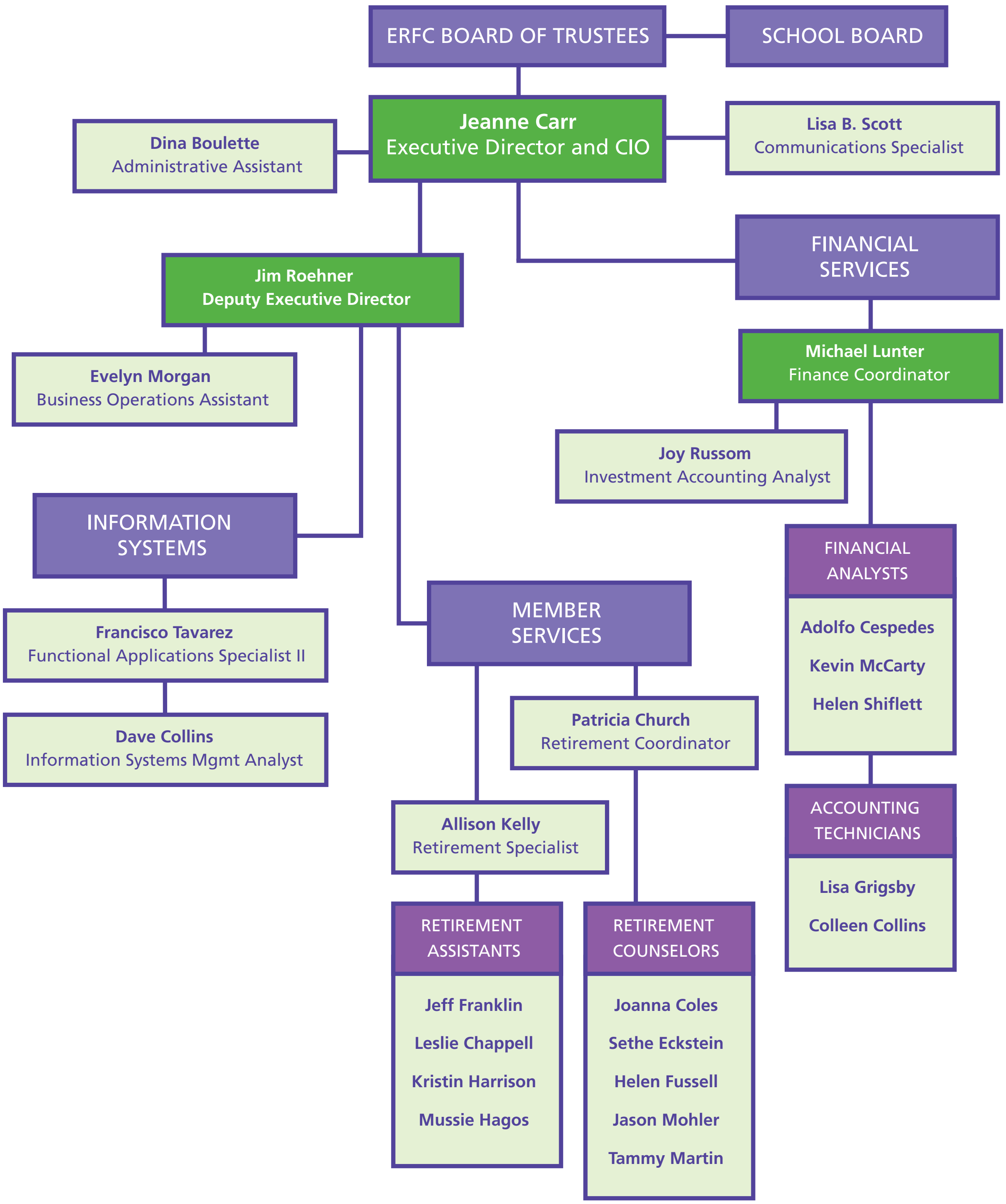
Nitin M. Chittal
Individual Trustee
Appointed Member

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

Mondrian Investment Group, Inc.[1]
London, England

Pacific Investment Management Company
Newport Beach, California

GLOBAL ASSET ALLOCATION

Bridgewater Associates, Inc.
Westport, Connecticut

Wellington Management
Boston, Massachusetts

Pacific Investment Managment Company
Newport Beach, California

HEDGE FUND

Grosvenor Institutional Partners, L.P.
Chicago, Illinois

Permal Group, Inc.
New York, New York

PRIVATE EQUITY

Audax Management Company, LLC
New York, New York

Harbourvest Partners, LLC
Boston, Massachusetts

Lexington Partners
New York, New York

Newstone Capital Partners, LLC
Los Angeles, California

Permal Capital Management, LLC
Boston, Massachusetts

Private Advisors
Richmond, Virginia

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 2012

* See page 47 in the Investment Section

Mason Crest Staff members collaborate to honor and advance their shared purpose, vision, and goals. They follow their collective commitments of helping students discover what they can do with their knowledge, creating formative and summative assessments, meeting the enrichment and intervention needs of their students, demonstrating mutual accountability, helping families partner in their children's education, nurturing leadership in others, and coming to work each day as the best versions of themselves.

Financial Section

Independent Auditor's Report

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

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 accompanying 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, 2012, 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 financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the System as of June 30, 2012, and the respective changes in plan net assets for the year then ended in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles require that 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 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures, to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial

Independent Auditor's Report

statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 is the responsibility of management and is derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information included in the introduction, investment, actuarial and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements and have not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on them.

KPMG LLP

November 14, 2012

FINANCIAL

Management Discussion and Analysis

(Unaudited)

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, 2012. 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 2012 the return on ERFC's assets was .4 percent[1]. This resulted in a total net asset value of $1.83 billion which reflects a decrease of $(59.2) million over fiscal year 2011's year end total (as reflected in the accompanying chart). Additional detail on this net decrease in fund value is outlined in the Summary of Additions and Deductions table contained within this Financial Section. As shown, it is comprised of four major components. They include $1.6 million in investment income and $102.1 million in employee and employer contributions. The additions are offset by $155.0 million in retiree benefit payments and $7.9 million in member refunds and administrative expenses.

Fiscal year ending June 30, 2012 produced a return of .4 percent. ERFC's return trailed the policy benchmark return of 1.8 percent[2]. Three, five, and ten year returns are 12.8 percent, 2.1 percent, and 7.0 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
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
2012	1,827.8	(59.2)	(3.1)

At December 31, 2011, the actuarial value of assets totaled $1.867 billion while liabilities totaled $2.471 billion. This resulted in a funding ratio of 75.6 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 16.0% Russell 1000, 6.0% Russell 2000, 14% MSCI/ACWI Ex-US, 3.0% MSCI Emerging Markets, 3.75% NAREIT, 3.75% NCREIF, 18% 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, 8.0% HFRI FoF, 1.5% Cambridge PE, 3.0% JPM GBIEM.

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

Management Discussion and Analysis

(Unaudited)

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.

FINANCIAL

Summary of Plan Net Assets

	June 30,2012	June 30,2011	Difference
Assets			
Total cash and investments	$ 1,857,824,191	$ 1,960,012,834	$ (102,188,643)
Total receivables	61,207,572	123,593,163	(62,385,591)
Other assets	42,421	60,725	(18,304)
Total assets	1,919,074,184	2,083,666,722	(164,592,538)
Liabilities			
Accounts payable	2,775,296	1,678,615	1,096,681
Securities purchased	64,495,593	124,857,904	(60,362,311)
Securities lending collateral	24,034,973	70,162,084	(46,127,111)
Total liabilities	91,305,862	196,698,603	(105,392,741)
Total net assets held in trust for pension benefits	**$ 1,827,768,322**	**$ 1,886,968,119**	**$ (59,199,797)**

Management Discussion and Analysis

(Unaudited)

Financial Statements

As indicated in the Summary of Plan Net Assets, the System's net asset value decreased $(59.2) million or (3.1) percent in fiscal year 2012. This total decrease in net assets is due primarily to a decrease of $(102.2) million in the value of investments, a decrease in receivables of $(62.4) million, a $(59.3) million decrease in the value of payables along with a decrease of $(46.1) 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 2011 and 2012 results. These differing results are due mainly to a significant decrease in investment income of $(340.0) million and an increase in contributions of $7.8 million, offset by an increase in benefit payments of 6.0 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 30,2012	June 30,2011	Difference
Additions			
Contributions			
Employer	$ 52,934,245	$ 47,118,111	$ 5,816,134
Member	49,142,379	47,167,129	1,975,250
Net investment income	1,635,435	341,669,367	(340,033,932)
Other income/loss	—	(1,503)	1,503
Total	103,712,059	435,953,104	(332,241,045)
Deductions			
Benefits	155,041,762	149,046,042	5,995,720
Refunds	4,295,171	4,258,033	37,138
Admin. Expenses	3,574,923	3,344,333	230,590
Total	162,911,856	156,648,408	6,263,448
Net Change	**$ (59,199,797)**	**$ 279,304,696**	**$ (338,504,493)**

Statement of Plan Net Assets

(As of June 30, 2012)

ASSETS	
Cash and short-term investments	
Cash	$ 1,934,136
Cash with fiscal agent	1,725,636
Cash collateral for securities on loan	24,034,973
Short-term investments	37,909,533
Total cash and short-term investments	**65,604,278**
Receivables	
Interest and dividends	3,320,820
Securities sold	56,960,120
Miscellaneous accounts receivable	926,632
Total receivables	**61,207,572**
Investments, at fair value	
Mortgage-backed securities	1,523,586
Domestic corporate bonds	90,424,608
Convertible bonds	11,457,800
International bonds	41,750,081
Common stock	498,632,867
Real estate	150,085,750
Preferred stock	6,877,879
Global asset allocation	184,473,015
Better beta	103,425,441
Hedge funds	139,115,563
Private equity limited partnerships	15,537,604
Mutual funds	548,915,719
Total investments	**1,792,219,913**
Prepaid assets	
Prepaid expenses	24,792
Other assets	
Furniture and equipment, net	17,629
Total assets	**1,919,074,184**
LIABILITIES	
Accounts payable	2,775,296
Securities purchased	64,495,593
Securities lending collateral	24,034,973
Total liabilities	**91,305,862**
Net assets held in trust for pension benefits	**$ 1,827,768,322**

See accompanying Notes to the Financial Statements

FINANCIAL

Statement of Changes in Plan Net Assets

(For the Fiscal Year Ending June 30, 2012)

ADDITIONS

Contributions	
Employer	$ 52,934,245
Plan members	49,142,379
Total contributions	**102,076,624**
Investment income	
Net appreciation in fair value of investments	(35,410,525)
Interest and dividends	43,723,935
Real estate income	3,057,654
Other	90,589
Total investment income	**11,461,653**
Less investment expenses	
Investment management fees	9,354,349
Investment consulting fees	377,403
Investment custodial fees	238,822
Investment salaries	196,586
Total investment expenses	**10,167,160**
Income from securities lending activities	
Securities lending income	94,365
Securities lending borrower rebates	360,176
Securities lending management fees	(113,599)
Net securities lending income	**340,942**
Net investment income	**1,635,435**
Total additions	**103,712,059**

DEDUCTIONS

Benefits	155,041,762
Refunds	4,295,171
Administrative expense	3,574,923
Total deductions	**162,911,856**
Net decrease	**(59,199,797)**
Net assets held in trust for pension benefits	
Beginning of year	**1,886,968,119**
End of year	**$ 1,827,768,322**

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 newly hired 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, 2012, the cash balance of $1,934,136 represents funds that could not be invested in the County's enhanced cash fund until July 1, 2012.

