Fairfax County
PUBLIC SCHOOLS
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ERFC2016

Comprehensive Annual Financial Report

For the Fiscal Year
Ended June 30, 2016

The Educational Employees' Supplementary
Retirement System
of Fairfax County

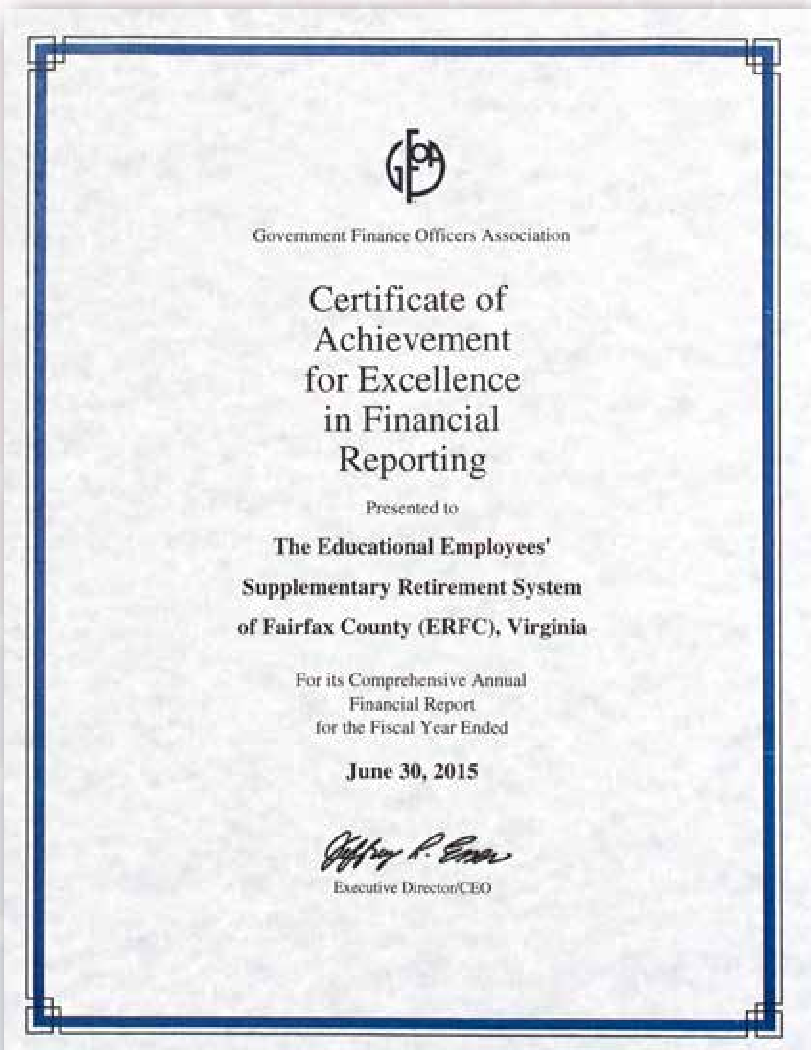
A Component Unit
of Fairfax County
Public Schools

Fairfax, Virginia

ACHIEVEMENTS

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to ERFC for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015. This was the 19th consecutive year that ERFC has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

The Educational Employees' Supplementary Retirement System of Fairfax County (ERFC), Virginia

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

Educational Employees' Supplementary Retirement System of Fairfax County

2016 ERFC

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2016
The 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 EDUCATIONAL EMPLOYEES' SUPPLEMENTARY RETIREMENT SYSTEM *of Fairfax County*

The mission of the Educational Employees' Supplementary Retirement System of Fairfax County (ERFC) is to enhance the financial security of our members through prudent financial stewardship of a defined benefit plan while providing outstanding retirement services and education.

ERFC SLOGAN

ERFC: Enter Retirement Feeling Confident

ERFC VISION

To be a leader among our peers in providing professional and personalized service to our members and beneficiaries.

ERFC VALUES

Accountability

Operate with transparency and a commitment to think strategically while fulfilling fiduciary obligations.

Customer Service

Respond promptly with quality as we strive to exceed the expectations of our membership.

Open Communication

Provide timely and pertinent information that improves processes, removes barriers, and establishes accountabilities.

Integrity

Conduct operations by adhering to the highest standards of ethical conduct.

Continuous Improvement

Enable employees to grow and succeed through appropriate education.

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.

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 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
2016

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
Program Administrator

INTRODUCTION

Unaudited

LEADERSHIP AND LEARNING ARE INDISPENSABLE TO EACH OTHER

JOHN FITZGERALD KENNEDY

Fort Belvoir, one of the largest military bases in the United States, is home to one of the largest elementary schools in the FCPS community and the Washington Metropolitan area. In September, the Fort Belvoir Elementary motto, “Expanding Our Horizons,” became a reality as the all new upper school building opened its doors for the 2017 school year. Principals Theresa Carhart (Belvoir Upper) and Kathryn Toussaint-Williams (Belvoir Primary) share a unique leadership journey as they work jointly to ensure that their two school buildings function as one school community.

LETTER OF TRANSMITTAL

ERFC
8001 Forbes Place, Suite 300
Springfield, VA 22151

December 1, 2016

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, 2016. The ERFC management holds responsibility for the financial information presented in this report. Proper internal accounting controls exist to provide reasonable, but not absolute, assurance for both the safekeeping of assets and the fair presentation of the financial statements. The concept of reasonable assurance recognizes that costs of controls should not exceed the anticipated benefits these controls provide. This CAFR reflects the careful stewardship of the System's assets, and dedicated service provided by the Board and staff. For financial reporting purposes, the ERFC is considered a component unit of the Fairfax County Public Schools, Fairfax County, Virginia. As such, this report is designed to comply with the reporting requirements of Sections 3-4-6(a)(8) of the Fairfax County Code and the Virginia Code. We believe this report also conforms to the Government Finance Officers Association's (GFOA) requirements.

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

Plan History

The ERFC was established on July 1, 1973, through negotiations conducted between the Fairfax County School Board and the Fairfax Education Association (FEA). The terms under which ERFC operates were later incorporated in a Fairfax County ordinance and the ERFC Plan Document. Historically, ERFC benefits have been designed specifically to supplement the benefits of two primary retirement plans: the Virginia Retirement System (VRS) and the federal Social Security System. In 1987, the VRS introduced major increases to the state's early retirement benefits, which required the ERFC to thoroughly re-examine the complementary structure of its supplemental benefits plan. Effective July 1, 1988, the ERFC significantly altered its Legacy Plan benefit structure in order to rebalance the benefit amounts payable to future ERFC members, while also maintaining and protecting the rights of current members. Thirteen years later, the School Board approved further refinements to the

ERFC supplemental retirement program with the introduction of a second retirement plan, ERFC 2001, 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 20,000 full-time educational, administrative and support employees of Fairfax County Public Schools (FCPS).

Administration Updates

Communication activities to increase the understanding and appreciation of the value of ERFC and the total retirement program continued to receive emphasis during the fiscal year. As part of its School Outreach program, ERFC staff visited 29 schools and administrative centers, explaining to members the provisions and importance of their retirement benefits. ERFC staff developed a brochure to complement ERFC's other communications material, which was geared toward stakeholders other than ERFC members and included information on ERFC's economic benefit to Fairfax County, as well as key benefits of defined benefit plans. Staff also created a monthly e-newsletter for members, which highlights timely retirement topics.

The ERFC staff continued its efforts to implement technology innovations that will result in improved efficiencies, reduced risk and/or cost savings. As part of its "ERFC Going Paperless" campaign, ERFC began distributing its Counseling Session Evaluation forms electronically. To continue to maintain excellence in cyber security, ERFC was added as an insured on the FCPS cyber insurance policy. ERFC continued to promote its online service and over 20,000 active and retired members now use ERFC*Direct*, up from 18,000 a year ago.

Strategic Plan

During the year, the ERFC staff implemented several action plans included in the 2015 Strategic Plan. Staff launched a new "Ambassador Program" with a group of select employee representatives who volunteered to act as ERFC retirement plan resources for their peers in the workplace. Staff developed a "retiree checklist" for use by members eligible to retire in the next 12 months. In conjunction with its actuary, ERFC developed a 2025 profile to inform the next strategic planning cycle. The profile outlined demographic projections for ERFC including average age, service and pay, and projected the employer contribution rate for the 10-year period.

The operational audit concluded with a presentation by KPMG at the December Board of Trustees meeting. ERFC received "passed" results over all general information technology control areas tested. In January, ERFC submitted the Plan to the IRS for an updated determination letter. Staff worked with its actuary to finalize the five-year actuarial experience study, which is conducted to determine the appropriateness of the actuarial assumptions including those relating to inflation, investment return, salary increases, and rates of retirement and disability.

LETTER OF TRANSMITTAL

Plan Financial Condition

The ERFC Fund declined .3 percent in fiscal year 2016, the second year of disappointing fiscal year returns. For the year, ERFC underperformed its policy index by 1.7 percent due primarily to underperformance by its domestic equity managers; in contrast, last year ERFC outperformed its policy index due to strong returns by its domestic equity managers.

ERFC's independent actuary reported that the System's funding ratio declined slightly from 77.7 percent to 76.0 percent for the valuation period ending December 31, 2015, due to unfavorable investment performance offset by lower than anticipated pay increases and favorable demographic experience. The recommended employer contribution rate increased to 6.40 percent of payroll from 5.60 percent for fiscal year 2018.

The Financial, Actuarial, and Statistical sections of this report provide detailed information regarding the Fund's overall financial condition. In addition, the *Required Supplementary Information* included in the Financial Section, presents historical data to help in assessment of the System's funding status.

Investment Activity

The ERFC's decline of .3 percent for FY 2016 underperformed its benchmark index return of 1.7 percent and underperformed its peer systems for the fiscal year with the median fund returning .9 percent. This peer system underperformance occurred due to less domestic equity exposure in ERFC's portfolio than its peer group; the Fund's 20.3 percent U.S. equity allocation was lower than the median fund's 32.1 percent allocation and domestic equity returned 2.1 percent for the fiscal year. International markets declined sharply and ERFC's higher than peer allocation to developed international equity and global asset allocations contributed to ERFC's lower than peer rankings. The Fund's longer-term return remained strong with the seven-year return of 9.5 percent exceeding the policy index return of 8.8 percent.

The Board continued implementation of its private equity program during the fiscal year. Additional capital called increased the private equity allocation to 2.9 percent of the Fund. The positive move in the markets that occurred subsequent to fiscal year-end further strengthened the Board's belief that it will best meet its long-term investment objectives by adding further diversification in the portfolio. 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 Boston, 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 Cherry Bekaert

LLP, Certified Public Accountants, Richmond, Virginia, to audit the System's financial statements.

Awards

The System proudly announces that the Government Finance Officers Association of the United States and Canada (GFOA) awarded ERFC the **Certificate of Achievement for Excellence in Financial Reporting** for its FY 2015 Comprehensive Annual Financial Report (CAFR). This is the 19th 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' 2016 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. ERFC's CAFR also won an **Award of Merit** from the 2016 Publications and Electronic Media Contest sponsored by the National School Public Relations Association (NSPRA). The CAFR was one of 11 FCPS publications and electronic media chosen to receive an award among 965 entries in the 2016 contest.

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, 2016

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, 2016. The ERFC Board continues to commit itself to its mission of enhancing the financial security of our members through prudent financial stewardship of the System's assets, while providing outstanding retirement services and education to the members of the ERFC. As participants and stakeholders in ERFC, you can be assured that the Board of Trustees works collectively on your behalf to provide the supplemental retirement benefits promised to you by Fairfax County Public Schools.

The months subsequent to the fiscal year-end introduced several changes to the composition of ERFC's Board and its officers. Daryl Richards was elected to his first three-year term as an ERFC trustee. Nancy Hammerer was elected as Chairperson in July 2016 and Kimberly Adams was elected as Vice Chairperson. The School Board re-appointed Marty Smith, the FCPS Chief of Staff; Susan Quinn, the FCPS Chief Operating Officer; Kristen Michael, the FCPS Assistant Superintendent for the Department of Financial Services; and Michael Burke, the individual Trustee, to the Board. The Board looks forward to working together to achieve its goals and objectives.

During the year, the ERFC Board completed several action items included in the 2015 Strategic Plan. The launch of ERFC's Ambassador Program furthers the Board's goal of increasing the understanding and appreciation of the value of ERFC and the total retirement program. The economic flow-through study highlighted the positive impacts that the $211 million of retiree income paid by the ERFC and the Virginia Retirement System has on Fairfax County's economy, supporting an additional $249 million of economic impact.

The Board is disappointed in the negative .3 percent return for the 2016 fiscal year period; however, the seven-year return of 9.5 percent since the financial downturn was comfortably in excess of its policy index return of 8.8 percent. The Board will continue to analyze investment strategies in conjunction with the ERFC staff and its investment advisors to ensure a well-diversified asset mix with a risk-balanced approach, and managed with the disciplined oversight required to meet the System's long-term investment goals.

LETTER FROM THE CHAIRPERSON

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.

The School Board maintained FCPS' employer contribution rate at 5.60 percent of covered payroll for the 2017 fiscal year. The combined employee and employer contributions provide significant revenue for the ERFC. However, it is the System's investment earnings that provide the essential factor necessary to fulfill the guarantee of defined member benefits. Although concerned about the continued market volatility, the Board believes ERFC will continue to prosper by implementing prudent long-term investment strategies designed to spread pension costs over the full span of the employees' careers, during both strong and weak investment periods.

As my 12-year tenure on the ERFC Board ends with the 2016 fiscal year and I begin my retirement from FCPS, I extend my sincere thanks to my fellow Trustees, ERFC Executive Director Jeanne Carr, the ERFC staff and all members of the ERFC for their continued support during my term as Trustee. It has been a pleasure to work together to ensure a predictable source of supplemental retirement income to the members of the ERFC. I have confidence that the new Chairperson, Board and staff will continue the efforts of their predecessors to provide a secure retirement for career FCPS employees.

The ERFC Board values your opinions and welcomes your feedback. We encourage you to visit the website at www.fcps.edu/erfc or contact the Trustees directly with any questions regarding your pension fund or payable retirement benefits.