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, 2012, cash with fiscal agent totaled $1,725,636. 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, 2011, the date of the most recent actuarial valuation, the System's membership consisted of:

Retirees and beneficiaries currently receiving benefits	9,467
Terminated employees entitled to benefits but not yet receiving them	2,861
Active plan members	20,976
Total	**33,304**

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 800-426-3900. It is also available online at www.fcps.edu/erfc/publications.shtml.

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 4.34 percent.

Notes, *continued on next page*

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 set at 4.34 percent. Restructuring of the VRS employee contribution rate caused the School Board to decrease the ERFC member contribution rate to 3 percent beginning in fiscal year 2013. This necessitated a corresponding 1 percent increase to the employer contribution rate to 5.34 percent from July 1, 2012 to June 30, 2013.

Annual Pension Cost

ERFC's annual required contribution (ARC) for fiscal year 2012 was $53 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, 2011, the most recent actuarial valuation date, ERFC was 75.6 percent funded. The actuarial accrued liability for benefits was $2.5 billion and the actuarial value of assets was $1.9 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 48.4 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, 2011 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, 2011 was 27 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 actuarial 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 currency forward derivatives that were not reported on the financial statements

Notes, *continued on next page*

Notes to the Financial Statements

as of June 30, 2012. These derivatives are used for hedging non-USD denominated physical instruments back to the base currency. As of June 30, 2012 exposure to the currency forward contracts was $(43,286).

In addition, the System had indirect investments in derivatives through its ownership interest in EB DV Large Capital Stock Fund and Emerging Markets Debt Fund, 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. Non Deliverable Forward's (NDF's) obtain exposure to a currency and its interest rate where the actual purchase of onshore debt is difficult. The interest rate exposure comes through the difference between the spot F/X rate and the forward F/X rate, and through investing the USD cash used as collateral in short dated US bonds. At June 30, 2012, exposure to interest rate swaps was $2,842,811, exposure to futures contracts was $22,741 and exposure to NDF's was $3,083,788.

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 30 percent of the portfolio's benchmark.

Notes, *continued on page 24*

Investment Combined Duration as of June 30, 2012

Investment Category	Amount	Modified Duration
U.S. Treasuries	$ 96,213,074	3.32
Agencies	13,401,442	1.62
Corporate bonds	152,590,020	6.1
Municipals	8,567,425	4.77
Mortgages	111,933,703	1.08
Asset-backed securities	2,954,164	7.45
CMBS	2,767,018	3.43
Emerging market	49,369,406	4.45
Foreign bonds	54,314,347	2.07
Convertible and preferred	12,226,409	7.21
Cash and cash equivalents	700,857	(1.93)
Other	22,927,786	0.92
Total	**$ 527,965,650**	

Weighted Duration in years: 3.62

Notes to the Financial Statements

CREDIT QUALITY SUMMARY (As of June 30, 2012)

Rating	Category	Percent	Amount	Total	Percent
AAA	Domestic bonds	5.6%	$ 29,555,589		
AAA	International bonds	2.8%	14,500,259		
AAA	Mortgage backed securities	0.9%	4,552,737		
AAA	US Government obligations	14.4%	76,251,009	124,859,594	23.7%
AA	US Government obligations	3.2%	16,819,745		
AA	Domestic bonds	0.7%	3,459,520		
AA	Mortgage backed securities	16.0%	84,696,553		
AA	Municipals bonds	0.4%	2,139,798		
AA	International bonds	0.9%	4,530,349	111,645,965	21.2%
A	Domestic bonds	9.6%	50,684,385		
A	Convertible bonds	0.0%	215,400		
A	International bonds	11.7%	61,509,786		
A	Mortgage backed securities	0.0%	218,632	112,628,203	21.3%
BAA	International bonds	0.1%	810,487		
BAA	Domestic bonds	2.2%	11,416,792	12,227,279	2.3%
BA	Domestic bonds	0.7%	3,874,574	3,874,574	0.7%
BBB	Convertible bonds	0.5%	2,502,000		
BBB	Mortgage backed securities	0.0%	123,061		
BBB	International bonds	2.3%	11,918,955		
BBB	Domestic bonds	8.5%	45,115,972		
BBB	Preferred stocks	0.0%	243,422	59,903,410	11.3%
BB	Convertible bonds	0.7%	3,387,908		
BB	Domestic bonds	1.9%	10,132,195		
BB	Mortgage backed securities	0.0%	69		
BB	International bonds	2.2%	11,754,651	25,274,823	4.8%
B	Domestic bonds	3.3%	17,676,864	17,676,864	3.3%
Below B	Domestic bonds	0.5%	2,411,963		
Below B	International bonds	0.7%	3,800,010	6,211,973	1.2%
Not rated	Cash and Cash equivalent	4.1%	21,708,700		
Not rated	Convertible Bonds	1.0%	5,352,494		
Not rated	Mortgage backed securities	0.3%	1,130,153		
Not rated	International bonds	2.9%	15,315,158		
Not rated	Domestic bonds	1.6%	8,506,433		
Not rated	Preferred stocks	0.0%	176,399	52,189,337	9.9%
Withdrawn rating	Domestic bonds	0.1%	713,360		
Withdrawn rating	Mortgage backed securities	0.1%	460,670		
Withdrawn rating	International bonds	0.1%	299,598	1,473,628	0.3%
Total		**100.0%**	**$ 527,965,650**	**$ 527,965,650**	**100.0%**

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, 2012, the System had three active fixed income managers and one passive fixed income manager. The schedule on the prior 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, 2012, and as addressed previously, the System had three domestic active fixed income managers and one passive fixed income manager. The active manager portfolios had values of $154.1 million, $204.9 million and $53.2 million. The indexed portfolio had a value of $115.7 million. The market value of the largest issue other than the U.S. Government in the portfolios of the active managers was only 4.2 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, 2012, short-term investments with the custodial bank totaled $37,909,533. 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, 2012:

Securities	Cash Market Value	Cash Collateral
Domestic corporate bonds	$ 2,673,223	$ 2,739,526
International stock	4,073,374	4,926,333
Domestic stock	15,986,074	16,369,114
Total	**$ 22,732,671**	**$ 24,034,973**

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. At year-end the fund had a weighted-average maturity of three days. The correlation between the maturities of the fund maintained by the custodian and the maturities of system's loans cannot be determined because it is affected by the maturities of the securities loans made by other organizations which use the custodian's fund. 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 $24,034,973 as of June 30, 2012, are shown on the Statement of Plan Net Assets. As of June 30, 2012, the market value of securities on loan for cash collateral was $22,732,671. 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,

Notes, *continued on page 27*

Investments with the custodian as of June 30, 2012, included the following:

Investment Type	Market Value
Mortgage-backed securities	$ 1,523,586
Domestic corporate bonds	90,424,608
Convertible bonds	11,457,800
International bonds	41,750,081
Common stock	498,632,867
Real Estate	150,085,750
Preferred stock	6,877,879
Global asset allocation	184,473,015
Better beta	103,425,441
Hedge Funds	139,115,563
Private Equity Limited Partnership	15,537,604
Mutual funds	548,915,719
Sub-total investments	**$ 1,792,219,913**
Cash collateral for securities on loan	24,034,973
Total	**$ 1,816,254,886**

Notes to the Financial Statements

Market Value of Foreign Currency Risk (As of June 30, 2012)

Currency	Cash & Cash Equivalents	Equity	Fixed Income Securities	Preferred Securities	Grand Total
AUSTRALIAN DOLLAR	$(2,514,798)	$5,888,686	$3,925,748	—	$ 7,299,636
BRAZIL REAL	8,835	1,816,790	12,034,965	—	13,860,590
BRITISH POUND STERLING	3,276,966	40,358,440	288,593	—	43,923,999
CANADIAN DOLLAR	3,172,085	10,145,811	6,687,668	—	20,005,564
CHINESE YUAN RENMINBI	2,236,522	—	—	—	2,236,522
CZECH KORUNA	3,938	—	—	—	3,938
DANISH KRONE	30,266	2,174,350	—	—	2,204,616
EURO CURRENCY UNIT	(15,838,074)	49,807,849	800,273	2,094,915	36,864,963
HONG KONG DOLLAR	141,361	8,213,209	—	—	8,354,570
HUNGARIAN FORINT	118,173	—	7,882,029	—	8,000,202
INDIAN RUPEE	3,001,225	—	—	—	3,001,225
INDONESIAN RUPIAH	11,387	238,609	1,024,788	—	1,274,784
ISRAELI SHEKEL	—	34,955	3,025,077	—	3,060,032
ITALIAN LIRA	—	—	3,572,257	—	3,572,257
JAPANESE YEN	(3,737,079)	41,969,315	—	—	38,232,236
MALAYSIAN RINGGIT	44,894	1,745,038	—	—	1,789,932
MEXICAN NEW PESO	910,075	608,287	811,827	—	2,330,189
NEW TAIWAN DOLLAR	651	2,770,308	—	—	2,770,959
NEW TURKISH LIRA	4,374	320,620	—	—	324,994
NEW ZEALAND DOLLAR	202,344	—	8,938,057	—	9,140,401
NORWEGIAN KRONE	2,885,248	3,716,876	2,897,498	—	9,499,622
PHILIPPINES PESO	258,704	339,700	9,495,472	—	10,093,876
POLISH ZLOTY	32,832	1,046,919	8,590,684	—	9,670,435
ROMANIAN LEU	9,509	—	—	—	9,509
S AFRICAN COMM RAND	1,521,758	47,204	5,225,162	—	6,794,124
SINGAPORE DOLLAR	59,699	4,940,456	4,405,310	—	9,405,465
SOUTH KOREAN WON	52,362	9,148,583	—	—	9,200,945
SWEDISH KRONA	5,482,010	2,864,280	—	—	8,346,290
SWISS FRANC	(2,334,187)	8,456,705	—	—	6,122,518
THAILAND BAHT	—	2,975,401	—	—	2,975,401
Grand Total	**$ (958,920)**	**$ 199,628,391**	**$ 79,605,408**	**$ 2,094,915**	**$ 280,369,794**

Notes to the Financial Statements

a short-term investment pool and a cash collateral investment pool which invests cash collateral for securities on loan, are not exposed to custodial risk due to their non-physical form. As such, the System does not have a custodial credit risk policy.

Foreign Currency Risk
The System's Investment Guidelines on active fixed income holdings are limited to debt instruments of U.S. entities denominated in U.S. dollars, including U.S. denominated sovereign bonds and supranational bonds, and non-US denominated sovereign, supranational and corporate bonds. With Trustee approval, ERFC's two US 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%. ERFC also participates in an actively managed Emerging Markets Debt fund that invests primarily in foreign sovereign bonds in local currencies. The target allocation of this fund is 3 percent of the portfolio.

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

4. Income Taxes

The Internal Revenue Service (IRS) issued a determination letter on May 22, 2012, 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
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%
2012	52,934,245	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.

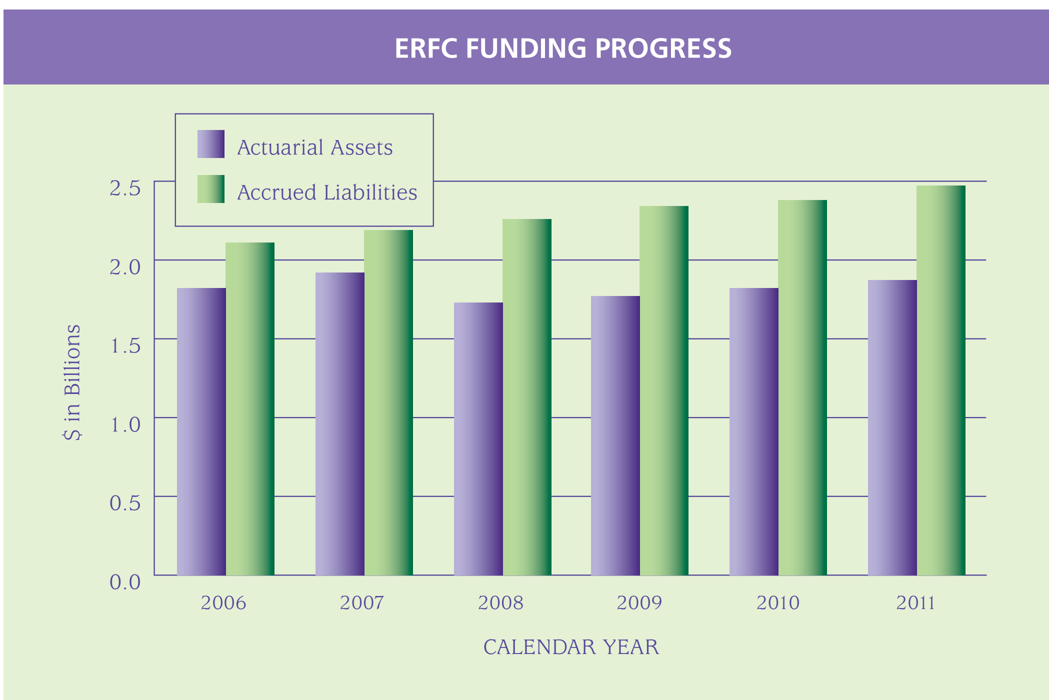
The following Schedule of Funding Progress, presented as RSI, shows multiyear trend information which illustrates whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits. As addressed previously and as noted on the Schedule of Funding Progress, ERFC has transitioned to calendar year valuations. The most recent valuation was effective December 31, 2011. 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)
12/31/06	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%
12/31/11	1,866,952	2,470,964	604,012	75.56%	1,246,973	48.44%

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, 2011
Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Remaining amortization period	27 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, 2012 — The employee contribution rate decreased from 4 percent to 3 percent and the employer contribution rate increased from 4.34 percent to 5.34 percent.
- July 1, 2011 — The employer contribution rate increased from 4.04 to 4.34 percent.
- 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
2012	4.34	4.00	8.34

- 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.

Other Supplementary Information

(Unaudited)

SCHEDULE OF ADMINISTRATIVE EXPENSES

(Year Ended June 30, 2012)

Personnel services	
Salaries and wages	$ 1,808,014
Retirement contributions	288,804
Insurance	266,367
Social security	143,776
Total personnel services	**2,506,961**
Professional services	
Actuarial	116,281
Legal	140,071
Payroll disbursement	41,617
Plan automation consulting	34,232
Plan automation support	16,571
Audit	46,500
Other professional services	8,489
Total professional services	**403,761**
Communications	
Printing	27,407
Postage	37,781
Total communications	**65,188**
Supplies	
Office supplies	12,534
Dues and subscriptions	8,302
Total supplies	**20,836**
Other services and charges	
Board travel and staff development	49,434
Equipment	144,053
Building rent	358,097
Depreciation expense and asset disposal	18,305
Miscellaneous	8,288
Total other services and charges	**578,177**
Total administrative expenses	**$ 3,574,923**

Other Supplementary Information

(Unaudited)

SCHEDULE OF INVESTMENT EXPENSES

(Year Ended June 30, 2012)

Investment management fees	
Fixed income managers	
Loomis-Sayles and Company, L.P.	$ 359,072
Mellon Capital Management Corporation	22,148
Mondrian Investment Partners (US), Inc.	191,103
Pacific Investment Management Company	468,708
Equity managers	
Aronson Johnson Ortiz, LLC	31,167
Epoch Investment Partners, Inc.	454,399
Lazard Asset Management	324,069
Mellon Capital Management Corporation	30,422
Westfield Capital Management	302,197
International managers	
Acadian Asset Management, Inc.	525,583
AllianceBernstein L.P.	576,545
William Blair & Company	390,931
Real Estate managers	
J.P. Morgan Asset Management	300,771
Prudential Financial	180,046
UBS Realty Investors, LLC	270,039
Urdang Investment Management	491,687
Global Asset Allocation managers	
Pacific Investment Management Company	816,139
Wellington Management Company LLP	924,505
Better Beta	
Bridgewater Associates	499,594
Hedge fund of funds	
Grosvenor Capital Management, L.P.	710,378
Permal Investment Management Services. Ltd.	798,218
Private equity	
Audax Mezzanine Fund III, L.P.	76,867
HarbourVest Partners, LLC Buyout	102,804
HarbourVest Partners, LLC Credit	58,259
HarbourVest Partners, LLC Venture	110,846
Lexington Capital Partners VII	38,000
Newstone Capital Partners, LLC	117,059
Permal Private Equity Opportunities IV, L.P.	145,043
Private Advisors, LLC	37,750
Total investment management fees	9,354,349
Other investment service fees	
Custodial fees - Mellon Trust	238,822
Investment consultant fees—New England Pension Consulting, Inc.	369,221
Monitor managers' trading processes—Zeno Consulting Group	5,000
Foreign tax consulting—Pricewaterhouse Coopers	3,182
Investment salaries	196,586
Total other investment service fees	**812,811**
Total investment expenses	**$ 10,167,160**

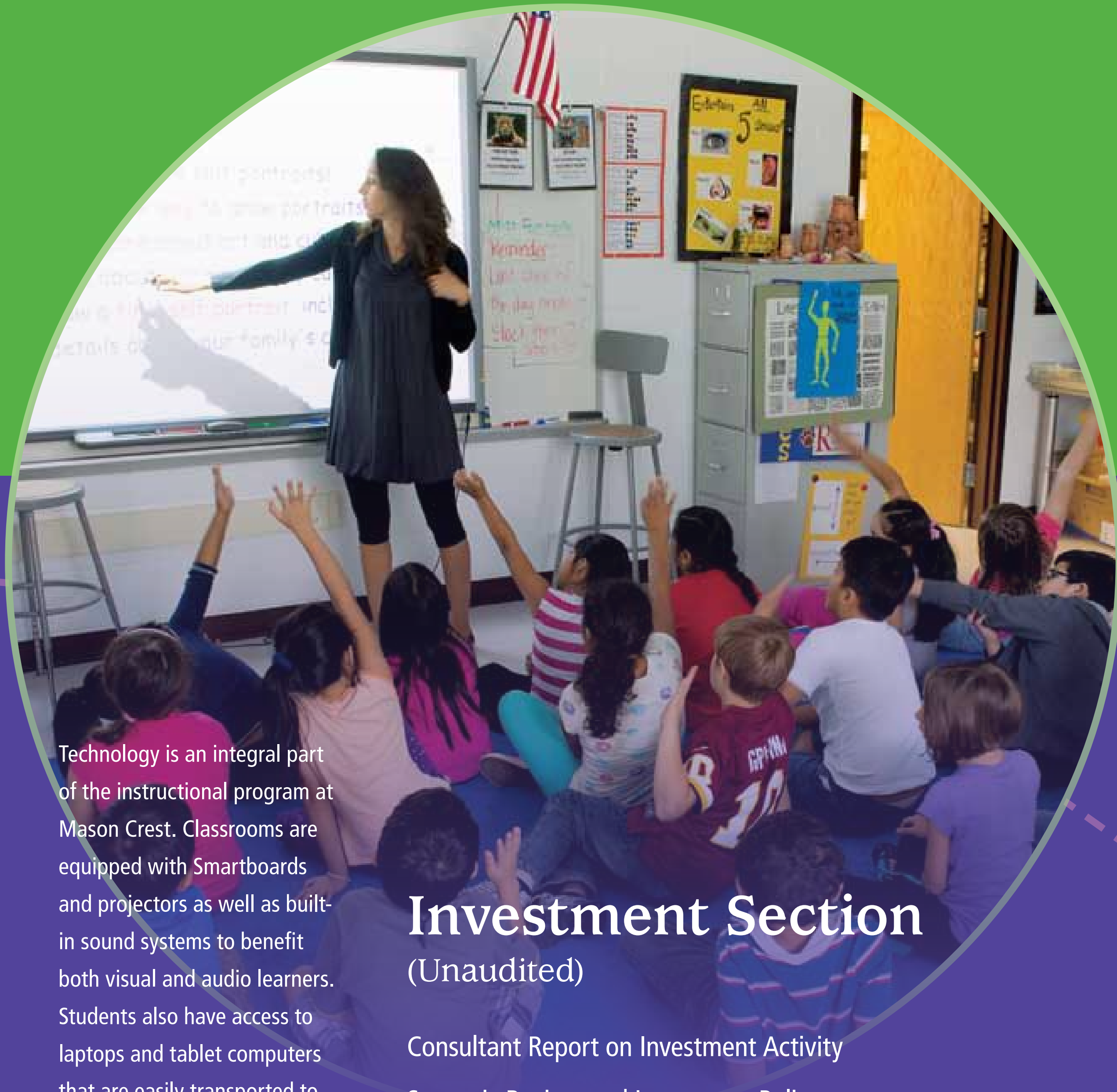
Other Supplementary Information

(Unaudited)

SCHEDULE OF PROFESSIONAL SERVICE FEES

(Year Ended June 30, 2012)

Service Provider	Nature of Service	Amount
Gabriel, Roeder, Smith & Company	Actuary	$ 116,281
Mary Ann Swanson	Plan automation	34,232
Levi, Ray & Shoup, Inc.	Plan automation support	16,571
Bredhoff & Kaiser, P.L.L.C.	Legal counsel	83,939
Groom Law Group, Chartered	Legal counsel	49,135
ADP payroll services	Pension disbursement	41,617
KPMG, LLP	Audit	46,500
Other various legal fees	Legal	6,997
Various	Miscellaneous	8,489
Total professional service fees		**$ 403,761**



Technology is an integral part of the instructional program at Mason Crest. Classrooms are equipped with Smartboards and projectors as well as built-in sound systems to benefit both visual and audio learners. Students also have access to laptops and tablet computers that are easily transported to any location within the school. Children are the investment at Mason Crest and providing the latest technology allows educators to engage every student and encourage their ongoing success.

Investment Section
(Unaudited)

Consultant Report on Investment Activity

NEPC, LLC

November 7, 2012

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, 2012.

As of the June 30th fiscal year-end, the Fund was in compliance with policy ranges, and had 39.0 percent in equities, 7.8 percent in real estate equity, 28.9 percent in bonds, 7.6 percent in absolute return strategies, 0.9 percent in private equity, 15.7 percent in global asset allocation/better beta strategies, and 0.1% in cash. Over the past year, the Fund has maintained public equity levels lower than the median equity allocation when measured against public fund peers in the Independent Consultants Cooperative (ICC) Universe.