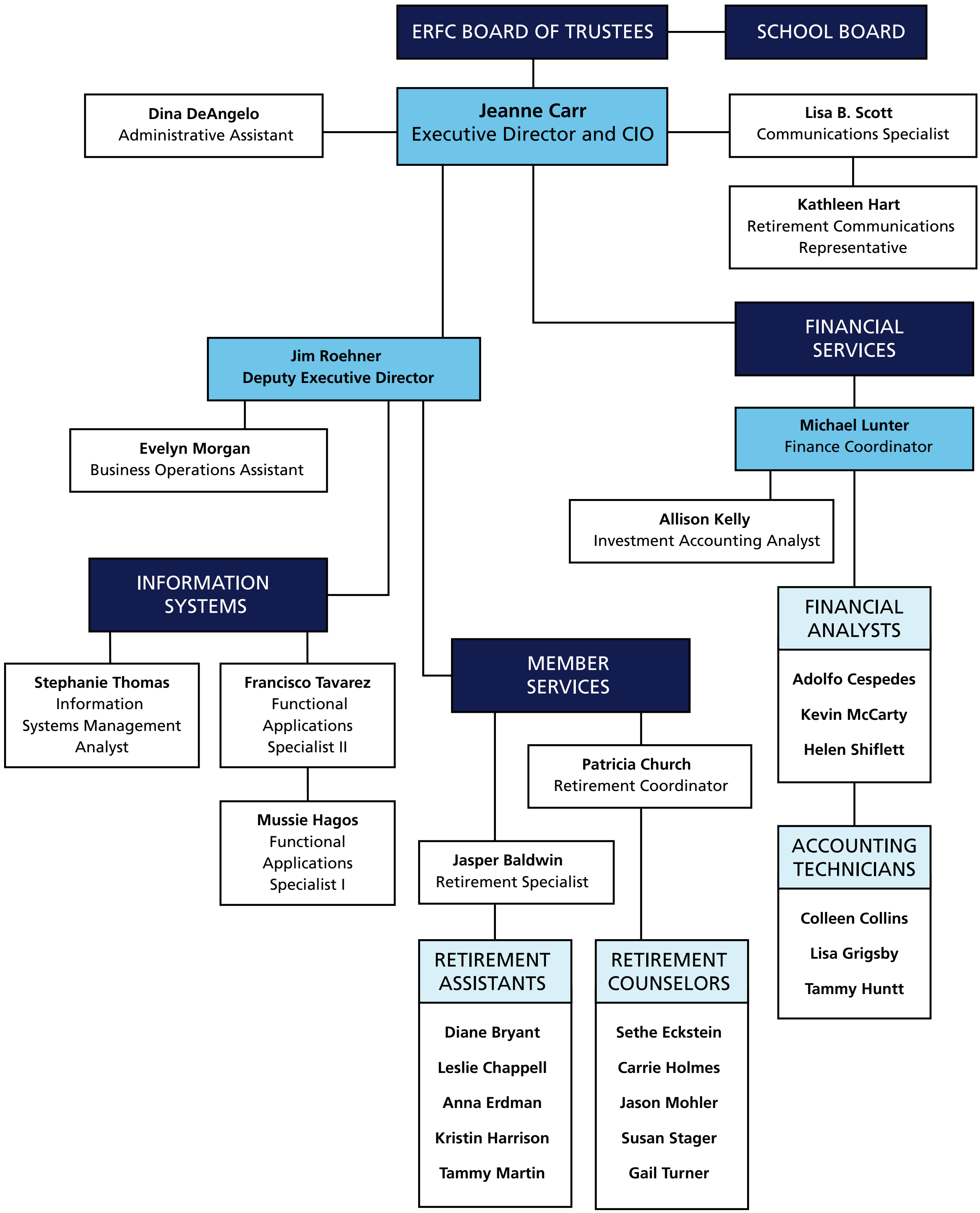
Yours sincerely,

Michael Hairston
Past 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.

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

Russell Investments
Seattle, Washington

Westfield Capital Management
Boston, Massachusetts

FIXED INCOME

Loomis-Sayles & Company
Boston, Massachusetts

Mellon Capital Management Corporation
San Francisco, California

Mondrian Investment Group, Inc.
London, England

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

Causeway Capital Management, LLC
Los Angeles, California

William Blair and Company, LLC
Chicago, Illinois

REAL ESTATE

JP Morgan Asset Management
New York, New York

Prudential Investment Management
Parsippany, New Jersey

Center Square Investment Management
Plymouth Meeting, Pennsylvania

UBS Global Asset Management
Hartford, Connecticut

Other Service Providers

ACTUARY

Gabriel, Roeder, Smith & Company
Southfield, Michigan

AUDITOR

Cherry Bekaert LLP [1]
Certified Public Accountants
Richmond, Virginia

INVESTMENT CONSULTANT

New England Pension Consultants
Boston, 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

[1] Hired in fiscal year 2016

FINANCIAL

EDUCATION IS THE KEY TO UNLOCK THE GOLDEN DOOR OF FREEDOM

GEORGE WASHINGTON CARVER

In 2014, through a grant from the U.S. Department of Defense (DOD) under its Public Schools on Military Installations (PSMI) Program, Fort Belvoir Elementary was awarded federal funds and non-federal matching funds to build the adjoining upper school building and renovate the existing primary school. The result is an expansive 136,000 square foot complex housing 57 classrooms, and serving approximately 950 primary students and 550 upper school students. Under the PSMI Program, a priority is given to schools located on military installations placed on a list to receive funding because of serious deficiencies in capacity or facility condition. Fort Belvoir was number 26 on that list.

INDEPENDENT AUDITORS' REPORT

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

To the Board of Trustees
Educational Employees' Supplemental Retirement System of Fairfax County

Report on the Financial Statements

We have audited the accompanying financial statements of the Educational Employees' Supplemental Retirement System of Fairfax County (the "System"), a pension trust fund of the County of Fairfax, Virginia, as of and for the year ended June 30, 2016, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the System as of June 30, 2016, and the changes in fiduciary net position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 14 - 16 and the required supplementary information on pages 32 - 34 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 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 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.

Other Information
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The introduction section, summary of significant changes to the pension system, schedule of administrative expenses, schedule of investment expenses, schedule of professional service fees, investment section, actuarial section, and statistical section on pages 2 - 10 and 35 - 85 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introduction section, summary of significant changes to the pension system, schedule of administrative expenses, schedule of investment expenses, schedule of professional service fees, investment section, actuarial section, and statistical section 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.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2016, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Tysons Corner, Virginia
November 14, 2016

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, 2016. 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 2016 the return on ERFC's assets was -0.3 percent[1]. This resulted in a total net position value of $2.108 billion which reflects a decrease of $(72.1) million over fiscal year 2015'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 $(15.8) million in investment losses and $118.0 million in employee and employer contributions. The net addition is offset by $165.7 million in retiree benefit payments and $8.6 million in member refunds and administrative expenses.

ERFC's time-weighted -0.3 percent return trailed the policy benchmark return of 1.4 percent[2]. Three, five, and ten year returns are 5.7 percent, 5.7 percent, and 5.5 percent, respectively. The time-weighted rate of return measures the compound growth rate of the System's investments, gross of investment expense. This method eliminates the distortion caused by cash inflows and outflows and is the industry standard for comparing investment returns to a benchmark. The time-weighted rate of return differs from the money-weighted rate of return described in the Notes to the Financial Statements.

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
2012	1,827.8	(59.2)	(3.1)
2013	1,956.8	129.0	7.1
2014	2,204.9	248.1	12.7
2015	2,179.7	(25.2)	(1.1)
2016	2,107.6	(72.1)	(3.3)

At December 31, 2015, the actuarial value of assets totaled $2.188 billion while liabilities totaled $2.881 billion. This resulted in a funding ratio of 76.0 percent, a measure used by the Board of Trustees to assess funding progress. 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.

1 Gross time-weighted rate of return as calculated by New England Pension Consultants.

2 Policy Index benchmark is 14.5% Russell 1000, 6.0% Russell 2000, 14% MSCI ACWI Ex-US,3% MSCI Emerging Markets, 3.75% NAREIT, 3.75% NCREIF, 18% BC aggregate, 4.0% BC Credit, 4.0% BC Long Credit, 7.5% MS World Net, 7.5% Citi World Govt Bond, 8.0% HFRI FoF, 3% Cambridge PE,3% JPM GBI EM.

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 Fiduciary Net Position, Statement of Changes in Fiduciary Net Position, and Notes to the Financial Statements. Also contained in the Financial Section is required supplementary information and other supplementary information, in addition to the basic financial statements.

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

The Statement of Changes in Fiduciary Net Position describes how ERFC's net position changed during the current fiscal year. Additions and deductions represent revenues and expenses, respectively. Additions minus deductions represent the change in net position. 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 System's changes in net pension liability and schedule of employer contributions, which is intended to assess ERFC's ability to accumulate assets to pay retirement benefits when due.

FINANCIAL

SUMMARY OF FIDUCIARY NET POSITION

	June 30,2016	June 30,2015	Difference
Assets			
Total cash and investments	$ 2,248,958,425	$ 2,340,700,348	$ (91,741,923)
Total receivables	16,310,307	12,773,186	3,537,121
Other assets	34,914	49,936	(15,022)
Total assets	**2,265,303,646**	**2,353,523,470**	**(88,219,824)**
Liabilities			
Accounts payable	1,802,640	1,913,934	(111,294)
Securities purchased	13,646,920	11,339,057	2,307,863
Securities lending collateral	142,266,388	160,546,422	(18,280,034)
Total liabilities	**157,715,948**	**173,799,413**	**(16,083,465)**
Total net position restricted for pensions	**$ 2,107,587,698**	**$ 2,179,724,057**	**$ (72,136,359)**

MANAGEMENT DISCUSSION AND ANALYSIS

(Unaudited)

Financial Statements

As indicated in the Summary of Fiduciary Net Position, the System's net position value decreased $(72.1) million or (3.3) percent in fiscal year 2016. This total decrease in net position is due primarily to a decrease of $(91.7) million in the value of investments, an increase in receivables of $3.5 million, a $2.2 million increase in the value of payables along with a decrease of $(18.3) million in securities lending collateral liabilities.

As reflected in the Summary of Additions and Deductions (below), the net change is due to $118.0 million in contributions and $(15.8) million in net investment losses, which is offset by $165.7 million in benefits, $4.6 million in refunds and $4.0 million in expenses.

Also presented in the Summary of Additions and Deductions, additional information is provided regarding the differences between the fiscal year 2015 and 2016 results. These differing results are due mainly to a decrease in investment income of $(47.9) million and an increase in contributions of $3.7 million, offset by an increase in benefits of $3.6 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 30,2016	June 30,2015	Difference
Additions			
Contributions			
Employer	$ 76,599,695	$ 74,324,396	$ 2,275,299
Member	41,383,642	39,982,963	1,400,679
Net investment income	(15,766,967)	32,083,908	(47,850,875)
Total Additions	**102,216,370**	**146,391,267**	**(44,174,897)**
Deductions			
Benefits	165,721,790	162,145,265	3,576,525
Refunds	4,626,057	5,697,311	(1,071,254)
Admin. Expenses	4,004,882	3,751,825	253,057
Total Deductions	**174,352,729**	**171,594,401**	**2,758,328**
Net increase (decrease) in net position	**$ (72,136,359)**	**$ (25,203,134)**	**$ (46,933,225)**

STATEMENT OF FIDUCIARY NET POSITION

(As of June 30, 2016)

ASSETS	
Cash and short-term investments	
Cash	$ 1,325,863
Cash with fiscal agent	883,462
Cash collateral for securities on loan	142,266,388
Short-term investments	20,926,504
Total cash and short-term investments	**165,402,217**
Receivables	
Interest and dividends	2,680,082
Securities sold	13,630,225
Total receivables	**16,310,307**
Investments at fair value	
US Government obligations	8,772,468
Bonds and Mortgage Securities	125,681,958
Stocks	563,530,318
Real Estate	182,108,025
Global Asset Allocation	207,360,520
Better Beta	114,838,276
Hedge Fund of Funds	165,183,995
Private Equity	61,386,165
Commingled Fixed Income Funds	476,848,036
Commingled Equity Funds	177,846,447
Total investments	**2,083,556,208**
Other assets	
Furniture and equipment	152,406
Accumulated depreciation	(117,492)
Total other assets	34,914
Total assets	**2,265,303,646**
LIABILITIES	
Accounts payable	1,802,640
Securities purchased	13,646,920
Securities lending collateral	142,266,388
Total liabilities	**157,715,948**
Net position restricted for pensions	**$ 2,107,587,698**

See accompanying Notes to the Financial Statements

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STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

(For the Fiscal Year Ending June 30, 2016)

ADDITIONS	
Contributions	
Employer	$ 76,599,695
Plan members	41,383,642
Total contributions	**117,983,337**
Investment income	
Net depreciation in fair value of investments	(39,636,603)
Interest and dividends	32,506,243
Real estate income	4,074,306
Other	1,862
Total investment income (loss)	**(3,054,192)**
Less investment expenses	
Investment management fees	12,561,313
Investment consulting fees	428,919
Investment custodial fees	195,579
Investment salaries	228,768
Total investment expenses	**13,414,579**
Income from securities lending activities	
Securities lending income	916,181
Securities lending borrower rebates	85,548
Securities lending management fees	(299,925)
Net securities lending income	**701,804**
Net investment income (loss)	**(15,766,967)**
Total additions	**102,216,370**
DEDUCTIONS	
Benefits	165,721,790
Refunds	4,626,057
Administrative expense	4,004,882
Total deductions	**174,352,729**
Net decrease	**(72,136,359)**
Net position restricted for pensions	
Beginning of year	**2,179,724,057**
End of year	**$ 2,107,587,698**

See accompanying Notes to the Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

(For The Fiscal Year Ending June 30, 2016)

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 was closed to new members employed after June 30, 2001. 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.

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.

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.

At December 31, 2015, the date of the most recent actuarial valuation, the System's membership consisted of:

Retirees and beneficiaries currently receiving benefits	10,937
Terminated employees entitled to benefits but not yet receiving them	4,099
Active plan members	21,585
Total	**36,621**

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

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NOTES TO THE FINANCIAL STATEMENTS

living increase that first March. Additional detail regarding all benefit payment types can be found in the actuarial valuation and/or the System Plan Document.

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. ERFC is a unit of Fairfax County Public Schools. Member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due, pursuant to GASB Statement No. 67. 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.

In fiscal year 2016, the System implemented Government Accounting Standards Board (GASB) Statement No. 82, *Pension Issues—An Amendment of GASB Statements No. 67, No. 68, and No. 73.* GASB No. 82 includes amendments to Statements 67 and 68 to change covered payroll to be defined as the payroll on which contributions to a pension plan are based.

GASB Statement No. 72, *Fair Value Measurement and Application*, which was also adopted during fiscal year 2016, addresses accounting and reporting issues related to fair value measurements. This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques.

Fair Value Measurements
The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

Level 1 Unadjusted quoted prices for identical instruments in active markets.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable.

Level 3 Valuations derived from valuation techniques in which significant inputs are unobservable.

Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The System's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability. The following table shows the fair value leveling of the investments for the System.

Short-term securities include investments in money market-type securities reported at cost, which approximates fair value.

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Debt and equity securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique or a bid evaluation.

Matrix pricing is used to value securities based on the securities relationship to benchmark quoted prices. Bid evaluations may include reported trades, broker/dealer quotes, issuer spreads, two-sided markets, bids, offers, and reference data including market research publications.

Investments measured at fair value and investments measured at net asset value (NAV) are presented on the following pages.

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

NOTES TO THE FINANCIAL STATEMENTS

- **Commingled Large Cap Equity Fund**
  The objective of this index fund is to invest in securities and collective funds that together are designed to track the performance of the Russell 1000®.

- **Commingled Emerging Markets Equity Fund**
  The fund invests in common stocks and other forms of equity investments issued by emerging market companies of all sizes to obtain long-term capital appreciation.

- **Commingled Domestic Fixed Income Funds**
  One fund in this type is an index fund that invests in securities and collective funds that together are designed to track the performance of the Barclays US Aggregate Index. The other fund in this type seeks a high level of current income by investing primarily in a diversified portfolio of high-, medium- and low-grade debt securities.

- **Commingled Emerging Markets Debt Fund**
  This fund invests in fixed income securities of "emerging" or developing countries to achieve high current income and long-term capital growth.

- **Commingled Unconstrained Fixed Income Funds**
  The funds in this type invests in all types of U.S. and non-U.S. fixed income securities in any market (including emerging markets), across a global range of credit, currencies and interest rates to seek positive absolute returns.

Notes, *continued on next page*

INVESTMENTS MEASURED BY FAIR VALUE HIERARCHY LEVEL

		Fair Value Measures Using		
		Quoted Prices in Active Markets for Identical Assets	**Significant Other Observable Inputs**	**Significant Unobservable Inputs**
Investments by fair value level	**6/30/16**	**Level 1**	**Level 2**	**Level 3**
Short-term securities	**$ 20,926,504**	**$ -**	**$ 20,926,504**	
Debt securities				
Asset-backed	1,901,505	-	1,901,505	-
Canadian bonds	4,666,610	-	4,666,610	-
Convertible and preferred	16,401,704	3,481,831	12,919,873	-
High yield credit	44,639,015	-	44,639,015	-
International bonds	15,275,271	-	15,275,271	-
Investment grade credit	42,391,774	-	42,391,774	-
Mortgage	406,077	-	406,077	-
U.S. Treasuries	8,772,468	-	8,772,468	-
Total debt securities	134,454,424	3,481,831	130,972,593	-
Equity investments				
Basic industries	91,925,306	91,925,306	-	-
Consumer services	213,991,614	213,991,614	-	-
Financial industries	94,559,237	94,559,237	-	-
REITS	12,321,184	12,321,184	-	-
Technology	126,871,785	126,871,785	-	-
Utilities	23,861,194	23,861,194	-	-
Total equity investments	563,530,320	563,530,320	-	-
Total investment and short-term securities measured by fair value hierarchy level	**$ 718,911,248**	**$ 567,012,151**	**$ 151,899,097**	**-**

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NOTES TO THE FINANCIAL STATEMENTS

- **Private Equity Partnerships**
  This type includes investments in limited partnerships, which generally include the following strategies: buyouts, venture capital, mezzanine, distressed debt, growth equity and special situations. These investments have an approximate life of 10 years and are considered illiquid. Redemptions are restricted over the life of the partnership. During the life of the partnerships, distributions are received as underlying partnership investments are realized. As of June 30, 2016, it is probable that all of the investments in this type will be sold at an amount different from the NAV per share of the plan's ownership interest in partners' capital.

- **Commingled Global Asset Allocation Funds**
  This type consists of funds with an unconstrained, non-benchmark oriented investment approach that invest in actively managed mutual funds including developed and emerging bonds and stocks, real estate, commodities, and absolute-return oriented strategies. The objective of this strategy is to provide maximum real return with preservation of capital.

- **Commingled Better Beta Fund**
  This fund invests in a broad mix of asset classes including, but not limited to, currencies, fixed income, inflation linked bonds, equities and commodity markets. The objective is to provide attractive returns in any type of economic environment.

- **Commingled Real Estate Equity Funds**
  One of the funds in this category actively manages a core portfolio of U.S. equity real estate investments to maximize income. The second fund in this category maximizes total return by investing primarily in global, publicly traded companies whose principal business is the ownership, management and/or development of income producing and for-sale real estate properties. The third fund in this category seeks to provide a moderate level of current income and high residual property appreciation by investing in a balanced mix of stabilized value-

INVESTMENTS MEASURED AT NET ASSET VALUE (NAV)

	6/30/16	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Equity investments				
Commingled large cap equity funds	$ 105,755,311	$ -	Daily	None
Commingled emerging markets equity funds	72,091,136	-	Daily	3 days
Total equity investments measured at the NAV	**177,846,447**	**-**		
Fixed income investments				
Commingled domestic fixed income funds	290,701,531	-	Daily	None
Commingled emerging markets debt funds	61,765,290	-	Monthly	30 days
Commingled unconstrained fixed income funds	124,381,215	-	Daily, Semi-monthly	1-30 days
Total fixed income investments measured at the NAV	**476,848,036**	**-**		
Private equity - private equity partnerships	61,386,165	103,812,594	Not eligible	N/A
Global asset allocation - commingled GAA funds	207,360,520	-	Daily, monthly	1-30 days
Better beta - commingled better beta funds	114,838,276	-	Monthly	5 days
Real estate - commingled real estate equity funds	182,108,025	-	Daily, quarterly	1-90 days
Absolute return - commingled absolute return funds	165,183,995	-	Monthly	11-30 days
Total investments measured at the NAV	**$ 1,385,571,464**	**$ 103,812,594**		
TOTAL INVESTMENTS AND SHORT-TERM SECURITIES	**$ 2,104,482,712**			

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NOTES TO THE FINANCIAL STATEMENTS

added properties with appreciation potential. The fourth fund in this category invests primarily in U.S. well-leased retail, warehouse, storage, and residential properties with a focus on income.

- **Commingled Absolute Return Funds**
  The funds in this category invest in actively managed funds which invest in a broad range of securities and alternative investments across global markets. The funds seek to provide high absolute and risk-adjusted returns.

Cash
ERFC maintains its cash with the County, which invests cash and allocates interest earned net of a management fee, on a daily basis to the System based on the System's average daily balance of equity in pooled cash. For the fiscal year ended June 30, 2016, the cash balance of $1,325,863 represents funds that could not be invested in the County's enhanced cash fund until July 1, 2016.

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, 2016, cash with fiscal agent totaled $883,462. This cash is insured and represents receipts from investment sales occurring on the last day of the month.

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.

2. Contribution Requirements

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.

Members are required to contribute 3 percent of annual salary. The employer is required to contribute at an actuarially determined rate which presently is 5.60 percent. 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, 2013 valuation recommended that the contribution rate for the two-year period beginning July 1, 2015 to June 30, 2017 remain at 5.6 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.

3. Net Pension Liability Disclosures

The components of ERFC's net pension liability at June 30, 2016 were as follows:

Total Pension Liability	$ 2,937,100,755
Plan Fiduciary Net Position	2,107,587,698
Net Pension Liability	$ 829,513,057
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	71.76 %

Actuarial Assumptions
The total pension liability was determined by an actuarial valuation as of December 31, 2015, using update procedures to roll forward the total pension liability to the plan's fiscal year end. The actuarial assumptions applied to all periods in the measurement.

Single Discount Rate
A single discount rate of 7.25% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.25%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference

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between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Long-Term Expected Return on Plan Assets
The long-term expected rate of return on pension plan investments was determined in conjunction with a formal study of experience during the period January 1, 2010 to December 31, 2014. Based on the analysis of expected investment return, asset allocation and relevant Actuarial Standards of Practice, the rate was lowered to 7.25%.

Best estimates of arithmetic real rates of return as of the measurement date are summarized in the table on the prior page. New England Pension Consultants supplied the information in the table.

The investment consultant's inflation expectation is 2.75%. The Global Asset Allocation category is a blend of Global Equity, Global Fixed Income, and Inflation Sensitive Assets (commodities).

Pension Liability Sensitivity
Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following table presents the plan's net pension liability, calculated using a single discount rate of 7.25% as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%):

Sensitivity of the Net Pension Liability to the Single Discount Rate Assumption

Current Single Rate:

1% Decrease	Assumption	1% Increase
6.25%	7.25%	8.25%
$ 1,195,408,799	$ 829,513,057	$ 525,669,023

Sensitivity results at 6.25% interest were based upon computer runs. Results at 8.25% were based upon the 6.25% results and estimation techniques.

The Schedule of Changes in Net Pension Liability and Related Ratios, presented as RSI following the Notes to the Financial Statements, presents multi-

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METHODS AND ASSUMPTIONS USED TO DETERMINE FY 2016 TOTAL PENSION LIABILITY:	
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	23 years from July 1, 2017
Asset Valuation Method	5-Year smoothed market; 25.0% corridor
Inflation	2.75%–approximate; No explicit price inflation assumption is used in this valuation.
Salary Increases	3.25% to 7.55% including inflation
Investment Rate of Return	7.25%
Retirement Age	Last updated for the 2015 valuation pursuant to an experience study of the period 2010-14.
Mortality	RP-2014 mortality healthy annuitant total data set table with fully generation two-dimensional sex distinct MP-2014 projection scale.

NOTES TO THE FINANCIAL STATEMENTS

year trend information about whether the plan's net position is increasing or decreasing over time relative to the total pension liability.

4. 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 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 position restricted for pensions.

Investment Policy
The System's investment policy is established by the Board of Trustees based on information and/or recommendations provided by ERFC's investment consultant and ERFC staff. The policy may be amended as necessary by the Board of Trustees and is reviewed at least annually. There were no significant investment policy changes during the fiscal year. The Fund's asset structure is enumerated in the investment policy and reflects a proper balance of the Fund's needs for liquidity, growth of assets and the risk tolerance of the Trustees. The target asset mix, consistent with the achievement of the long-term objective of the Fund is presented below:

Security Class	Strategic Targets as of June 30, 2016	
Domestic Large Cap Equity	13.0	%
Domestic Small Cap Equity	5.5	
International Equity	17.0	
Real Estate	7.5	
Fixed Income	29.0	
Global Asset Allocation/ Better Beta	15.0	
Absolute Return	8.0	
Private Equity	5.0	
Cash	-	
Total	**100.0**	**%**

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ASSET ALLOCATION

Asset Class	Long-Term Expected Real Rate Of Return
Domestic Large Cap Equity	5.92%
Domestic Small Cap Equity	6.71%
International Equity	6.95%
Emerging Market Equity	9.49%
Real Estate	4.62%
Core Fixed Income	1.17%
Diversified Fixed Income	2.83%
Absolute Return Fixed Income	1.71%
Emerging Market Debt (Local)	4.62%
Global Asset Allocation	4.99%
Absolute Return	4.00%
Private Equity	8.73%
Risk Parity	3.87%

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Rate of Return
For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was (0.63)% percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. This method differs from the time-weighted rate of return calculation referenced at the beginning of the Management Discussion and Analysis, which is performed on a gross basis.

Derivative Financial Instruments
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, the System invested in collateralized mortgage obligation (CMO) derivatives. These derivatives are securities created using the underlying cash flows from mortgage securities as collateral. As of June 30, 2016, the fair value of the CMOs was $407,943, which is included in the mortgage-backed securities classification on the financial statements. The change in fair value during the fiscal year is reported in the net appreciation in fair value of investments.

In addition, the System had indirect investments in derivatives through its ownership interest in the Better Beta fund, one Private Equity manager, two of the Real Estate managers, three of the fixed income managers, and one of the Global Asset Allocation managers. These portfolios are commingled funds in which ERFC has a percentage ownership. Derivatives in these portfolios consisted of interest rate swaps and caps, 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 foreign exchange (F/X) rate and the forward F/X rate, and through investing the US dollar (USD) cash used as collateral in short dated US bonds. Forward commodity contracts hedge changes in cash flows due to market price fluctuations related to the expected purchase of a commodity. Currency forwards are used for hedging non-USD denominated physical instruments back to the base currency. Options are contracts that give the buyer the right, but not the obligation, to buy or sell an underlying asset at a specific price on or before a certain date. Similarly, Swap Options are contracts that give the buyer the right, but not the obligation, to enter into an underlying swap. Credit Default Swaps (CDS) are contracts that offer guarantees against the non-payment of loans. At June 30, 2016, exposure to interest rate swaps was $(9,534,928), exposure to interest rate caps was $1,488,774, exposure to futures contracts was $8,940,068, exposure to NDFs was $(1,924,344), exposure to forward commodity contracts was $544,033, exposure to currency forward contracts was $(28,952,413), exposure to options was $318,911, exposure to swap options was $39,731, and exposure to CDSs was $(276,951).

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.

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NOTES TO THE FINANCIAL STATEMENTS

Interest Rate Risk
Three of ERFC's five fixed income managers use the modified duration method to control interest rate risk. The other two fixed income managers use the effective duration method. Regarding maturity, ERFC does not place limits on these fixed income managers. However, it does expect the average duration to be within 30 percent of the portfolio's benchmark. One of the managers utilizing the effective duration method is expected to be within 50 percent of the Barclays Capital Government/ Credit Index.