The Fund earned 0.4%[1] in the year ending June 30, 2012, which ranked in the 79th percentile of all public funds within the ICC Universe. Over the last 12 months ending June 30, 2012, ERFC underperformed its assumed actuarial return target of 7.5% by 7.1%. Assets decreased slightly from \$1.89 billion at the end of fiscal 2011 to approximately \$1.83 billion as of June 30, 2012[2].

Fiscal Year 2012 Market Review

The 2012 Fiscal year proved to be an extremely difficult and volatile year for investors. The year, ending June 30th, was a "risk on/risk off" roller coaster ride driven largely by headline risks related to the European debt crisis and fears of a global slowdown. As the calendar year came to a close, most domestic equity markets recovered and ended 2011 in positive territory, similar to year end 2010. Globally, investor sentiment soured as a clear solution to the European debt crisis did not appear to be on the horizon. U.S. equity markets continued to gain the advantage over non-US stocks, and European markets lagged. In the first quarter of 2012 we saw macro fears subside and attention return to improving fundamentals. In fact, the first quarter proved to be the strongest quarter for equity returns over the fiscal year as U.S. stocks posted their strongest first quarter gain in more than 10 years and continued to outpace international and emerging markets. The final

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

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Consultant Report on Investment Activity

quarter of the fiscal year once again experienced the "risk off" environment similar to the start of the fiscal year. Greater political concerns in Europe, slowing GDP in China, and fears that Greek political parties would be unable to support the country's austerity measures all led to negative returns across equity markets for the final quarter of the fiscal year.

The U.S. equity market, as measured broadly by the S&P 500 Index, produced a +5.4% return for fiscal year 2012. The domestic bond market, as measured by the Barclays Aggregate Bond Index, returned +7.5% in fiscal year 2012, outperforming all equity indices. The global equity market, as measured by the MSCI All Country World Index (net), returned -5.0% in fiscal year 2012 relative to a positive +30.1% in fiscal year 2011.

The quarter ended September 30th, 2011 proved to be a volatile start to the fiscal year. The focus on risk dominated markets as equities fell, and high yield bonds and other credit sectors sold off. Fears of a stalling global recovery were growing in May and June of 2011 and intensified with the downgrade of the U.S. credit rating in August along with lower than expected GDP growth rates. Panic driven markets sold off and all major equity indices posted negative double digit percent losses. The S&P 500 produced a -13.9% return for the quarter, while the MSCI Europe, Australia, Far East (EAFE) fell -19.0% and the MSCI Emerging Markets index dropped -22.6%. On the fixed income side, the U.S. high grade fixed income markets posted strong returns, as investors sought safety in U.S. Treasuries and investment grade corporate bonds. Treasury yields fell to remarkably low levels across the yield curve, particularly at the long end, as the Fed's "Operation Twist" drove long-term interest rates to historic lows. For the first time since the 1950's, the S&P 500 dividend yield was significantly higher than the yield on a 10 year Treasury; an example of the market re-valuing the premium applied to owning equities versus Treasuries and a demand by investors to be significantly compensated for taking on more risk. The Barclays Capital Aggregate Bond Index posted a return of 3.8% for the quarter.

The quarter ended December 31, 2011 saw continued volatility but a significant October rally helped keep the quarterly return positive for most equity indices, with the U.S. markets leading the way. Favorable data on unemployment and consumer spending helped investor sentiment. The primary beneficiaries of the positive economic data were market segments deemed more "risky"; small cap stocks outperformed mid-caps, which in turn outpaced large caps. Developed and emerging markets trailed U.S. equities in both dollar and local terms during the quarter. While proposed solutions to the European crisis led to market rallies, ultimately, details of the plans did not live up to promises. Emerging markets returned 4.4% as measured by the MSCI EM index while the developed market returned 3.3% as measured by the MSCI EAFE index. Fixed income markets were mostly positive over the quarter with U.S. High Yield and hard currency emerging markets debt leading the way. Long-term yields remained near record lows despite the S&P downgrade of U.S. Treasury securities in August. The Barclays Capital Aggregate Bond Index returned 1.1% while hitting a record low yield of 2.2% on December 16th.

U.S. stocks started 2012 with a bang, posting their best first quarter since 1998. Domestic equities experienced double digit returns across market capitalizations. Mid-caps led the way returning 12.9% as measured by the Russell Mid Cap Index, followed by a large cap return of 12.6% as measured by the S&P 500 and then small caps which returned 12.4% as measured by the Russell 2000 index. The European Central Bank's long term refinancing activities, the successful refinancing of a portion of Greece's debt, and the further

Consultant Report on Investment Activity

development of the European Financial Stability Facility drove European markets higher for the quarter. The MSCI EAFE index returned 10.9% but still underperformed the MSCI Emerging Market Index return of 14.1%. The riskiest sectors of the fixed income markets led the way for the quarter as the Barclays High Yield Index returned 5.3%. Treasury yields shifted slightly higher over the quarter, especially at the long end, returning some steepness to the yield curve. The yield on the Barclays Capital Aggregate Bond Index hit a new low over the quarter but had moved up slightly to 2.2% by the end of March. Emerging market debt delivered strong returns in the first quarter, particularly in local currency markets as concerns eased over European bank solvency and the sovereign debt crisis. The JP Morgan GBI-EM GD returned 8.3% and was the top performing fixed income segment.

After a strong first quarter and "risk on" returns, equity markets reversed course in the second quarter of 2012 and ended the period in negative territory. Political events and a souring economic backdrop helped to trigger the selloff. The election of the Socialist party in France, deepening stress in Spain, slowing U.S. growth, and China announcing an official lowering of GDP growth targets all drove the negative investor sentiment. To survive the headwinds, investors turned to more defensive sectors and the demand for high-yield, low-beta, quality growth stocks increased dramatically. Once again, domestic equities held value better than the international and emerging markets with the S&P 500 returning -2.8%, compared to the MSCI EAFE return of -7.1% and the MSCI Emerging Market Index return of -8.9%. Long-term U.S. Treasury bonds led fixed-income returns over the second quarter as yields reached all-time lows in response to slowing growth in both the U.S. and China. Once again, the yield on the Barclays Aggregate Bond Index hit another new low and ended June at 1.97%, returning 2.1% for the quarter. Emerging market debt was comparatively weaker during the second quarter, specifically debt denominated in local currency. The JP Morgan GBI-EM GD, which tracks the performance of local currency emerging markets sovereign bonds, returned -1.2% and weakness in currency markets was the main driver of the underperformance.

Asset allocation changes during fiscal year 2012 included a reduction in the target weights to both domestic and international developed equities, as well as domestic bonds. The target weight to Private Equity was increased, and two new asset classes, Emerging Market Equity, and Emerging Market Debt were added to the Plan. William Blair & Company, an existing manager (emerging market equity), Mondrian Investment Partners (emerging market debt), Harbourvest Partners and Private Advisors (private equity) were the new managers added to the Plan during the fiscal year. No managers were terminated.

Fiscal Year 2012 was a very volatile and choppy year with respect to the capital markets, and the performance of the Plan followed a similar path and struggled to meet expectations. Longer term however, the Plan has fared very well and we expect the current structure in place to both enhance return and decrease the overall risk and volatility of the Plan in these uncertain times.

Sincerely,

Douglas Moseley, Partner

Keith Stronkowsky, Consultant

Strategic Review and Investment Policy

Introduction

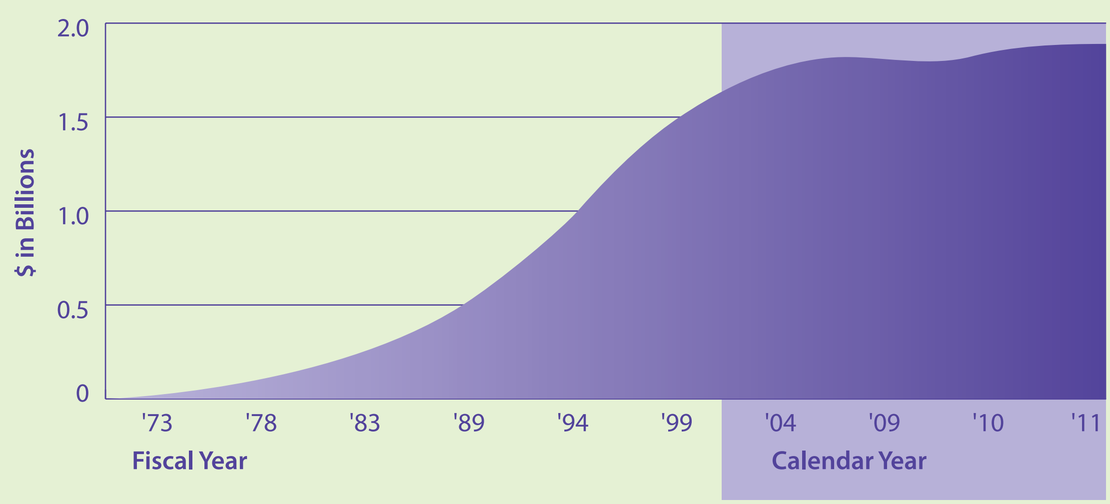
The members of the ERFC Board of Trustees have jurisdiction over and ultimate fiduciary responsibility for the investment of the System's assets. In carrying out their responsibilities, they must adhere to applicable laws, regulations, and rulings with respect to the duties of investment fiduciaries. 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. 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, 2011 actuarial valuation)



Investment Managers

ASSETS UNDER MANAGEMENT

As of June 30, 2012 (Dollars in millions)

Investment Manager	Investment Type	Amount
Equities		
Large Capitalization		
Aronson Johnson Ortiz	Value	$ 96.4
Mellon Capital Management Corp.	Core Index (Russell 1000)	110.6
Turner Investment Partners	Growth	92.3
Small/Mid Capitalization		
Epoch Investment Partners, Inc.	Value	37.6
Lazard Asset Management	Core	39.3
Westfield Capital Management	Growth	39.1
International		
Acadian Asset Management	Core	88.1
AllianceBernstein L.P.	Value	72.3
William Blair & Company	Growth	83.2
William Blair & Company	Emerging Market	55.7
Fixed Income		
Loomis-Sayles & Company	Core Plus	154.1
Mellon Capital Management Corp.	Core Index	115.7
Pacific Investment Management Co.	Core Plus	204.9
Mondrian Investments	Emerging Market	53.2
Global Asset Allocation/Better Beta		
Bridgewater Associates, Inc.	Better Beta	103.4
Wellington Management Co.	Global Asset Allocation	88.8
Pacific Investment Management Co.	Global Asset Allocation	95.7
Hedge fund of funds		
Grosvenor Institutional Partners, L.P.	Hedge Fund of Funds	69.1
Permal Group of Funds	Hedge Fund of Funds	70.0
Private Equity		
Audax Mezzanine Fund III, L.P.	Private	1.4
Lexington Capital Partners VII, L.P.	Private	4.7
Newstone Capital Partners II, L.P.	Private	2.5
Permal Private Equity Opportunities IV, L.P.	Private	2.8
Private Advisors, LLC	Private	2.4
HarbourVest	Private	1.8
Real Estate		
JP Morgan Asset Management	Private	18.7
Prudential Financial	Private	18.6
UBS Realty Investors, LLC	Private	25.2
Urdang Investment Management	Public	79.5
Cash (temporary cash)		0.5
Total		**$ 1,827.6**

Asset Structure

Interim Strategic Target Allocation

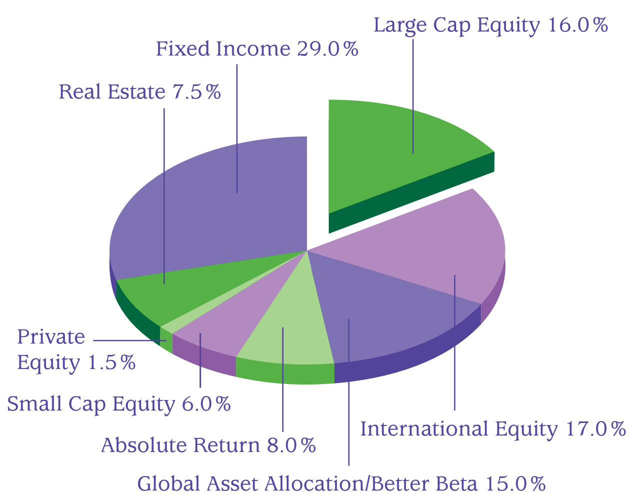
The asset structure shown below represents the Trustees' assessment of their optimal asset allocation as of June 30, 2012. This interim strategic allocation provides a reasonable expectation that the fund's investment objective can be achieved based on historic relationships of asset class performance.