Credit Risk
The System's policy on credit quality states that the average credit quality of the portfolio must be at least A. Up to 20 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. One of ERFC's fixed income managers may invest up to 35 percent in below investment grade securities. For this manager, if a security has a split rating, the higher rating shall be considered.

As of June 30, 2016, the System had four active fixed income managers and one passive fixed income manager. The Credit Quality Summary lists the ratings of all of ERFC's fixed income investments according to Moody's Investment Services and Standard & Poor's. The unrated Cash and Cash Equivalents of $18,563,090 is comprised of cash, short term investments, derivatives, receivables and payables.

Concentration of Credit Risk
The System's policy limits the securities of any one issuer 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, 2016, and as addressed previously, the System had four active fixed income managers and one passive fixed income manager. The active manager portfolios had values of $83.6 million, $213.0 million, $181.4 million and $61.8 million.

INVESTMENT COMBINED DURATION AS OF JUNE 30, 2016

Investment Category	Amount	Modified Duration
ABS/CMBS	$ 48,886,973	5.98
Agencies	8,440,211	5.55
Bank Loans	2,566,466	1.31
Cash and Cash Equivalents	30,907,669	(0.3)
Convertible and Preferred	25,761,531	3.66
Corporate Bonds	92,176,602	9.69
Credit	92,720,565	7.26
Domestic Bonds	26,389,777	1.20
Emerging Market	60,284,644	5.37
Equities	9,200	-
Floating Rate Notes	3,607,951	0.35
Inflation Linked Bonds	1,998,391	0.35
International Bonds	39,298,212	2.68
Mortgages	80,411,054	3.32
U.S. Government Obligations	99,674,337	6.09
Yankees	4,352,344	(0.3)
Total	**$ 617,485,927**	

* *Weighted Duration in years: 5.38*

Notes, *continued on next page*

FINANCIAL

NOTES TO THE FINANCIAL STATEMENTS

CREDIT QUALITY SUMMARY AS OF JUNE 30, 2016

Rating	Category	Percent	Amount	Total	Percent
AAA	Asset and Mortgage Backed Securities	2.0%	$ 12,395,663		
AAA	Cash & Cash Equivalents	1.0%	6,081,290		
AAA	Domestic Bonds	0.6%	3,907,622		
AAA	Fixed Income Securities - Uncategorized	1.0%	6,070,895		
AAA	International Bonds	2.8%	17,125,990		
AAA	Preferred Securities	0.0%	17,632		
AAA	US Government Obligations	2.3%	14,248,554		
AAA	Yankee Bonds	0.3%	1,830,677	$ 61,678,323	10.0%
AA	Asset and Mortgage Backed Securities	13.1%	81,071,614		
AA	Cash & Cash Equivalents	1.4%	8,404,727		
AA	Convertible Securities	0.3%	1,562,596		
AA	Domestic Bonds	2.8%	17,268,086		
AA	Fixed Income Securities - Uncategorized	0.1%	668,001		
AA	International Bonds	0.7%	4,489,993		
AA	US Government Obligations	13.4%	82,560,241		
AA	Yankee Bonds	0.1%	630,005	196,655,263	31.9%
A	Asset and Mortgage Backed Securities	1.1%	6,594,591		
A	Cash & Cash Equivalents	0.0%	89,503		
A	Convertible Securities	1.0%	6,122,686		
A	Domestic Bonds	6.7%	41,139,541		
A	Fixed Income Securities - Uncategorized	0.4%	2,362,012		
A	International Bonds	5.4%	33,391,043		
A	Yankee Bonds	0.1%	694,824	90,394,200	14.7%
BBB	Asset and Mortgage Backed Securities	1.0%	6,276,827		
BBB	Bank Loans	0.0%	59,792		
BBB	Cash & Cash Equivalents	0.0%	34		
BBB	Convertible Securities	1.3%	7,902,633		
BBB	Domestic Bonds	11.7%	72,523,252		
BBB	Fixed Income Securities - Uncategorized	1.4%	8,375,969		
BBB	International Bonds	4.9%	29,985,365		
BBB	Preferred Securities	0.0%	160,440		
BBB	Yankee Bonds	0.2%	981,756	126,266,068	20.5%
BB	Asset and Mortgage Backed Securities	0.2%	1,357,184		
BB	Bank Loans	0.2%	1,041,457		
BB	Convertible Securities	1.0%	6,143,305		
BB	Domestic Bonds	6.8%	41,907,577		
BB	Fixed Income Securities - Uncategorized	0.9%	5,297,820		
BB	International Bonds	4.1%	25,086,669		
BB	Preferred Securities	0.0%	166,696		
BB	Yankee Bonds	0.0%	215,083	81,215,791	13.2%
B	Asset and Mortgage Backed Securities	0.1%	619,586		
B	Bank Loans	0.2%	1,142,613		
B	Convertible Securities	0.4%	2,705,857		
B	Domestic Bonds	2.6%	16,358,882		
B	Fixed Income Securities - Uncategorized	0.5%	2,939,516		
B	International Bonds	0.1%	542,482	24,308,936	3.9%
Below B	Asset and Mortgage Backed Securities	0.2%	1,371,510		
Below B	Bank Loans	0.0%	263,532		
Below B	Convertible Securities	0.0%	233,663		
Below B	Domestic Bonds	0.4%	2,636,881		
Below B	Fixed Income Securities - Uncategorized	0.2%	984,342		
Below B	International Bonds	0.0%	10,367	5,500,295	0.8%
NR	Asset and Mortgage Backed Securities	1.3%	7,808,955		
NR	Bank Loans	0.0%	59,072		
NR	Cash & Cash Equivalents	3.0%	18,563,090		
NR	Convertible Securities	0.1%	537,129		
NR	Domestic Bonds	0.0%	203,991		
NR	Equities	0.0%	9,200		
NR	Fixed Income Securities - Uncategorized	0.1%	850,976		
NR	International Bonds	0.1%	430,398		
NR	Preferred Securities	0.0%	246,292		
NR	US Government Obligations	0.4%	2,757,948	31,467,051	5.0%
Total		**100.0%**	**$ 617,485,927**	**$ 617,485,927**	**100.0%**

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

NOTES TO THE FINANCIAL STATEMENTS

The indexed portfolio had a value of $77.7 million. The fair value of the largest issue other than the U.S. Government in the portfolios of the active managers was only 5.82 percent of that portfolio. Since the passive manager's portfolio is an indexed mutual fund, it is excluded from the Concentration of Credit Risk measurement.

Deposits

At June 30, 2016, short-term investments with the custodial bank totaled $20,926,504. 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 fair value for domestic securities and 105 percent for international securities. The System did not impose any restrictions during the period on the number of loans the custodian made on its behalf. The custodian provides for full indemnification to the System for any losses that might occur in the program due to the failure of a broker/dealer to return a borrowed security or failure to pay the System for income of the securities while on loan. The fair 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 60 days. Investment income from the securities lending program is shared 75/25 by ERFC and the custodian, respectively. At year-end, the System had no overall credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts the borrowers owed the System.

Cash received as collateral and the related liability of $142,266,388 as of June 30, 2016, are shown on the Statement of Fiduciary Net Position. As of June 30, 2016, the fair value of securities on loan for cash collateral was $137,100,314. 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.

During 2008, one of the securities held in the collateral pool in which ERFC is invested suffered a significant downgrade and consequently was worth only a relatively small portion of its face value. ERFC's portion of the investment, securities issued by Sigma Finance, totaled approximately $875,598. In 2010, ERFC received a distribution of $44,341 for the securities. In 2013, ERFC received a Class Action settlement of $232,916 reducing the loss to $598,341. In April 2014, ERFC began

Notes, *continued on next page*

SUMMARY OF SECURITY LENDING JUNE 30, 2016

Securities	Fair Value	Cash Collateral
International bonds	$ 277,987	$ 308,880
Domestic corporate bonds	22,280,864	22,840,601
International stock	3,873,834	5,706,313
Domestic stock	110,667,629	113,410,594
Total	**$ 137,100,314**	**$ 142,266,388**

NOTES TO THE FINANCIAL STATEMENTS

depositing its monthly securities lending income to the cash collateral account. As of June 30, 2016, the outstanding Sigma liability has been reduced to zero.

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 held by the agent in the System's name. Other investments such as mutual funds, a short-term investment pool and a cash collateral investment pool which invests cash collateral for securities on loan, are not exposed to custodial risk due to their non-physical form. As such, the System does not have a custodial credit risk policy.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The System's currency risk exposures primarily exist in the international equity and active fixed income holdings. At the present time, there are no specific foreign currency guidelines for equities or active fixed income investments, however, equity and fixed income managers are all measured against specific performance standard and risk guidelines identified in ERFC's investment policy. The chart on the following page provides a summary of ERFC's foreign currency risk.

5. 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.

INVESTMENTS WITH THE CUSTODIAN AS OF JUNE 30, 2016, INCLUDED THE FOLLOWING:

Investment Type	Fair Value
US Government Obligations	$ 8,772,468
Bonds and Mortgage Securities	125,681,958
Stocks	563,530,318
Real Estate	182,108,025
Global Asset Allocation	207,360,520
Better Beta	114,838,276
Hedge Fund of Funds	165,183,995
Private Equity	61,386,165
Commingled Fixed Income Funds	476,848,036
Commingled Equity Funds	177,846,447
Subtotal investments	**$ 2,083,556,208**
Cash collateral for securities on loan	142,266,388
Total	**$ 2,225,822,596**

Notes, *continued on next page*

NOTES TO THE FINANCIAL STATEMENTS

Fair Value of Foreign Currency Risk (As of June 30, 2016)					
Currency	Cash & Cash Equivalents	Equity	Fixed Income Securities	Preferred Securities	Grand Total
AUSTRALIAN DOLLAR	$ 364,143	$ 4,850,248	$ 5,160,641	$ -	$ 10,375,032
BRAZILIAN REAL	6,223,742	2,874,921	5,046,900	368,073	14,513,636
BRITISH POUND	1,803,874	-	(5,330,453)	-	(3,526,579)
CANADIAN DOLLAR	725,700	16,483,227	3,167,542	-	20,376,469
CHILEAN PESO	881,546	322,664	(114,637)	-	1,089,573
CHINESE YUAN	(4,134)	-	(1,212,343)	-	(1,216,477)
COLOMBIAN PESO	108	-	6,436,717	-	6,436,825
CZECH KORUNA	52,874	-	1,017,047	-	1,069,921
DANISH KRONE	1,423,531	3,680,433	(1,377,975)	-	3,725,989
EURO CURRENCY UNIT	8,897,458	64,574,285	(11,156,566)	2,661,000	64,976,177
GERMAN MARK	31,052	-	-	-	31,052
HONG KONG DOLLAR	425,740	8,956,829	(312,487)	-	9,070,082
HUNGARIAN FORINT	-	-	888,915	-	888,915
INDIAN RUPEE	(17,332)	-	(134,068)	-	(151,400)
INDONESIAN RUPIAH	(1,174,213)	248,056	4,940,224	-	4,014,067
ISRAELI SHEKEL	-	26,654	-	-	26,654
JAPANESE YEN	1,587,074	37,315,848	(1,007,736)	-	37,895,186
KOREAN WON	-	-	(598,164)	-	(598,164)
MALAYSIAN RINGGIT	(1,865,701)	2,380,273	6,091,024	-	6,605,596
MEXICAN PESO	744,748	1,397,559	17,348,207	-	19,490,514
NEW TAIWAN DOLLAR	3,257	2,856,076	(42,168)	-	2,817,165
NEW ZEALAND DOLLAR	629,760	907,324	2,309,932	-	3,847,016
NORWEGIAN KRONE	17,181	1,949,597	2,829,382	-	4,796,160
PERUVIAN NUEVO SOL	-	-	3,073,275	-	3,073,275
PHILIPPINES PESO	613	99,892	-	-	100,505
POLISH ZLOTY	12,331	941,594	6,859,226	-	7,813,151
POUND STERLING	153,096	38,337,177	-	-	38,490,273
QATARI RIYAL	55,737	907,245	-	-	962,982
RUSSIAN RUBLE	-	-	244,058	-	244,058
SINGAPORE DOLLAR	173,290	3,145,034	244,088	-	3,562,412
SOUTH AFRICAN RAND	290,986	2,217,738	7,546,006	-	10,054,730
SOUTH KOREAN WON	10,048	10,429,550	(763,848)	-	9,675,750
SWEDISH KRONA	2,120,624	6,857,681	(201,305)	73,667	8,850,667
SWISS FRANC	388,857	17,911,745	(991,160)	-	17,309,442
TAIWAN DOLLAR	-	-	(986,594)	-	(986,594)
THAILAND BAHT	284,882	975,668	-	-	1,260,550
TURKISH LIRA	25,682	1,181,529	4,115,862	-	5,323,073
Grand Total	$ 24,266,554	$ 231,828,847	$ 53,089,542	$ 3,102,740	$ 312,287,683

FINANCIAL

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

Historical contribution information is presented herein for the last ten fiscal years. 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. Actuarially determined employer contribution rates are calculated as of December 31 of odd numbered years, and determine the contribution rate for the two year period beginning 18 months after the valuation date. In particular, the December 31, 2013 valuation determined the contribution rates for fiscal years 2016 and 2017.

Analysis of the dollar amounts of plan net position, total pension liability, and net pension liability in isolation can be misleading. Expressing plan net position as a percentage of the total pension 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 net pension liability and covered employee payroll are both affected by inflation. Expressing the net pension liability as a percentage of covered employee 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 Changes in Net Pension Liability and Related Ratios illustrates whether the plan's net position is increasing or decreasing over time relative to the total pension liability, and the net pension liability as it relates to covered employee payroll. As addressed previously, the most recent actuarial valuation was effective December 31, 2015. The Schedule of Changes in Net Pension Liability and Related Ratios was prepared using procedures to roll forward the results of the most recent actuarial valuation to the fiscal year end June 30, 2016. This schedule presents information that is currently available. Additional years will be added until 10-year trend information can be presented.