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, 2012.

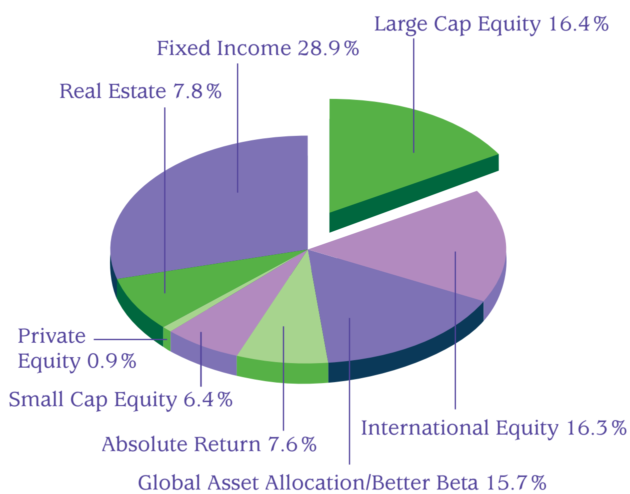
Actual Asset Allocation as of June 30, 2012

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



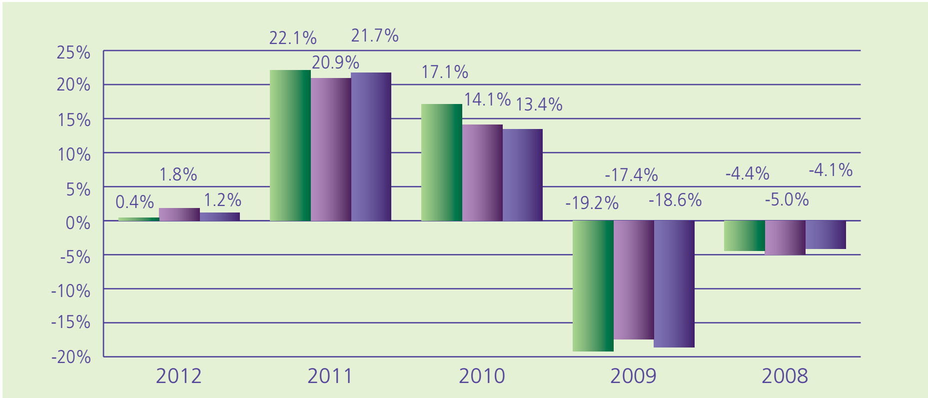
Security Class	Interim Strategic Targets as of June 30, 2012	Actual Asset Allocation as of June 30, 2012
Domestic Large Cap Equity	16.0 %	16.4 %
Domestic Small Cap Equity	6.0	6.4
International Equity	17.0	16.3
Real Estate	7.5	7.8
Fixed Income	29.0	28.9
Global Asset Allocation/Better Beta	15.0	15.7
Absolute Return	8.0	7.6
Private Equity	1.5	0.9
Cash	—	—
Total	**100.0%**	**100.0%**

Investment Results

Fiscal Years Ending June 30

TOTAL FUND RETURNS

- ERFC
- Benchmark*
- Public Funds**



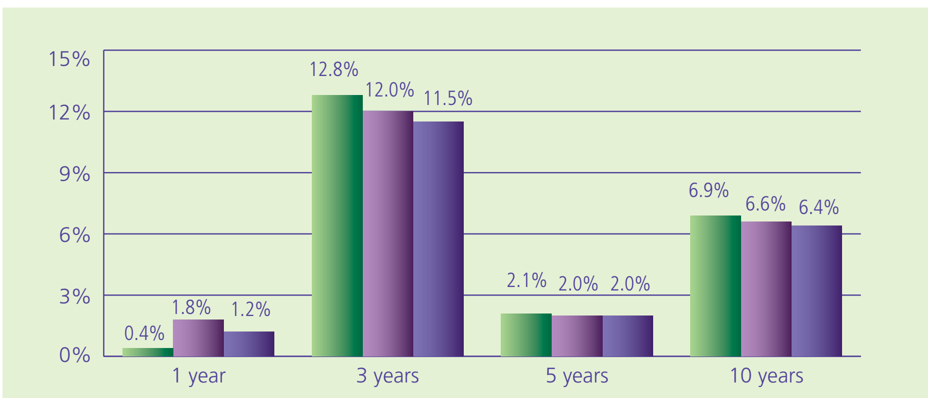
* Diversified benchmark is 16.0% Russell 1000, 6.0% Russell 2000, 14% MSCI ACWI Ex-US, 3.0% MSCI Emerging Markets, 3.75% NAREIT, 3.75% NCREIF, 18.0% Barclays Aggregate Bond Index, 4.0% BC Credit, 4.0% BC Long Credit, 7.5% MS World Net, 7.5% CitiWorld Govt Bond, 8.0% HFRI FoF, 1.5% Cambridge PE, 3.0% JPM GBIEM

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

For the Periods Ending June 30, 2012

TOTAL FUND

- ERFC
- Benchmark*
- Public Funds**



FIXED INCOME

- Fixed Income
- Benchmark: Barclays Capital Aggregate Bond

Investment Results

(For the Periods Ending June 30, 2012)

DOMESTIC EQUITY

Domestic Equity

Benchmark: Russell 3000 Index

INTERNATIONAL EQUITY

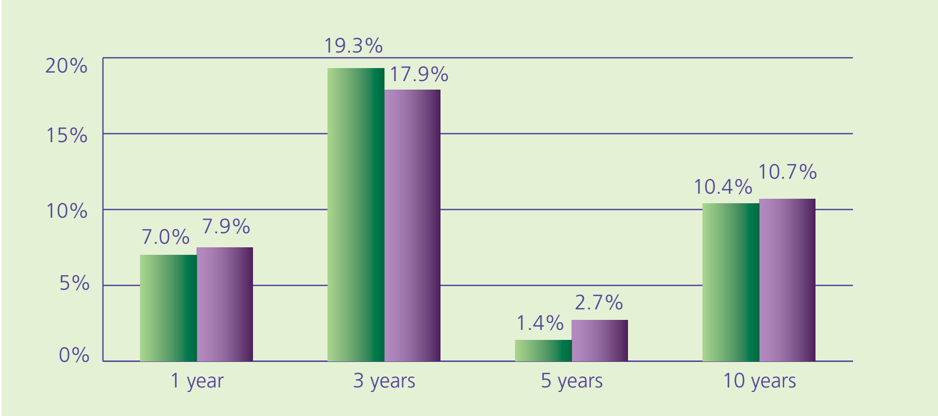
International Equity

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.

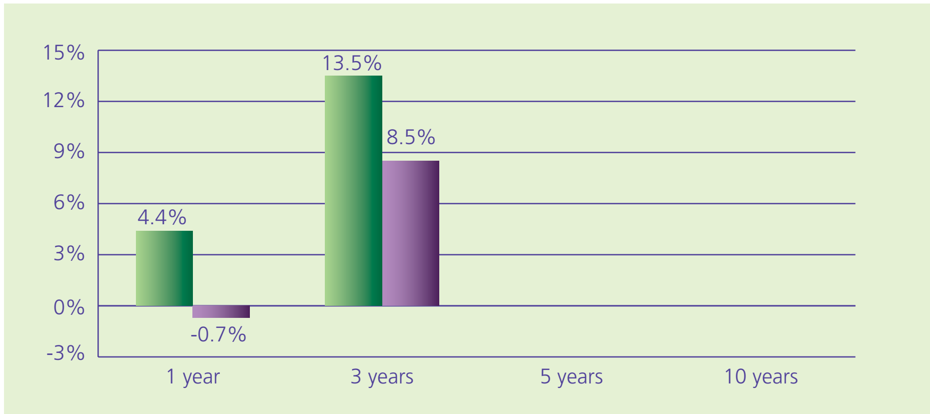
INVESTMENT

Investment Results

(For the Periods Ending June 30, 2012)

GLOBAL ASSET ALLOCATION

- GAA
- Benchmark: 50% MSCI World / 50% Citi World Govt Bond Index



HEDGE FUND

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

Schedules of Ten Largest Equity & Fixed Income Holdings

(As of June 30, 2012)

TEN LARGEST EQUITY HOLDINGS*

No. Shares	Description	Cost	Fair Value	% of Total Portfolio
16,550	APPLE INC	$ 3,275,217	$ 9,665,200	0.53%
695,598	BP PLC	5,872,787	5,509,981	0.30%
63,700	EXXON MOBIL CORP	5,072,147	5,450,809	0.30%
105,280	ASTRAZENECA ORD	4,901,540	4,711,057	0.26%
57,910	COCA COLA	3,965,194	4,527,983	0.25%
122,866	ROYAL DUTCH SHELL PLC	4,026,042	4,196,461	0.23%
98,700	WELLS FARGO & CO	2,626,189	3,300,528	0.18%
5,410	GOOGLE INC	3,080,852	3,138,179	0.17%
29,600	CHEVRON CORP	2,192,442	3,122,800	0.17%
81,200	JP MORGAN CHASE & CO.	3,277,189	2,901,276	0.16%
	Total	**$ 38,289,599**	**$ 46,524,274**	**2.55%**

TEN LARGEST FIXED INCOME HOLDINGS*

Par Value	Security	Coupon	Maturity	Cost	Fair Value	% of Total Portfolio
7,255,000.000	INTER-AMERICAN DEVELOPMENT BK	6.00%	12/15/2017	$ 7,149,338	$ 6,480,027	0.35%
5,500,000.000	INTL BK RECON & DEVELOP	1.43%	3/5/2014	3,581,312	4,385,238	0.24%
3,115,000.000	GEORGIA-PACIFIC LLC	7.75%	11/15/2029	2,766,891	4,046,603	0.22%
3,355,000.000	NEW STH WALES TSY BDS AUD	6.00%	2/1/2018	3,785,333	3,840,138	0.21%
2,635,000.000	BMC SOFTWARE INC	7.25%	6/1/2018	2,619,348	3,173,383	0.17%
2,640,256.820	TRINITY RAIL LEASING LP	5.19%	10/16/2040	2,640,257	2,746,633	0.15%
2,780,000.000	OLD REPUBLIC INTERNATIONAL	3.75%	3/15/2018	2,728,503	2,502,000	0.14%
2,190,000.000	INTEL CORP	2.95%	12/15/2035	2,161,153	2,477,438	0.13%
12,205,000.000	NORWAY	4.25%	5/19/2017	1,841,944	2,312,902	0.13%
2,400,000.000	MERRILL LYNCH & CO INC	6.11%	1/29/2037	2,064,106	2,261,424	0.12%
	Total			**$ 31,338,185**	**$ 34,225,786**	**1.86%**

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

INVESTMENT

Schedule of Brokerage Commissions

(Year Ended June 30, 2012)

Broker Name	Base Volume	Total Shares	Base Commission	Commission Percentage
BNY CONVERGEX / LJR, HOUSTON	$ 98,462,135	2,384,755	$ 89,836	0.09
CREDIT SUISSE, NEW YORK (CSFBUS33XXX)	92,786,956	11,174,521	57,258	0.06
DEUTSCHE BK SECS INC, NY (NWSCUS33)	58,337,942	2,615,794	36,181	0.06
UBS SECURITIES LLC, STAMFORD	50,776,783	1,250,503	27,162	0.05
LIQUIDNET INC, BROOKLYN	43,934,247	1,416,774	31,566	0.07
SG AMERICAS SECURITIES LLC, NEW YORK	37,994,217	1,414,771	13,656	0.04
MORGAN STANLEY & CO INC, NY	35,602,912	3,004,201	28,495	0.08
PULSE TRADING LLC, BOSTON	35,566,335	1,055,955	17,627	0.05
BARCLAYS CAPITAL LE, JERSEY CITY	27,790,209	1,014,908	16,805	0.06
CREDIT SUISSE (EUROPE), LONDON	27,567,161	2,437,722	26,859	0.1
UBS EQUITIES, LONDON	21,148,138	1,227,045	17,166	0.08
INVESTMENT TECHNOLOGY GROUP, NEW YORK	19,347,037	640,824	11,263	0.06
NOMURA SECS INTL INC, NEW YORK	19,275,020	2,239,076	11,643	0.06
GOLDMAN SACHS & CO, NY	15,979,613	1,135,285	17,585	0.11
MERRILL LYNCH INTL LONDON EQUITIES	14,795,920	983,200	12,013	0.08
KNIGHT EQUITY MARKETS L.P., JERSEY CITY	14,273,610	690,861	26,753	0.19
J P MORGAN SECURITIES INC, BROOKLYN	13,711,355	418,910	14,156	0.1
J.P. MORGAN CLEARING CORP, NEW YORK	12,480,298	1,052,024	7,219	0.06
CITIGROUP GBL MKTS INC, NEW YORK	12,239,053	370,573	11,757	0.1
CITIGROUP GBL MKTS/SALOMON, NEW YORK	12,203,059	3,848,166	9,251	0.08
ROSENBLATT SECURITIES LLC, JERSEY CITY	11,295,418	497,600	5,244	0.05
INSTINET EUROPE LIMITED, LONDON	11,162,773	545,648	11,444	0.1
MERRILL LYNCH PIERCE FENNER SMITH INC NY	9,221,380	261,238	6,878	0.07
JEFFERIES & CO INC, NEW YORK	9,177,248	280,354	10,135	0.11
J P MORGAN SECS LTD, LONDON	7,870,896	579,492	10,221	0.13
BARCLAYS CAPITAL, LONDON (BARCGB33)	7,184,205	921,009	5,347	0.07
MERRILL LYNCH PIERCE FENNER, WILMINGTON	6,541,315	1,990,516	7,139	0.11
RBC CAPITAL MARKETS LLC, NEW YORK	6,132,995	285,092	6,400	0.1
BROCKHOUSE AND COOPER, MONTREAL	6,089,281	262,362	2,436	0.04
BARCLAYS BK PLC, NEW YORK	5,572,582	292,498	2,228	0.04
MACQUARIE SECURITIES LIMITED, HONG KONG	5,512,104	2,362,977	5,033	0.09
SG SECURITIES, HONG KONG	5,312,475	3,840,550	4,869	0.09
INVESTMENT TECHNOLOGY GROUP LTD, DUBLIN	5,086,036	612,015	4,544	0.09
NOMURA SECS INTL, LONDON	4,559,550	198,626	3,066	0.07
GUZMAN & CO, NEW YORK	4,237,827	103,600	2,072	0.05
ISI GROUP INC, NY	3,943,462	121,201	4,842	0.12
INSTINET CORP, NY	3,842,570	83,600	1,672	0.04
DAIWA SECS AMER INC, NEW YORK	3,600,624	305,525	3,288	0.09
CSI US INSTITUTIONAL DESK,NEW YORK	3,557,018	99,448	3,878	0.11
MACQUARIE SECURITIES(USA) INC, JERSEY CITY	3,408,688	134,824	5,028	0.15
REDBURN PARTNERS LLP, LONDON	3,349,047	143,397	4,095	0.12
PERSHING LLC, JERSEY CITY	3,341,411	903,675	2,470	0.07
COWEN AND COMPANY LLC, NEW YORK	3,315,358	127,990	5,120	0.15
BERNSTEIN SANFORD C & CO, NEW YORK	3,097,258	128,068	3,698	0.12
MORGAN STANLEY & CO, LONDON (MSLNGB2X)	3,002,772	254,945	4,021	0.13
OTHER BROKERS	114,264,248	11,061,259	132,954	0.12
TOTAL	**$ 917,950,541**	**66,773,377**	**$ 742,373**	

Investment Summary

	As of June 30, 2012		As of June 30, 2011	
	Market Value	% Market Value	Market Value	% Market Value
Fixed Income				
U.S. Government obligations	—	0.0%	$ 9,775,639	0.5%
Mortgage-backed securities	$ 1,523,586	0.1%	3,071,802	0.2%
Domestic corporate bonds	90,424,608	4.9%	85,788,166	4.5%
Convertible bonds	11,457,800	0.6%	9,132,544	0.5%
International bonds	41,750,081	2.3%	35,732,993	1.9%
Preferred stocks	6,877,879	0.4%	5,904,596	0.3%
Index / Commingled fund	361,914,042	19.9%	272,156,889	14.5%
Total fixed income	513,947,996	28.2%	421,562,629	22.4%
Domestic Equities:				
Basic industry	58,683,212	3.2%	36,504,517	1.9%
Consumer and services	98,920,238	5.4%	197,776,579	10.5%
Financial and utility	52,127,231	2.8%	66,722,085	3.5%
Technological	69,981,295	3.8%	53,620,785	2.8%
Index / Commingled fund	110,603,943	6.0%	187,934,937	10.0%
Total domestic stock	390,315,919	21.2%	542,558,903	28.7%
International Equity				
Basic industry	69,024,421	3.8%	38,926,423	2.1%
Consumer and services	71,206,787	3.9%	161,563,116	8.6%
Financial and utility	48,910,078	2.7%	68,734,423	3.6%
Technological	29,779,605	1.6%	17,552,149	0.9%
Index / Commingled fund	76,397,734	4.2%	19,393,237	1.0%
Total international stock	295,318,625	16.2%	306,169,348	16.2%
Real Estate				
Commercial	51,848,635	2.8%	41,227,913	2.2%
Commingled	98,237,115	5.4%	101,402,164	5.4%
Total real estate	150,085,750	8.2%	142,630,077	7.6%
Alternative investments				
Better beta	103,425,441	5.7%	97,997,738	5.2%
Global asset allocation	184,473,015	10.1%	189,426,564	10.0%
Hedge fund of funds	139,115,563	7.6%	84,487,068	4.5%
Limited partnerships	15,537,604	0.8%	9,054,940	0.5%
Total alternative investments	442,551,623	24.2%	380,966,310	20.2%
Subtotal investments at fair value	1,792,219,913	98.0%	1,793,887,267	95.1%
Short-term Investments				
Money Market	37,909,533	2.0%	93,375,073	4.9%
Total short-term investments	37,909,533	2.0%	93,375,073	4.9%
Total	**$ 1,830,129,446**	**100.0%**	**$ 1,887,262,340**	**100.0%**

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

INVESTMENT

Schedule of Investment Management Fees

(Year Ended June 30, 2012)

Investment Category	Assets Under Management	FY 2012
Better beta	$ 103,425,441	$ 499,594
Domestic equity managers	390,315,919	1,142,253
Fixed income managers	507,070,116	1,041,031
Global asset allocation managers	184,473,015	1,740,645
Hedge fund of funds	139,115,563	1,508,596
International equity managers	302,196,505	1,493,059
Private equity	15,537,604	686,628
Real estate managers	150,085,750	1,242,543
Total	**$ 1,792,219,913**	**$ 9,354,349**

Note: Excludes cash and cash equivalents

Actuarial Section

(Unaudited)

Selecting staff for a new school is a process and at Mason Crest it involved bringing new members into a professional learning community (PLC) culture, not just into a new school building. PLC's encourage teachers and administrators to continuously seek and share learning that enhances their effectiveness and benefits students. The PLC culture of continuous inquiry and improvement supports teacher networks and increases teacher efficacy so that every student's needs satisfied.

Actuary's Certification Letter

GRS

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November 1, 2012

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, 2011.

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

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

Actuarial Section

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

Actuary's Certification Letter

Board of Trustees
November 1, 2012
Page 2

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

Active Members by Years of Service on December 31, 2011

All Active Members in Valuation on December 31, 2011 by Attained Age and Years of Service

Summary of Member Data

Short-Term Solvency Test

Analysis of Financial Experience Including Gains and Losses by Risk Area

Financial Section

Schedule of Funding Progress

Schedule of Employer Contributions

Summary of Actuarial Methods and Assumptions

Assets are valued on a market-related basis that recognizes each year's difference between actual and assumed investment return over a closed five-year period, subject to 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, 2011 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, 2011 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

ACTUARIAL

Summary of Actuarial Assumptions and Methods

The actuarial assumptions and methods used in making the annual actuarial valuation are summarized in this section. The assumptions were adopted by the Trustees following a study of experience covering the five-year period ending December 31, 2009.

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 3 years for males and 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	0.02%	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.