SCHEDULE OF CONTRIBUTIONS (Last 10 Fiscal Years)

FY Ending June 30	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2007	$ 36,644,001	$ 36,644,001	$ -	$ 1,087,359,080	3.37%
2008	38,334,140	38,334,140	-	1,137,511,573	3.37%
2009	37,281,658	40,012,480	(2,730,822)	1,187,313,947	3.37%
2010	35,146,816	37,868,623	(2,721,807)	1,183,394,469	3.20%
2011	47,118,111	47,118,111	-	1,166,289,876	4.04%
2012	50,738,815	52,934,245	(2,195,430)	1,219,683,057	4.34%
2013	68,242,010	67,734,634	507,376	1,268,438,838	5.34%
2014	72,748,999	74,174,082	(1,425,083)	1,324,537,175	5.60%
2015	74,791,177	74,324,396	466,781	1,328,419,881*	5.59%*
2016	76,069,503	76,599,695	(530,192)	1,374,735,094	5.57%

* Restated from prior year in accordance with the updated definition of covered-employee payroll in GASB No. 82.

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

FY Ending June 30	2016	2015	2014
Total pension liability			
Service Cost	$ 77,760,915	$ 77,493,999	$ 75,787,752
Interest on the Total Pension Liability	205,720,047	198,938,575	192,723,577
Changes of benefit terms	-	-	-
Difference between expected and actual experience of the Total Pension Liability	(11,011,883)	(17,051,192)	(19,051,630)
Changes of assumptions	45,752,095	-	-
Benefit payments, including refunds of employee contributions	(170,347,847)	(167,842,576)	(167,049,790)
Net Change in Total Pension Liability	$ 147,873,327	$ 91,538,806	$ 82,409,909
Total Pension Liability - Beginning	2,789,227,428	2,697,688,622	2,615,278,713
Total Pension Liability - Ending (a)	$ 2,937,100,755	$ 2,789,227,428	$ 2,697,688,622
Plan Fiduciary Net Position			
Contributions - Employer	$ 76,599,695	$ 74,324,396	$ 74,174,082
Contributions - Employee	41,383,642	39,982,963	40,018,590
Net Investment Income	(15,766,967)	32,083,908	304,640,803
Benefit Payments, including refunds of employee contributions	(170,347,847)	(167,842,576)	(167,049,790)
Pension Plan Administrative Expense	(4,004,882)	(3,751,825)	(3,629,320)
Net Change in Plan Fiduciary Net Position	(72,136,359)	(25,203,134)	248,154,365
Plan Fiduciary Net Position - Beginning	2,179,724,057	2,204,927,191	1,956,772,826
Plan Fiduciary Net Position - Ending (b)	$ 2,107,587,698	$ 2,179,724,057	$ 2,204,927,191
Net Pension Liability - Ending (a) - (b)	829,513,057	609,503,371	492,761,431
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	71,76%	78.15%	81.73%
Covered Employee Payroll	$ 1,374,735,094	$ 1,366,029,848	$ 1,324,537,175
Net Pension Liability as a Percentage of Covered Employee Payroll	60.34%	44.62%	37.20%

This schedule presents information for available years. Additional years will be added prospectively until 10 years of information is available.

FINANCIAL

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

SCHEDULE OF INVESTMENT RETURNS

FY Ending June 30	Annual Return[1]
2014	15.91%
2015	1.49%
2016	(0.63)%

This schedule presents information for available years. Additional years will be added prospectively until 10 years of information is available.

1 Annual money-weighted rate of return, net of investment expenses.

OTHER SUPPLEMENTARY INFORMATION

(Unaudited)

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 thirteen fiscal years.

Contribution Rates (as a percent of salary)

Fiscal Year	Composite Employer	Employee	Total
June 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
2013	5.34	3.00	8.34
2014	5.60	3.00	8.60
2015	5.60	3.00	8.60
2016	5.60	3.00	8.60

- 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.

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

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

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

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

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

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

FINANCIAL

OTHER SUPPLEMENTARY INFORMATION

(Unaudited)

SCHEDULE OF ADMINISTRATIVE EXPENSES

(Year Ended June 30, 2016)

Personnel services	
Salaries and wages	$ 2,045,956
Retirement contributions	448,878
Insurance	342,290
Social security	164,569
Total personnel services	**3,001,693**
Professional services	
Actuarial	198,224
Legal	83,098
Payroll disbursement	46,981
Plan automation support	33,884
Strategic planning	196
Audit	72,450
Total professional services	**434,833**
Communications	
Printing	22,623
Postage	10,204
Total communications	**32,827**
Supplies	
Office supplies	8,879
Dues and subscriptions	9,363
Total supplies	**18,242**
Other services and charges	
Board travel and staff development	60,125
Equipment	145,467
Building rent	275,528
Depreciation expense and asset disposal	20,014
Miscellaneous	16,153
Total other services and charges	**517,287**
Total administrative expenses	**$ 4,004,882**

OTHER SUPPLEMENTARY INFORMATION

(Unaudited)

SCHEDULE OF INVESTMENT EXPENSES

(Year Ended June 30, 2016)

Investment management fees	
Fixed income managers	
Loomis-Sayles and Company, L.P.	$ 591,436
GAM USA, Inc.	574,693
J.P. Morgan Asset Management	598,958
Mellon Capital Management Corporation	15,522
Mondrian Investment Partners (US), Inc.	319,233
Pacific Investment Management Company	16,085
Equity managers	
Aronson Johnson Ortiz, LLC	208,613
Epoch Investment Partners, Inc.	418,243
Lazard Asset Management	322,592
Mellon Capital Management Corporation	21,628
T. Rowe Price Associates, Inc.	422,063
Westfield Capital Management	285,810
International managers	
Acadian Asset Management, Inc.	594,372
Causeway Capital Management, LLC	503,527
William Blair & Company	871,292
Real Estate managers	
J.P. Morgan Asset Management	502,945
Prudential Financial	228,646
UBS Realty Investors, LLC	401,485
CenterSquare Investment Management (formerly Urdang)	492,083
Global Asset Allocation managers	
Pacific Investment Management Company	842,457
Wellington Management Company LLP	755,486
Better Beta	
Bridgewater Associates	527,579
Hedge fund of funds	
Grosvenor Capital Management, L.P.	826,668
Permal Investment Management Services. Ltd.	929,682
Private equity	
Audax Mezzanine Fund III, L.P.	116,137
HarbourVest Partners IX - Buyout Fund L.P.	125,415
HarbourVest Partners IX - Credit Fund L.P.	69,361
HarbourVest Partners IX - Venture Fund L.P.	130,273
HarbourVest Partners X - Buyout Fund L.P.	145,733
HarbourVest Partners X - Venture Fund L.P.	72,968
HIPEP VII Partnership Fund L.P.	52,753
Lexington Capital Partners VII L.P.	63,868
Lexington Capital Partners VIII L.P.	111,830
Newstone Capital Partners II, L.P.	82,969
Permal Private Equity Opportunities IV, L.P.	60,156
Permal Private Equity Opportunities V, L.P.	93,752
Private Advisors Buyout Fund IV, L.P.	75,000
Private Advisors Buyout Fund V, L.P.	90,000
Total investment management fees	**12,561,313**
Other investment service fees	
Custodial fees - Mellon Trust	195,579
Investment consultant fees—New England Pension Consulting, Inc.	405,160
Monitor managers' trading processes—Zeno Consulting Group	20,000
Foreign tax consulting—Pricewaterhouse Coopers	3,759
Investment salaries	228,768
Total other investment service fees	**853,266**
Total investment expenses	**$ 13,414,579**

FINANCIAL

OTHER SUPPLEMENTARY INFORMATION

(Unaudited)

SCHEDULE OF PROFESSIONAL SERVICE FEES

(Year Ended June 30, 2016)

Service Provider	Nature of Service	Amount
Gabriel, Roeder, Smith & Company	Actuary	$ 198,224
Levi, Ray & Shoup, Inc.	Plan automation support	33,884
Bredhoff & Kaiser, P.L.L.C.	Legal counsel	78,119
Groom Law Group, Chartered	Legal counsel	4,979
ADP payroll services	Pension disbursement	46,981
KPMG, LLP	Audit	72,450
Various	Miscellaneous	196
Total professional service fees		**$ 434,833**

INVESTMENT

Unaudited

LEARNING IS NOT ATTAINED BY CHANCE, IT MUST BE SOUGHT FOR WITH ARDOR AND ATTENDED TO WITH DILIGENCE

ABIGAIL ADAMS

Operating an FCPS elementary school on Fort Belvoir presents unique challenges and opportunities. Ninety-eight percent of the students come from military families who reside on the Army post and the demanding commitments of military families are reflected in the school's high mobility rate—the highest in Fairfax County. Teachers work to create "classroom communities" as each school year welcomes approximately 400 new students in September and close to 30 after the New Year. Belvoir students are known for their resilience when it's time for their family to move on to their next assignment, and teachers and administrators use the term "gifting yourself to another community" to make departures a little more comforting.

CONSULTANT REPORT ON INVESTMENT ACTIVITY

NEPC, LLC

October 28, 2016

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, 2016.

As of the June 30th fiscal year-end, the Fund was in compliance with policy ranges and had 35.9 percent in equities, 8.6 percent in real estate equity, 29.3 percent in bonds, 7.8 percent in hedge fund strategies, 2.9 percent in private equity, 15.3 percent in global asset allocation/better beta strategies, and 0.1 percent in cash.

The Fund earned -0.3%[1] for the one-year period ending June 30, 2016, which ranked in the 75th percentile of all public funds within the InvestorForce Universe. Over the last 12 months ending June 30, 2016, ERFC underperformed its assumed actuarial return target of 7.25% by 7.55%. Fund assets decreased slightly from $2.18 billion at the end of fiscal 2015 to approximately $2.11 billion as of June 30, 2016[2].

Market Commentary

U.S. equity markets provided mixed returns in fiscal year 2016 as episodes of heightened market volatility interrupted an otherwise positive market environment. Domestic bond markets proved attractive during these periods of disruption providing a desired safe haven for investors and delivering strong returns. On the international side, non-U.S. developed equities edged lower as U.S. dollar strength cut into returns and political turmoil led by the UK's decision to leave the EU sent a wave of volatility through the market. Despite easy policy from central banks in Europe and Japan, continuing growth concerns also contributed to negative equity returns.

The U.S. economy appeared to exhibit continued resilience in the face of global market conditions and geopolitical events. More consistently positive economic news for the U.S. helped push domestic equity prices higher. Notwithstanding, yields on most fixed income securities narrowed on greater demand for safe haven assets, even as the economy grew at a moderately healthy pace and unemployment receded further. The large cap domestic equity market, as measured by the S&P 500 Index capped off the fiscal year with a +4.0%

[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.

CONSULTANT REPORT ON INVESTMENT ACTIVITY

return even as most smaller cap domestic indices posted losses. The domestic bond market, as measured by the Barclays Aggregate Bond Index, returned +6.0% over the same period. The global equity market, as measured by the MSCI All Country World Index (net), returned -3.7% for the fiscal year, reflecting a blend of the positive results in the U.S. and the negative performance in the non-U.S. developed markets (MSCI EAFE down 10.2% for the trailing year) and emerging markets (MSCI EM down 12.1%).

During the quarter ended September 30, 2015, international equities contracted sharply with developed markets down around 10% and emerging markets losing nearly 18%. Fear of a pending rate hike by the Fed and negative headlines from China and Greece helped fuel the selloff. Greece and Brazil were among the hardest hit emerging economies, trading down 35% and 33%, respectively. Emerging market small-cap stocks continued to outpace their larger-cap peers. Within developed markets, European equities were down 8%, while Japanese stocks lost 10%. At home, equities suffered their worst quarterly loss in four years. The S&P 500 Index declined 6.4% in the third quarter, erasing its gains for the year; the Russell 2000 Index lost 11.9%. Within large-cap stocks, growth bested value, while value stocks lost less in the small-cap space. Overall, energy and healthcare were among the worst performing sectors. Within the U.S., Treasuries and other high-grade assets rallied as lower quality securities sold off amid the market volatility. To this end, the Barclays U.S. Aggregate Bond Index gained 1.2% in the third quarter. Risk premiums widened with US investment-grade corporate spreads increasing 24 basis points to 169 basis points. High-yield bond spreads spiked 160 basis points to 630 basis points with the Barclays U.S. Corporate High Yield Index losing 4.8%. The Treasury curve flattened over the quarter; the yield on the 30-year Treasury fell 24 basis points to 2.9%, while yield on the one-year Treasury increased by six basis points to 0.34%. Outside the U.S., developed market bonds rallied as investors shunned risk; the Citigroup WGBI Index rose 1.7% in the quarter. Meanwhile, emerging market debt faced headwinds. Weakening currencies continued to be the principal drag on emerging market debt. Consequently, debt denominated in local currency declined the most, losing 10.5%, while hard-currency sovereign debt fell 1.7%, according to the JP Morgan EMBI Index. In general, the debt of exporters of oil and commodities underperformed during the quarter. Brazilian debt was also sharply lower, rocked by a ratings downgrade by Standard & Poor's Ratings Services, and continued economic weakness.

US equities ended a volatile 2015 on a strong note. Despite a solid last quarter, the year saw the lowest gains for the S&P 500 since 2008 and for the Russell 2000 since 2011. Earlier in the quarter, equities rallied amid robust corporate earnings and macroeconomic data. Subsequently, stocks faltered amid plunging oil prices and concerns around the impact of a stronger U.S. dollar as the Fed tightened monetary policy. The consumer discretionary sector led performance in large caps in 2015 while healthcare dominated small caps; energy was the worst performing sector in both. Growth bested value in large and small equities. Meanwhile, developed markets recouped a portion of their third quarter losses, gaining 4.8% in the last quarter. For the year, international equities were down around 0.4%. The energy and materials sectors drove losses, trading down over 16% in 2015; consumer staples and healthcare were the strongest performers, up over 8%. Emerging economies returned 0.7% as the Fed's 25 basis points rate hike—its first since 2006—drove markets lower; healthcare and consumer discretionary sectors gained during the quarter while industrials and staples lagged. For 2015, the materials sector—down over 20%—was a major detractor of performance. Brazil traded off 41% as the Real declined sharply amid the country's political and economic problems. At home, the Fed's well telegraphed rate hike drove government yields higher in the fourth quarter, resulting in losses for Treasuries with

CONSULTANT REPORT ON INVESTMENT ACTIVITY

maturities of less than one year. Within corporate credit, the precipitous selloff in commodity-related sectors was unrelenting. Consequently, high-yield debt was the worst performer during the quarter and in 2015, losing 2.1% and 4.5%, respectively; in high yield, energy and metals and mining lost nearly 25% last year. Investment-grade credit spreads widened 34 basis points over the course of 2015 to 165 basis points; contributors included global growth concerns, falling commodity prices, and record issuance of $1.3 trillion which hampered liquidity. Abroad, emerging market debt remained hindered by a strengthening U.S. dollar, causing the local currency index to lose 0.01% compared to returns of 1.3% for the dollar-denominated index. Within developed markets, weakening currencies aided losses of 1.2%, according to the Citigroup WGBI Index.

Concerns around global growth and the precipitous decline in oil prices roiled stocks initially in the first quarter of 2016 but reassuring economic data triggered a dramatic reversal in March. The Standard & Poor's 500 Index posted its best return in March since 2009, putting it back in the black for the year. The S&P 500 ended the quarter with gains of 1.3%, while the Russell 2000 Index was down 1.5%. Returns were generally driven by the beaten down areas of the market, including smaller, lower-quality and commodity-related equities; however, high-quality stocks still lead for the year. Defensive bond-proxy sectors, for instance, telecom and utilities, were the best performers; value outperformed growth. Across the pond, developed markets also sold off earlier in the year and then rebounded following further rate cuts by the European Central Bank and comments from the Federal Reserve on a slowing pace for raising rates that fueled a weaker dollar. Non-U.S. markets lost 3%, according to the MSCI EAFE Index. European banks were hit the hardest during the quarter leading to losses of 9.6% for the financial sector. Energy, a laggard in 2015, was the best performing sector with returns of 4.7%. Japan experienced the worst results, selling off 6.5% in the first quarter. Similarly, emerging markets started the year with a sharp selloff, subsequently reversing course. As a result, emerging markets returned 13% in March - their best month since 2011. For the quarter, emerging markets gained 5.7%, besting other equity markets. Strongest performers included Brazil with gains of 27.4%. Global fixed-income markets staged a dramatic comeback in the second half of the quarter. Global yields were pushed lower with the ECB and Bank of Japan cutting rates deeper into negative territory. Further stimulus from the ECB, a dovish Fed statement and improvements in macroeconomic data bolstered performance. Global investment-grade spreads tightened during the period led by the industrials sector, while global high-yield debt sharply rebounded; at home, high-yield issues gained 3.2%. Given the rebound in commodities, commodity-related sectors led performance. Returns were positive across emerging markets with local sovereign debt markets leading the way as rates fell and currencies appreciated.

Markets witnessed quite a surprise in the second quarter of 2016 as the United Kingdom ("UK") voted to leave the European Union ("EU"). Concerns of increased political risk in the UK and Europe briefly jolted equity and currency markets across the globe. Risk assets sharply sold off but quickly reversed as market concerns abated. U.S. markets followed suit and ultimately continued their rally as the S&P 500 ended the quarter up 2.5%. Outside the U.S., emerging markets demonstrated resiliency to finish the quarter in positive territory. Developed market equities modestly recovered with the MSCI EAFE down only 1.5%. The Russell 2000 had a strong quarter as 9 out of the 10 economic sectors registered positive returns. From a sector basis, the more defensive sectors led the market higher with Energy, Telecommunications, Utilities and Health Care. Sectors lagging in the quarter were Consumer Discretionary, Information Technology and Industrials. Across the developed world, equity markets declined following the UK's decision to leave the EU before rallying in the final days of the quarter. Ireland and Italy led developed markets lower, selling off 9.9%

CONSULTANT REPORT ON INVESTMENT ACTIVITY

and 9.7% respectively. In local terms, Japanese equity markets declined nearly 7%. While, for U.S. dollar investors, Japan equities returned a positive 1% as the Yen approached a two year high against the dollar. The Yen has rallied considerably for the year and continues to benefit from its perceived safe-haven status. Similar to the U.S., energy was the top sector in developed markets, returning roughly 11.5% while consumer discretionary stocks were one of the weakest, returning -8.2% for the quarter. Within emerging markets, investors looked past the Brexit fears and recognized ongoing positive developments. Latin America was a particular focus, where favorable election results in Peru and further progress in the impeachment process in Brazil led to those markets returning 16.9% and 13.3% respectively. In contrast, China equity markets continued to waver, trailing the broader benchmark with a return of -1.7%. From a sector perspective, consumer staples stocks performed the best, returning 4.2% for the quarter. In the fixed income markets, the second quarter illustrated the current dichotomy – safe-haven assets rallied significantly, while risky assets also outperformed as investors continued to search for yield. Globally, the 10-year German bund broke into negative territory, falling 28 bps to -0.13%. In Japan, 10-year bond yields continued to move lower, settling at -0.22%. At home, the U.S. 10 year Treasury yield compressed 29 bps, nearing its all-time low at 1.49%. The Barclays Aggregate returned 2.2%, while U.S. High Yield returned 5.5% for the quarter. Overall, credit was broadly supported by lower quality sectors. Non-credit risk assets also performed well, as emerging market local debt returned 2.7% in the quarter with a strong rebound in June of 5.9%. For the year, emerging local debt remains one of the best performing risk assets in fixed income, returning over 14%.

The Investment Committee and Board also initiated a formal asset-liability study that will be reviewed later this year. The portfolio continues to be diversified across asset classes and remains in compliance with policy targets.

Sincerely,

Douglas Moseley, Partner

Keith Stronkowsky, CFA, Sr. 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:

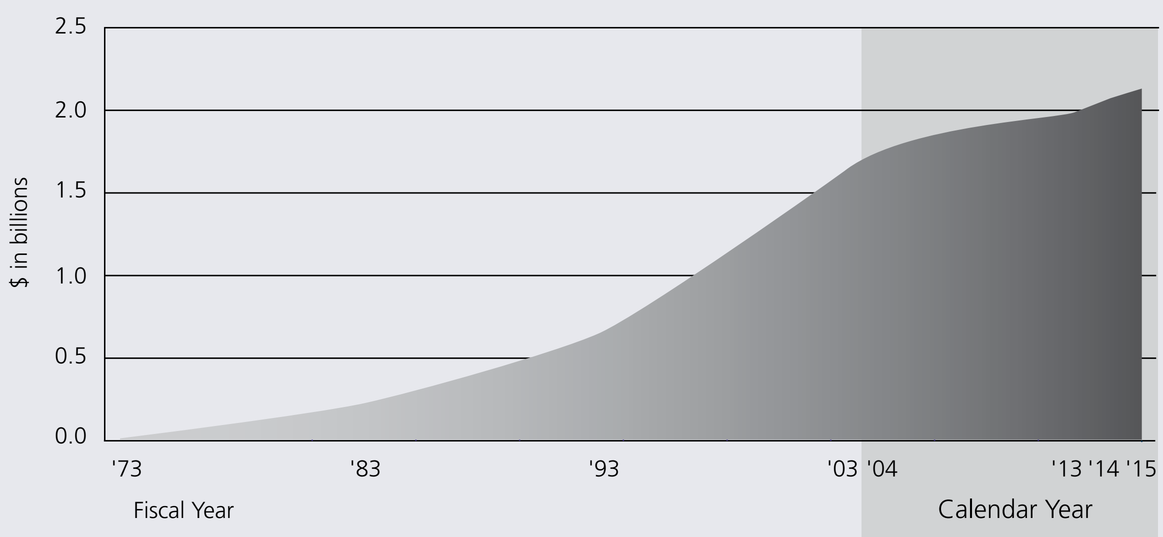
- the anticipated financial needs of the ERFC
- consideration of risk tolerance; and
- the need to document and communicate objectives, guidelines and standards to the investment managers.

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 7.25 percent, compounded annually, of which 3.25 percent constitutes an assumed rate of inflation and 4.0 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, 2015 actuarial valuation)



INVESTMENT MANAGERS

ASSETS UNDER MANAGEMENT

As of June 30, 2016 ($ in millions)

Investment Manager	Investment Type	Amount
Equities		
Large Capitalization		
Aronson Johnson Ortiz	Value	$ 99.7
Mellon Capital Management Corp.	Core Index (Russell 1000)	105.8
T. Rowe Price	Growth	100.9
Small/Mid Capitalization		
Epoch Investment Partners, Inc.	Value	42.3
Lazard Asset Management	Core	42.7
Westfield Capital Management	Growth	37.2
International		
Acadian Asset Management	Core	105.8
Causeway Capital	Value	79.6
William Blair & Company	Growth	86.0
William Blair & Company	Emerging Market	57.1
Fixed Income		
Loomis-Sayles & Company	Core Plus	140.6
Mellon Capital Management Corp.	Core Index	77.7
JP Morgan Asset Management	Core Plus	213.0
Mondrian Investments	Emerging Market	61.8
GAM Fund Management	Unconstrained	83.6
Loomis-Sayles & Company	Unconstrained	40.8
Global Asset Allocation/Better Beta		
Bridgewater Associates, Inc.	Better Beta	114.8
Wellington Management Co.	Global Asset Allocation	104.4
Pacific Investment Management Co.	Global Asset Allocation	103.0
Hedge fund of funds		
Grosvenor Institutional Partners	Hedge Fund of Funds	84.2
Permal Group	Hedge Fund of Funds	81.2
Private Equity		
Audax	Private	4.2
Lexington	Private	8.7
Newstone	Private	3.5
Permal Private Equity	Private	4.2
Private Advisors	Private	14.1
HarbourVest	Private	25.7
Real Estate		
JP Morgan Asset Management	Private	30.1
Prudential Financial	Private	30.8
UBS Realty Investors	Private	32.9
Center Square Investment Management	Public	88.2
Cash (temporary cash)		2.3
Total		**$ 2,106.9**

ASSET STRUCTURE

Interim Strategic Target Allocation

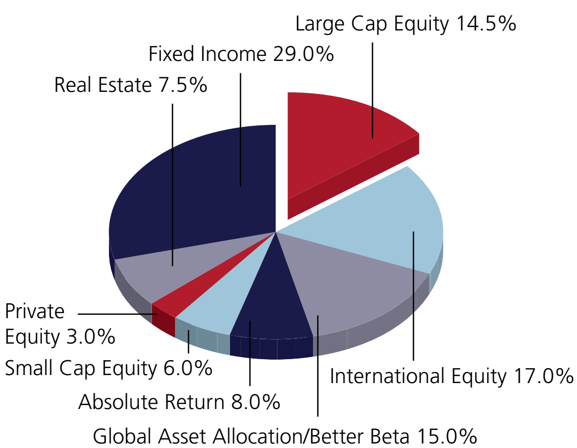
The asset structure shown below represents the Trustees' assessment of their optimal asset allocation as of June 30, 2016. This interim strategic allocation provides a reasonable expectation that the fund's investment objective can be achieved based on historic relationships of asset class performance.

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, 2016.

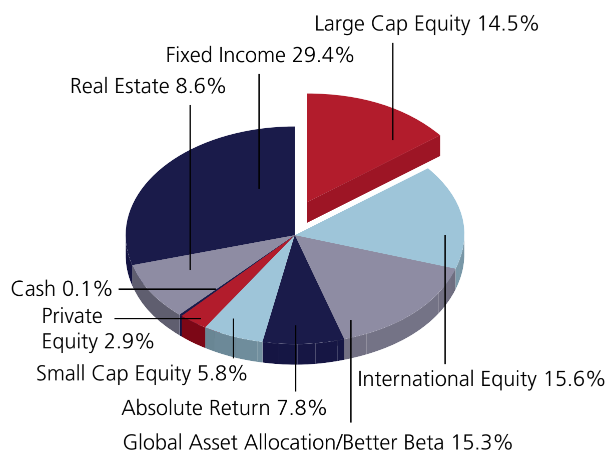
Actual Asset Allocation as of June 30, 2016

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



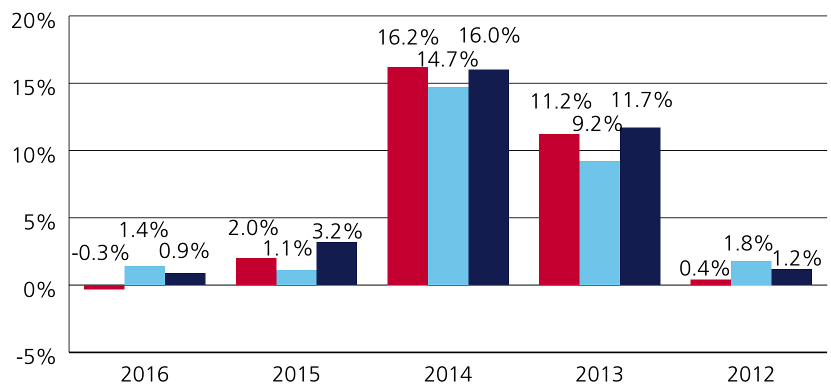
Security Class	Interim Strategic Targets as of June 30, 2016	Actual Asset Allocation as of June 30, 2016
Domestic Large Cap Equity	14.5 %	14.5 %
Domestic Small Cap Equity	6.0	5.8
International Equity	17.0	15.6
Real Estate	7.5	8.6
Fixed Income	29.0	29.4
Global Asset Allocation/Better Beta	15.0	15.3
Absolute Return	8.0	7.8
Private Equity	3.0	2.9
Cash	0.0	0.1
Total	**100.0%**	**100.0%**