ACTUARIAL

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	111.14	11.60	13.27
75	86.55	94.59	9.55	10.66
80	70.31	76.55	7.37	8.16

Summary of Actuarial Assumptions and Methods

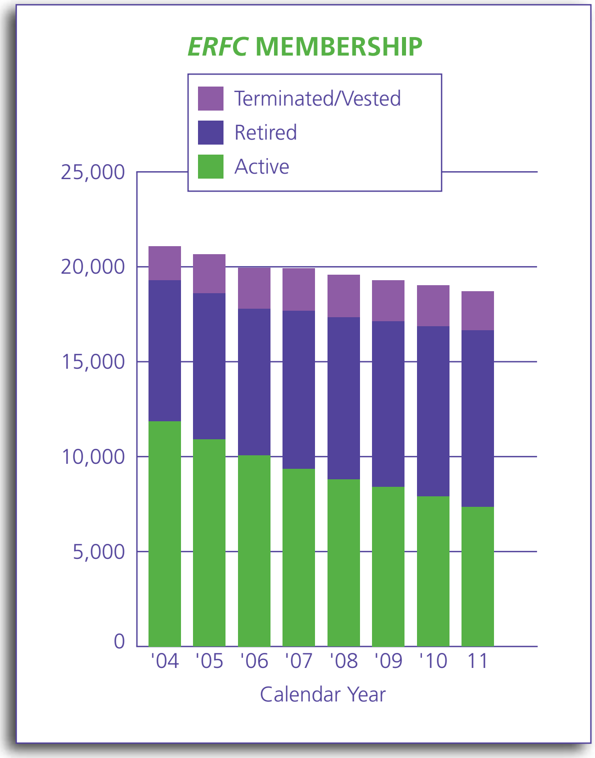
TABLE E: Rates of Forfeiture Following Vested Separation

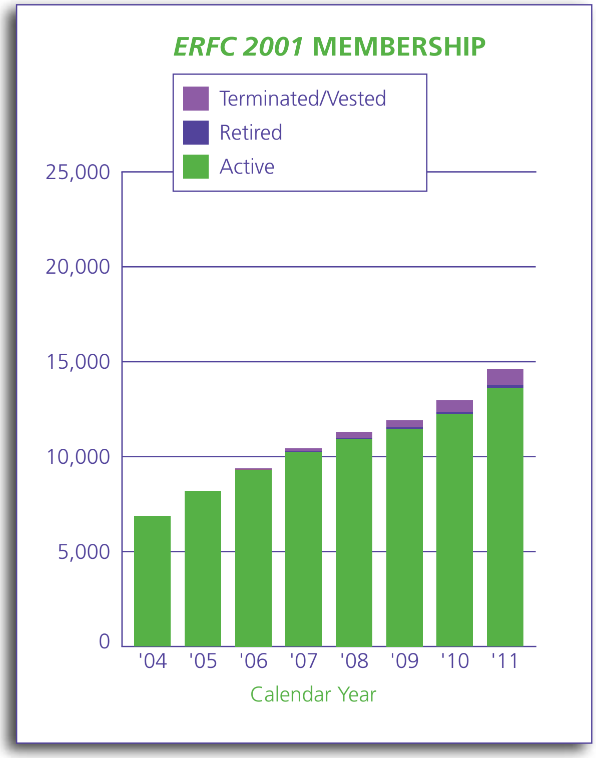
Forfeiture occurs when a vested person separates from service and withdraws contributions thereby forfeiting future rights to an employer financed benefit. The total probability of forfeiture is obtained by multiplying the probability of "other separation" from Table B by the probability of forfeiture 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**
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
	2011	7,353	9,293	2,063	13,623	174	798	33,304

ACTUARIAL

Summary of Member Data

(As of December 31, 2011)

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

Age Group	YEARS OF SERVICE TO VALUATION DATE							TOTALS		
	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	13	102					117	$ 7,278,014	$ 62,205
35-39	8	64	517	49				638	44,227,432	69,322
40-44	8	81	550	381	54	1		1,075	79,811,064	74,243
45-49	9	47	405	292	229	47	3	1,032	77,133,486	74,742
50-54	8	37	483	272	255	199	43	1,297	96,852,292	74,674
55-59	2	27	581	328	305	185	83	1,511	111,032,341	73,483
60	2	7	124	60	49	28	14	284	20,470,835	72,080
61	1	1	86	84	49	24	15	260	19,164,204	73,708
62		3	89	70	56	34	16	268	20,218,038	75,440
63		2	73	66	53	25	5	224	16,012,901	71,486
64	1	3	64	44	53	19	5	189	13,490,966	71,381
65		2	44	46	49	15	4	160	11,270,888	70,443
66		2	16	32	26	6	2	84	6,447,842	76,760
67			22	15	12	5	2	56	4,106,206	73,325
68			14	10	9	8	2	43	3,054,865	71,043
69			14	11	15	7	4	51	3,681,702	72,190
70			3	5	6	5	2	21	1,472,340	70,111
71			4	4	1	4	1	14	829,104	59,222
72			4	3		1		8	439,730	54,966
73			3	1	1	2		7	396,364	56,623
74			1	1	2	3		7	410,415	58,631
75 over			1	1	1	1	3	7	381,744	54,535
Total	**41**	**289**	**3,200**	**1,775**	**1,225**	**619**	**204**	**7,353**	**$ 538,182,773**	**$ 73,192**

Summary of Member Data

(As of December 31, 2011)

Active *ERFC 2001* 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	2							2	$ 55,748	$ 27,874
20-24	640	1						641	26,725,780	41,694
25-29	2,372	373						2,745	129,567,957	47,201
30-34	1,225	1,433	104					2,762	147,773,927	53,503
35-39	645	728	143					1,516	86,470,816	57,039
40-44	714	612	92					1,418	78,031,919	55,030
45-49	693	575	81					1,349	69,079,461	51,208
50-54	583	698	122					1,403	71,576,994	51,017
55-59	322	580	121					1,023	55,976,694	54,718
60	40	89	19					148	8,340,759	56,356
61	39	75	15					129	7,382,691	57,230
62	43	70	14					127	6,970,455	54,885
63	28	61	19					108	6,424,804	59,489
64	17	50	10					77	4,226,139	54,885
65	10	51	4					65	4,124,957	63,461
66	8	18	6					32	1,901,510	59,422
67	9	17	3					29	1,427,482	49,224
68	1	12	3					16	1,053,799	65,862
69	4	7	1					12	649,678	54,140
70	2	6						8	390,560	48,820
71	1	3	1					5	242,881	48,576
72		1						1	76,776	76,776
73		1						1	82,266	82,266
74	1	2						3	86,067	28,689
75 OVER	2	1						3	150,347	50,116
Total	**7,401**	**5,464**	758					**13,623**	**$ 708,790,467**	**$ 52,029**

ACTUARIAL

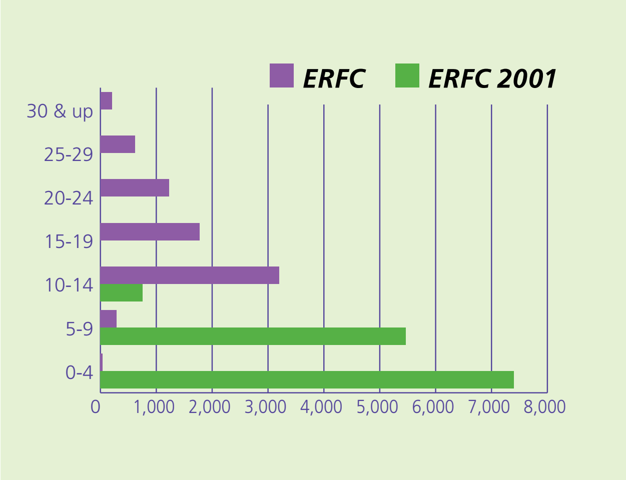
Summary of Member Data

(As of December 31, 2011)

ACTIVE MEMBER YEARS OF SERVICE

Average Service = 8.9 years

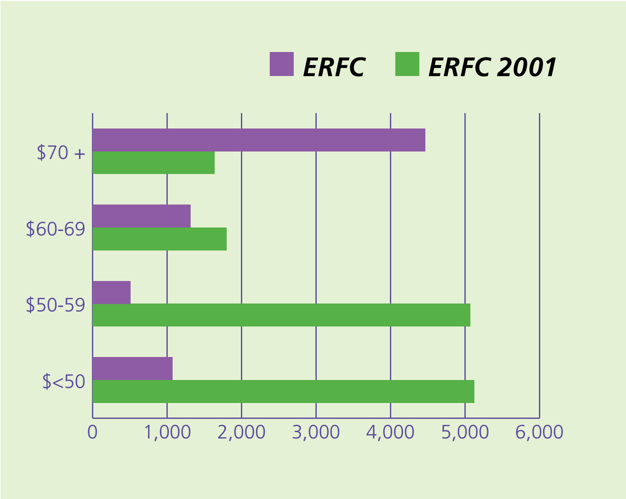
	0-4	5-9	10-14	15-19	20-24	25-29	30 & up
ERFC	41	289	3,200	1,775	1,225	619	204
ERFC 2001	7,401	5,464	758	–	–	–	–



ACTIVE MEMBER SALARIES ($ in thousands)

Average Annual Pay = $59,448

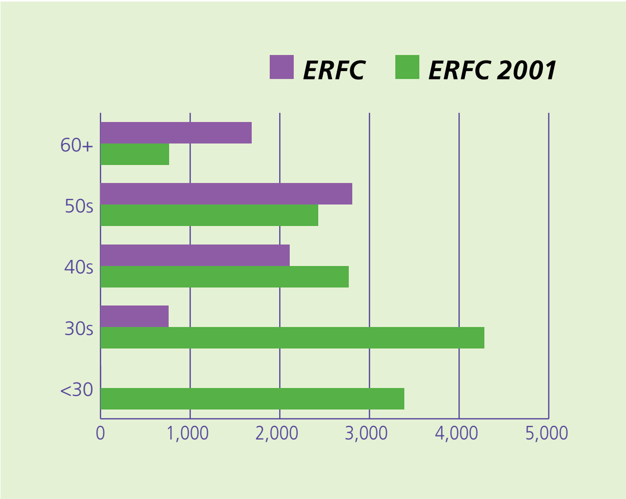
	<$ 50	$ 50-59	$ 60-69	$ 70+
ERFC	1,072	508	1,311	4,462
ERFC 2001	5,120	5,069	1,798	1,636



ACTIVE MEMBER AGES

Average Age = 43.7 years
Total Active Members = 20,976

	<30	30's	40's	50's	60+
ERFC	0	755	2,107	2,808	1,683
ERFC 2001	3,388	4,278	2,767	2,426	764



Summary of Member Data

(Last Eight Years)

ACTIVE MEMBER VALUATION DATA

Valuation Date	Annual Number	Annual Payroll	Annual Average Pay	% Increase in Avg. Annual Pay
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	(1.1)
December 31, 2010	20,141	1,191,290,190	59,148	(2.6)
December 31, 2011	20,976	1,246,973,240	59,448	0.5

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 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
2011	629	851,853	243	169,704	9,467	12,410,208	1,311	4.14

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

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)						
6/30/1992	$ 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
12/31/2011	402,847	1,401,877	656,948	1,866,952	100	100	9
$ 12/31/2011	402,847	1,401,877	666,240	1,866,952	100	100	9

@ After change in asset valuation method. $ After change in benefits or contribution rates. # 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								
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
2011	18.8	(30.6)	5.3	(0.2)	(4.2)	(4.8)	(15.7)	(0.7)

\# 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			

ACTUARIAL

Summary of Plan Changes

There were no significant plan changes during the valuation period ending December 31, 2011.