INVESTMENT RESULTS

Fiscal Years Ending June 30

TOTAL FUND RETURNS

- ERFC
- Benchmark*
- Public Funds**



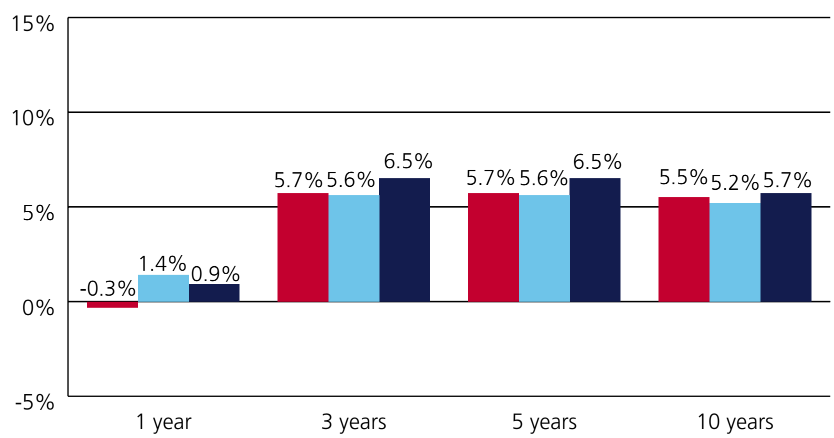
* Diversified benchmark is 14.5% Russell 1000, 6.0% Russell 2000, 14% MSCI ACWI Ex-US, 3.0% MSCI Emerging Markets, 3.75% FTSE EPRA/NAREIT, 3.75% NCREIF, 18.0% Barclays Aggregate Bond Index, 4.0% BC Credit, 4.0% BC Long Credit, 7.5% MSCI World Net, 7.5% CitiWorld Govt Bond, 8.0% HFRI FoF, 3.0% Cambridge PE, 3.0% JPM GBI EM

** Investor Force Public Defined Benefit Plan Universe

For the Periods Ending June 30, 2016

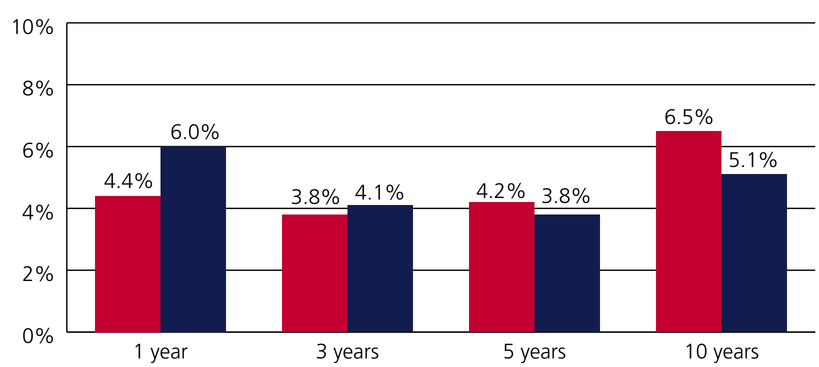
TOTAL FUND

- ERFC
- Benchmark*
- Public Funds**



DOMESTIC FIXED INCOME

- Fixed Income
- Benchmark: Barclays Capital Aggregate Bond

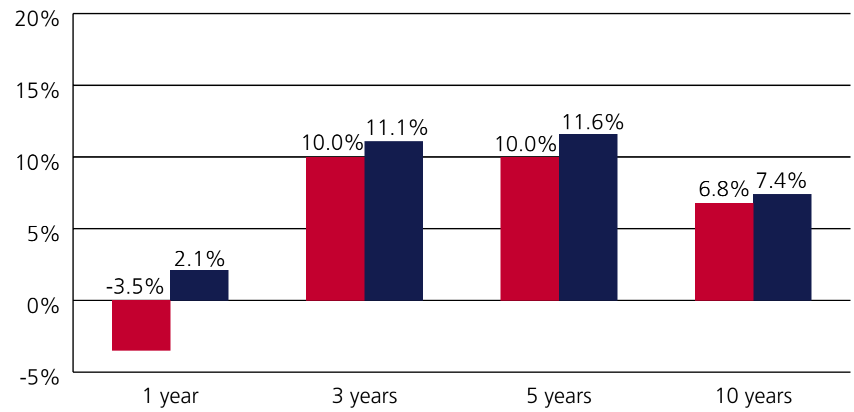


INVESTMENT RESULTS

(For the Periods Ending June 30, 2016)

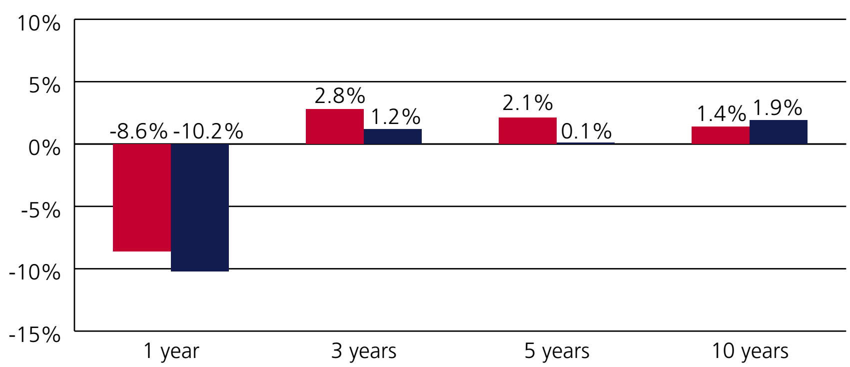
DOMESTIC EQUITY

- Domestic Equity
- Benchmark: Russell 3000 Index



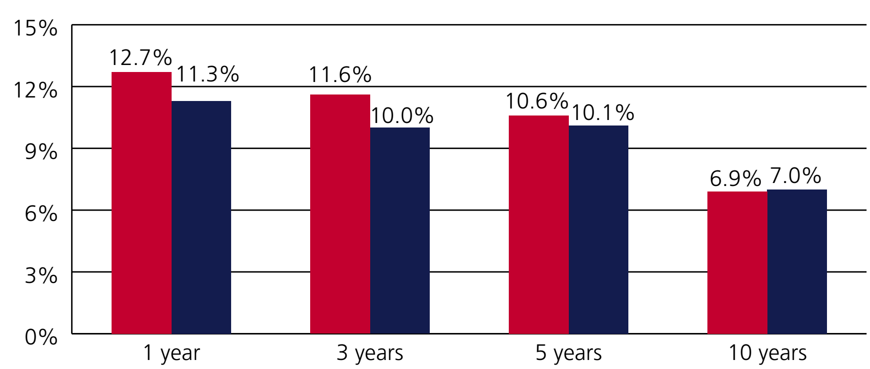
INTERNATIONAL EQUITY

- International Equity
- Benchmark: MSCI/ACWI Ex-USA Index



REAL ESTATE

- Real Estate
- Benchmark: 50% FTSE EPRA/ NAREIT 50% NCREIF



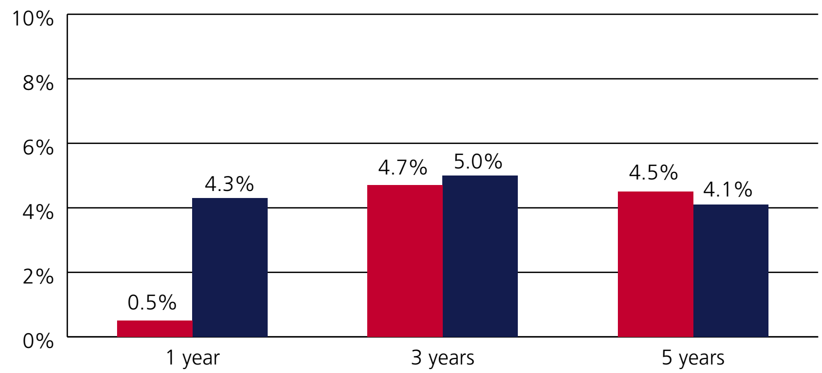
Note: All investment performance figures were calculated using a time-weighted rate of return based on market values.

INVESTMENT RESULTS

(For the Periods Ending June 30, 2016)

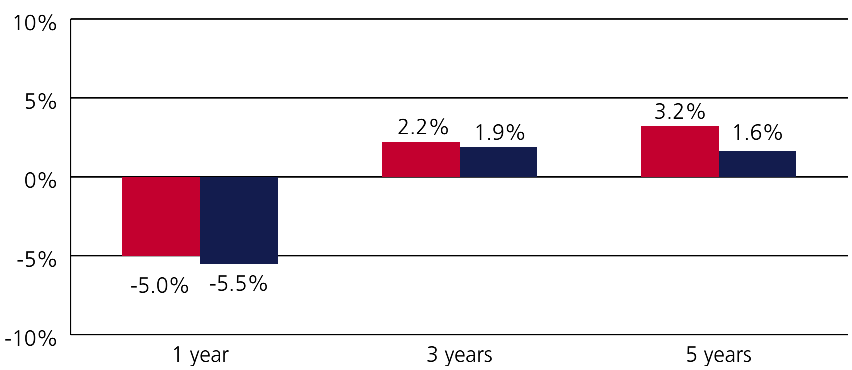
GLOBAL ASSET ALLOCATION

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



HEDGE FUND

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



INVESTMENT

SCHEDULES OF TEN LARGEST EQUITY & FIXED INCOME HOLDINGS

(As of June 30, 2016)

TEN LARGEST EQUITY HOLDINGS*

No. Shares	Description	Cost	Fair Value	% of Total Portfolio
6,750	AMAZON.COM INC	$ 2,425,805	$ 4,830,435	0.23%
40,870	FACEBOOK INC	3,252,771	4,670,624	0.22%
35,115	JOHNSON & JOHNSON	3,501,439	4,259,450	0.20%
5,465	ALPHABET INC-CL C	3,050,009	3,782,327	0.18%
58,780	JPMORGAN CHASE & CO	3,241,164	3,652,589	0.17%
2,875	PRICELINE GROUP INC/THE	3,472,476	3,589,179	0.17%
34,030	DANAHER CORP	2,769,564	3,437,030	0.16%
96,807	PFIZER INC	3,333,800	3,408,574	0.16%
2,352	SAMSUNG ELECTRONICS CO LTD	2,428,875	2,909,755	0.14%
95,800	KDDI CORP	1,303,959	2,906,964	0.14%
TOTAL		**$ 28,779,862**	**$ 37,446,927**	**1.77%**

TEN LARGEST FIXED INCOME HOLDINGS*

Par Value	Security	Coupon	Maturity	Cost	Fair Value	% of Total Portfolio
6,000,000	U S TREASURY NOTE	0.750%	10/31/2017	$ 5,985,938	$ 6,014,520	0.29%
5,505,000	INTER-AMERICAN DEVELOPMENT BAN	6.000%	12/15/2017	3,779,204	4,105,109	0.19%
3,630,000	FORD MOTOR CREDIT CO LLC	4.389%	01/08/2026	3,630,000	3,962,690	0.19%
2,795,000	OLD REPUBLIC INTERNATIONAL COR	3.750%	03/15/2018	2,743,203	3,570,613	0.17%
2,400,000	BANK OF AMERICA CORP	6.110%	01/29/2037	2,064,106	2,848,680	0.14%
2,190,000	INTEL CORP	2.950%	12/15/2035	2,161,153	2,831,955	0.13%
2,750,000	U S TREASURY NOTE	0.750%	04/30/2018	2,746,240	2,757,948	0.13%
3,355,000	NEW SOUTH WALES TREASURY CORP	6.000%	02/01/2018	3,785,333	2,664,863	0.13%
37,450,000	MEXICAN BONOS	8.000%	12/07/2023	3,347,568	2,307,337	0.11%
2,295,000	PULTEGROUP INC	6.000%	02/15/2035	1,961,255	2,283,525	0.11%
TOTAL				**$ 32,204,000**	**$ 33,347,240**	**1.59%**

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

SCHEDULE OF BROKERAGE COMMISSIONS

(Year Ended June 30, 2016)

Broker Name	Base Volume	Total Shares	Base Commission	Commission Percentage
CREDIT SUISSE, NEW YORK (CSUS)	$ 42,034,443	2,259,996	$ 19,756	0.01
CITIGROUP GBL MKTS INC, NEW YORK	40,344,482	1,203,254	20,495	0.02
DEUTSCHE BK SECS INC, NY (NWSCUS33)	36,636,949	2,792,982	17,734	0.01
MORGAN STANLEY & CO INC, NY	31,893,420	1,914,011	22,182	0.01
SG AMERICAS SECURITIES LLC, NEW YORK	27,556,112	889,911	7,415	0.01
GOLDMAN SACHS & CO, NY	23,210,767	3,265,218	15,897	0.00
INSTINET CORP, NY	22,083,594	646,865	6,629	0.01
BARCLAYS CAPITAL LE, JERSEY CITY	19,485,296	456,334	5,645	0.01
STIFEL NICOLAUS	18,880,601	283,010	4,927	0.02
UBS WARBURG, LONDON	16,332,651	822,672	14,904	0.02
LIQUIDNET INC, NEW YORK	16,099,383	595,876	11,782	0.02
MERRILL LYNCH INTL LONDON EQUITIES	15,937,121	2,361,446	18,726	0.01
RBC CAPITAL MARKETS LLC, NEW YORK	15,573,572	474,912	5,319	0.01
MERRILL LYNCH PIERCE FENNER SMITH INC NY	15,024,808	484,882	5,069	0.01
INSTINET EUROPE LIMITED, LONDON	14,021,012	1,377,327	9,710	0.01
J P MORGAN SECURITIES INC, BROOKLYN	13,845,696	480,389	7,947	0.02
BERNSTEIN SANFORD C & CO, NEW YORK	13,557,408	837,816	6,336	0.01
J.P. MORGAN CLEARING CORP, NEW YORK	13,418,038	449,342	5,119	0.01
BARCLAYS CAPITAL, LONDON (BARCGB33)	10,207,663	760,108	10,416	0.01
JEFFERIES & CO INC, NEW YORK	10,084,695	312,079	7,776	0.02
LIQUIDNET INC, BROOKLYN	9,822,478	301,247	6,431	0.02
CITATION GROUP/BCC CLRG, NEW YORK	9,140,713	348,310	11,549	0.03
CREDIT SUISSE (EUROPE), LONDON	8,775,974	565,739	7,252	0.01
JNK SECURITIES INC, NEW YORK	8,704,888	228,032	3,163	0.01
CITIGROUP GLOBAL MARKETS LTD, LONDON	8,576,836	816,168	6,745	0.01
UBS WARBURG ASIA LTD, HONG KONG	8,061,637	868,920	7,306	0.01
STATE STREET BROKERAGE SVCS, BOSTON	7,600,542	225,143	4,477	0.02
INVESTMENT TECHNOLOGY GROUP, NEW YORK	7,359,797	163,075	4,081	0.03
CITIGROUP GBL MKTS/SALOMON, NEW YORK	6,974,501	1,311,720	4,769	0.00
UBS SECURITIES LLC, STAMFORD	6,760,313	798,147	3,806	0.00
INVESTMENT TECHNOLOGY GROUP LTD,DUBLIN	6,424,559	876,892	3,161	0.00
J P MORGAN SECS LTD, LONDON	5,842,852	366,048	5,270	0.01
ISI GROUP INC, NY	5,334,604	90,877	2,594	0.03
DAIWA SECS AMER INC, NEW YORK	5,185,652	231,565	4,818	0.02
FIDELITY CAP MKTS (DIV OF NFSC), BOSTON	5,072,225	146,412	2,075	0.01
MERRILL LYNCH & CO INC ATLAS GLOBAL, NY	4,938,827	598,599	2,055	0.00
MERRILL LYNCH PIERCE FENNER, WILMINGTON	4,857,968	368,246	2,090	0.01
GUZMAN & COMPANY, CORAL GABLES	4,843,816	134,388	1,873	0.01
SG SECURITIES, HONG KONG	4,565,319	1,715,390	3,227	0.00
RAYMOND JAMES & ASSOC INC, ST PETERSBURG	4,240,511	146,361	5,328	0.04
SANFORD C BERNSTEIN & CO INC, LONDON	4,209,700	176,919	3,183	0.02
MACQUARIE BANK LTD, HONG KONG	4,091,562	1,619,120	3,842	0.00
CREDIT AGRICOLE (USA) INC, ISELIN	3,949,289	167,890	840	0.01
BAIRD, ROBERT W & CO INC, MILWAUKEE	3,859,822	86,168	3,422	0.04
JONESTRADING INSTL SVCS LLC, WESTLAKE	3,764,215	219,336	6,579	0.03
OTHER BROKERS	112,787,829	11,109,789	115,216	
TOTAL	**$ 681,974,140**	**46,348,931**	**$ 448,936**	