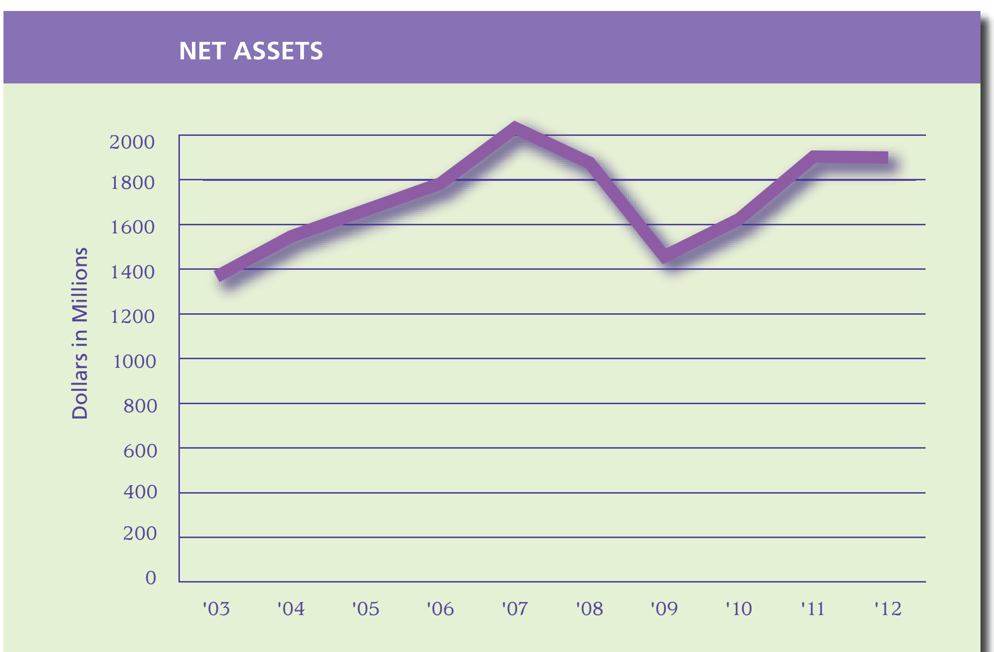
Mason Crest leads the way in environmental innovation. The two-story building was designed with sustainable and environmentally friendly features including a ground source heat pump, the first to be installed in a Fairfax County Public School. The pump uses geothermal wells buried underground to exchange heat from water that travels to and from the building. Electricity helps move the heat back and forth, but the pump doesn't burn fossil fuel. Mason Crest is the first school to reduce its carbon footprint because there are no harmful emissions to the environment.

Statistical Section
(Unaudited)

Net Assets

Last Ten Fiscal Years

FISCAL YEARS	NET ASSETS
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
2012	1,827,768,322

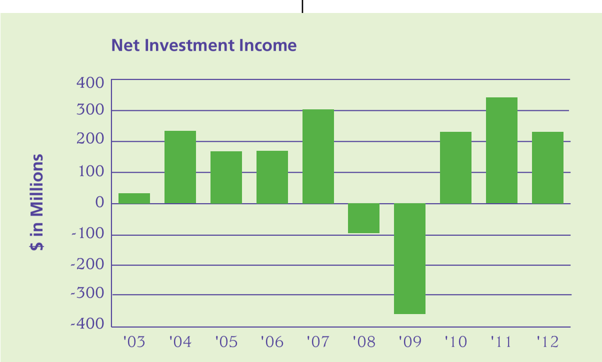


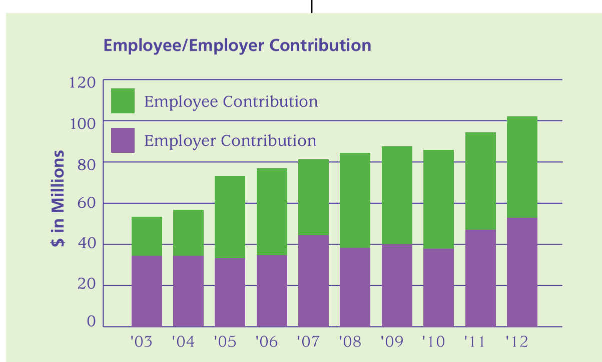
Changes in Net Assets

Last Ten Fiscal Years

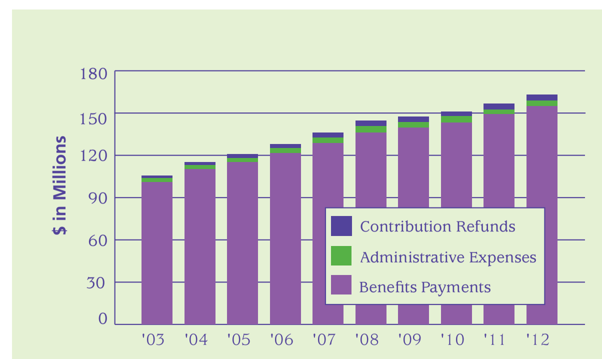
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
ADDITIONS										
Employee contributions	$ 18,750,568	$ 22,340,870	$ 39,818,585	$ 42,292,828	$ 44,453,617	$ 46,143,803	$ 47,996,408	$ 47,918,341	$ 47,167,129	$ 49,142,379
Employer contributions	34,506,630	37,331,203	32,198,596	34,648,918	36,644,001	38,334,140	40,012,480	37,868,623	47,118,111	52,934,245
Investment income (net of expenses)	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	1,635,435
Gain\loss from sale of capital assets	—	—	—	—	27,632	—	(5,494)	—	(1,503)	—
Total additions to plan net assets	**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**	**103,712,059**
DEDUCTIONS										
Benefit payments	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	155,041,762
Contribution refunds	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	4,295,171
Administrative expenses	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	3,574,923
Total deductions to plan net assets	**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**	**162,911,856**
Change in net assets net of expenses	**$ (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**	**(59,199,797)**

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
6/30/1992	$ 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
12/31/2011	1,246,973	1,401,887	1,069,087	2,470,964	1,866,952	604,012	75.6

@ 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												
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
2012	4,999	106,487,568	4,050	45,946,862	171	1,341,323	21	276,421	177	989,588	9,418	155,041,762

STATISTICAL

Benefit Refunds by Type

Last Ten Years

	Separation		Deaths		TOTAL	
Fiscal Year	**No.**	**Amount**	**No.**	**Amount**	**No.**	**Amount**
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
2012	659	3,934,877	26	360,294	685	4,295,171

Retired Members by Type of Benefit

(As of December 31, 2011)

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	1,642	291	1,273	28	43	7	1,228	66	7	41	17	283
251–500	1,350	394	826	14	111	5	993	56	11	26	22	242
501–750	829	339	460	10	18	2	609	27	11	20	15	147
751–1,000	842	520	297	8	17	—	635	17	24	45	9	112
1,001–1,250	788	563	212	4	9	—	641	12	12	32	7	84
1,251–1,500	629	476	148	3	2	—	482	16	9	33	7	82
1,501–1,750	617	494	121	2	—	—	452	20	13	30	3	99
1,751–2,000	463	379	82	1	—	1	350	8	11	28	5	61
Over 2,000	2,307	1,711	584	5	—	7	1,121	108	8	137	21	912
Total	**9,467**	**5,167**	**4,003**	**75**	**200**	**22**	**6,511**	**330**	**106**	**392**	**106**	**2,022**

*** TYPE OF RETIREMENT:**

1 Full Service

2 Reduced Service

3 Ordinary Death

4 Ordinary Disability

5 Service Connected Disability

**** OPTION SELECTED:**

Basic Benefit

1 Beneficiary receives 100% of member's reduced monthly benefit

2 Beneficiary receives 67% of member's reduced monthly benefit

3 Beneficiary receives 50% of member's reduced monthly benefit

4 Beneficiary receives a specified number of payments equal to 120 minus the number of payments the member has received.

5 Member receives partial lump sum and reduced monthly benefit

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

Average Benefit Payments by Years of Service

	YEARS CREDITED SERVICE					
	5-10	10-15	15-20	20-25	25-30	30+
Retirement Effective Dates						
Period 1/1/08 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
Period 1/1/11 to 12/31/11						
Avg Monthly Benefit	$ 264.65	$ 349.22	$ 759.30	$ 920.42	$ 2,266.05	$ 2,872.97
Avg Final Average Salary	$ 4,842.94	$ 4,912.25	$ 5,806.50	$ 6,084.78	$ 7,278.50	$ 8,073.08
No. of Retired Members	75	103	112	81	168	83

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
	2011	1,717	853	492

Retirees and Beneficiaries Current Annual Benefits Tabulated by Attained Ages

(As of December 31, 2011)

	Total	
Attained Ages	**No.**	**Annual Amount**
Under 40	5	28,178
40-44	5	14,647
45	1	787
46	2	6,351
47	1	787
48	7	21,375
49	4	20,079
50	2	35,696
51	4	116,241
52	11	260,670
53	16	428,948
54	28	755,112
55	91	2,007,758
56	134	2,965,088
57	180	4,211,075
58	200	4,609,587
59	265	6,167,896
60	330	7,161,709
61	391	8,307,392
62	443	10,210,134
63	544	12,001,870
64	665	14,499,269
65	666	13,970,826
66	458	4,793,760
67	457	4,871,979
68	434	4,630,570
69	428	4,541,164
70-74	1,471	16,103,062
75-79	788	8,323,445
80-84	314	4,607,027
85-89	254	2,421,214
80 & up	356	3,270,827
90 & up	151	1,021,556
Grand Total	**9,467**	**$ 148,697,364**

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, 2011)

	Total	
Attained Ages	**No.**	**Annual Amount**
25	1	7,122
27	3	9,177
28	14	48,593
29	29	103,783
30	52	184,170
31	67	239,681
32	82	278,211
33	90	277,507
34	105	279,678
35	112	289,892
36	99	219,508
37	129	277,449
38	113	225,896
39	113	213,985
40	128	309,997
41	135	312,544
42	120	289,854
43	117	299,595
44	110	269,875
45	96	200,858
46	96	235,091
47	88	196,527
48	84	213,307
49	80	190,479
50	71	224,834
51	72	201,354
52	75	286,899
53	65	222,800
54	69	241,245
55	60	178,392
56	48	122,810
57	49	176,494
58	56	170,384
59	53	160,214
60	42	161,809
61	31	108,019
62	21	81,509
63	27	139,527
64	22	145,619
65 & over	28	67,107
Grand Total	**2,852**	**$ 7,861,795**

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

LEADERSHIP AND LOOKING TOWARD THE FUTURE

Prior to the September school opening, administrators visited all of the feeder schools to allow students coming to Mason Crest the opportunity to vote on a school mascot, school colors and playground equipment. From this concerted effort the Mason Crest Tigers were born and red and black adorns school signage and paraphernalia.

ERFC would like to thank the staff and administrators of Mason Crest Elementary for allowing us the opportunity to feature your leadership in our *Comprehensive Annual Financial Report.* The children are who we all have in common and ERFC is here for those who serve to better their futures.

ON OUR FRONT COVER

Diane Kerr, Assistant Principal, brings a rich instructional background to the Mason Crest community. Ms. Kerr began her teaching career in Connecticut which led to travel and teaching in Bahrain, a small island country situated near the western shores of the Persian Gulf. She returned to the U.S. where she worked extensively teaching English to second language learners. When asked where she thinks her first year at Mason Crest will lead, she replies that because Mason Crest is a new elementary school she hopes to build a strong community of families, community members and teaching staff by developing teams and a strong professional learning community.

Educational Employees' Supplementary Retirement System of Fairfax County

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Springfield, VA 22151-2205