INVESTMENT

INVESTMENT SUMMARY

	As of June 30, 2016		As of June 30, 2015	
	Fair Value	% Fair Value	Fair Value	% Fair Value
Fixed Income				
U.S. Government obligations	$ 8,772,468	0.4%	$ 22,560,732	1.0%
Mortgage-backed securities	2,307,583	0.1%	2,625,494	0.1%
Domestic corporate bonds	75,359,808	3.6%	59,227,314	2.7%
Convertible bonds	13,059,542	0.6%	11,454,313	0.5%
International bonds	31,612,862	1.5%	30,484,370	1.4%
Preferred stocks	3,342,162	0.2%	3,091,170	0.1%
Index / Commingled fund	476,848,036	22.7%	464,211,454	21.3%
Total fixed income	611,302,461	29.1%	593,654,847	27.1%
Domestic Equities:				
Basic industry	41,815,549	2.0%	44,875,767	2.1%
Consumer and services	124,670,911	5.9%	134,535,826	6.2%
Financial and utility	77,304,926	3.7%	77,984,758	3.6%
Technological	87,784,960	4.2%	87,566,329	4.0%
Index / Commingled fund	105,755,311	5.0%	111,302,312	5.1%
Total domestic stock	437,331,657	20.8%	456,264,992	21.0%
International Equity				
Basic industry	50,109,757	2.4%	63,359,271	2.9%
Consumer and services	89,302,869	4.2%	118,686,548	5.5%
Financial and utility	53,454,522	2.5%	75,213,627	3.5%
Technological	39,086,825	1.9%	51,188,682	2.4%
Index / Commingled fund	72,091,136	3.4%	79,616,541	3.7%
Total international stock	304,045,109	14.4%	388,064,669	18.0%
Real Estate				
Commercial	63,806,781	3.0%	61,728,857	2.8%
Commingled	118,301,244	5.6%	108,246,045	5.0%
Total real estate	182,108,025	8.6%	169,974,902	7.8%
Alternative investments				
Better beta	114,838,276	5.5%	111,714,562	5.1%
Global asset allocation	207,360,520	9.9%	218,806,384	10.0%
Hedge fund of funds	165,183,995	7.8%	174,171,320	8.0%
Limited partnerships	61,386,165	2.9%	47,414,464	2.2%
Total alternative investments	548,768,956	26.1%	552,106,730	25.3%
Subtotal investments at fair value	2,083,556,208	99.0%	2,160,066,140	99.2%
Short-term Investments				
Money Market	20,926,504	1.0%	17,655,629	0.8%
Total short-term investments	20,926,504	1.0%	17,655,629	0.8%
Total	**$ 2,104,482,712**	**100.0%**	**$ 2,177,721,769**	**100.0%**

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

SCHEDULE OF INVESTMENT MANAGEMENT FEES

(Year Ended June 30, 2016)

Investment Category	Assets Under Management	Expense
Better beta	$ 114,838,276	$ 527,579
Domestic equity managers	422,978,226	1,678,949
Fixed income managers	608,199,721	2,115,927
Global asset allocation managers	207,360,520	1,597,943
Hedge fund of funds	165,183,995	1,756,350
International equity managers	321,501,280	1,969,191
Private equity	61,386,165	1,290,215
Real estate managers	182,108,025	1,625,159
Total	**$ 2,083,556,208**	**$ 12,561,313**

Note: Excludes cash and cash equivalents

INVESTMENT

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THE EDUCATIONAL EMPLOYEES'
SUPPLEMENTARY RETIREMENT SYSTEM
of Fairfax County

ACTUARIAL

Unaudited

THE BEST TEACHERS ARE THOSE WHO SHOW YOU WHERE TO LOOK, BUT DON'T TELL YOU WHAT TO SEE

ALEXANDRA K. TRENFOR

Fort Belvoir Elementary is the proud recipient of three Science, Technology, Engineering and Math (STEAM) grants through the Operation Patriotic STEAM project. The project is designed to provide extended learning for students after school and during the summer by improving math, science, reasoning and critical-thinking skills. Through the use of a STEAM lab, science center and a STEAM resource teacher, students are encouraged to succeed through hands-on involvement and mindful attention to instruction.

ACTUARY'S CERTIFICATION LETTER

GRS

Gabriel Roeder Smith & Company
Consultants & Actuaries

One Towne Square
Suite 800
Southfield, MI 48076-3723

248.799.9000 phone
248.799.9020 fax
www.gabrielroeder.com

October 28, 2016

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, 2015.

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 audits the actuarial data annually.

The actuary prepared information that was used for the following schedules for the Comprehensive Annual Financial Report.

Actuarial Section

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

Summary of Member Data Included in Valuation as of December 31, 2015
- Historical Information for All Members (last 8 years)
- All Active Members in Valuation on December 31, 2015 by Attained Age and Years of Service
- Active Members by Years of Service, Salaries and Ages
- Retirees and Beneficiaries Added and Removed
- Short-Term Solvency Test
- Analysis of Financial Experience Including Experience Gains and Losses by Risk Area
- ERFC Contribution Rates

ACTUARY'S CERTIFICATION LETTER

Board of Trustees
October 28, 2016
Page 2

Financial Section

Notes to the Schedule of Contributions
Sensitivity of the Net Pension Liability to the Single Discount Rate Assumption
Schedule of Contributions
Schedule of Changes in Net Pension Liability and Related Ratios

Assets are valued on a fair value-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 fair 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. 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, 2015 valuation was based upon assumptions that were recommended in connection with a study of experience during the period from January 1, 2010 to December 31, 2014.

Based upon the results of the December 31, 2015 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. Continued receipt of contributions at actuarially determined levels remains extremely important. In order to obtain a more complete understanding of the condition of the Retirement System, it is important to obtain and read a copy of the full actuarial report.

Respectfully submitted,

Brian B. Murphy

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

Judith A. Kermans

Judith A. Kermans, EA, FCA, MAAA

BBM:JAK:clh:dj

Gabriel Roeder Smith & Company

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

The actuarial assumptions and methods used in making the annual actuarial valuation are summarized in this section. The assumptions were adopted by the Trustees following a study of experience covering the five-year period ending December 31, 2014.

Economic Assumptions

The **investment return rate** used in making the valuation was 7.25 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 3.25 percent, the 7.25 percent investment return rate translates to an **assumed real rate of return over wages of 4.0 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 3.25 percent recognizes price inflation and real wage growth.

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

Total active member payroll is assumed to increase 3.25 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 RP-2014 mortality healthy annuitant total data set table with the fully generational two-dimensional sex distinct MP-2014 projection scale. 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	4.30%	3.25%	7.55%
2	3.00%	3.25%	6.25%
3	2.30%	3.25%	5.55%
4	2.10%	3.25%	5.35%
5	2.00%	3.25%	5.25%
6	1.90%	3.25%	5.15%
7	1.80%	3.25%	5.05%
8	1.70%	3.25%	4.95%
9	1.60%	3.25%	4.85%
10–15	1.40%	3.25%	4.65%
16	1.30%	3.25%	4.55%
17	1.20%	3.25%	4.45%
18-19	1.00%	3.25%	4.25%
20	0.90%	3.25%	4.15%
21	0.80%	3.25%	4.05%
22	0.70%	3.25%	3.95%
23	0.60%	3.25%	3.85%
24	0.50%	3.25%	3.75%
25	0.00%	3.25%	3.25%

TABLE B: Sample Rates of Separation from Active Employment before Retirement

PERCENT OF ACTIVE MEMBERS SEPARATING WITHIN NEXT YEAR

	DEATH				DISABILTY			
	Ordinary		Duty		Ordinary		Duty	
Sample Ages	Men	Women	Men	Women	Men	Women	Men	Women
25	0.0261%	0.0093%	0.0024%	0.0008%	0.0146%	0.0082%	0.0036%	0.0020%
30	0.0245	0.0119	0.0022	0.0011	0.0158	0.0122	0.0040	0.0031
35	0.0284	0.0157	0.0026	0.0014	0.0234	0.0214	0.0059	0.0054
40	0.0339	0.0214	0.0031	0.0019	0.0339	0.0308	0.0085	0.0077
45	0.0523	0.0354	0.0048	0.0032	0.0520	0.0456	0.0130	0.0114
50	0.0906	0.0598	0.0082	0.0054	0.0842	0.0726	0.0210	0.0181
55	0.1511	0.0915	0.0137	0.0083	0.1469	0.1228	0.0367	0.0307
60	0.2557	0.1328	0.0232	0.0121	0.2447	0.1770	0.0612	0.0443

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		7			
54		8			
55	45%	6	17.5%	30	17.5%
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	7	10.0	35	10.0
61	35	8	10.0	36	10.0
62	35	13	10.0	37	10.0
63	30	13	10.0	38	25.0
64	25	13	20.0	39	40.0
65	25		25.0	40 & up	100
66	25		30.0		
67	25		25.0		
68	25		15.0		
69	20		15.0		
70	20		15.0		
71	20		15.0		
72	20		15.0		
73	30		15.0		
74	30		15.0		
75	100		100		
76 +	100		100		

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

TABLE D: Single Life Retirement Values

MORTALITY

Future Life Expectancy (Years)

Sample Ages in 2015	Men	Women
55	30.63	33.32
60	26.06	28.51
65	21.68	23.86
70	17.52	19.44
75	13.65	15.35
80	10.19	11.66

Tables were extended below age 50 with a cubic spline to the published Juvenile rates. The tables are projected to be fully generational, based on the 2-dimensional, sex distinct mortality improvement scale MP-2014 (which was published and intended to be used with RP-2014). This table was first used as of December 31, 2015. For disabled members, the same tables are used. The rationale for the mortality assumption is based on the 2010-2014 Experience Study issued November 10, 2015.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

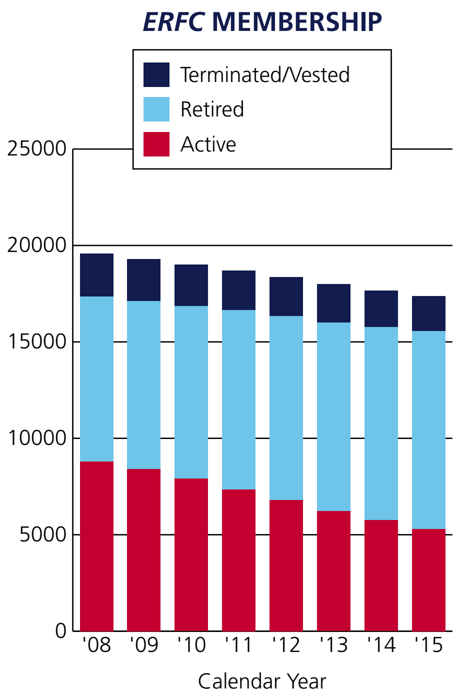
TABLE E: Rates of Forfeiture Following Vested Separation

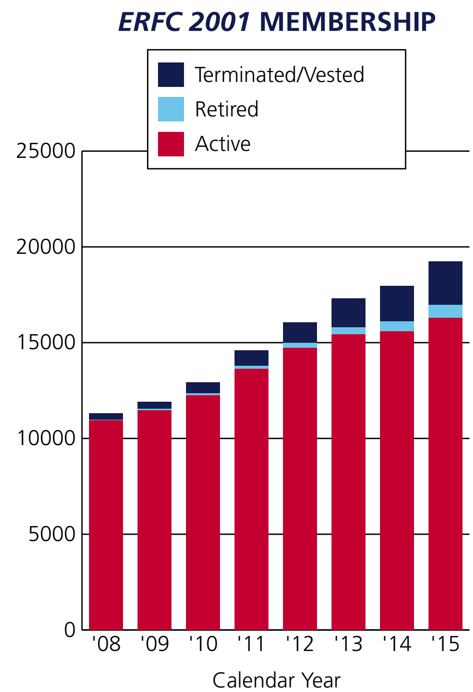
Forfeiture occurs when a vested person separates from service and withdraws contributions thereby forfeiting future rights to an employer financed benefit. The total probability of forfeiture is obtained by multiplying the probability of withdrawal by 10.0%. The table does not apply to individuals who are eligible for retirement at the time of termination.

	% OF ACTIVE PARTICIPANTS WITHDRAWING	
SERVICE	**MALE**	**FEMALE**
0-1	13%	15%
1-2	12%	14%
2-3	11%	13%
3-4	9%	11%
4-5	7%	9%
5-6	6%	9%
6-7	5%	9%
7-8	4%	9%
8-9	4%	6%
9-10	4%	5%
10-11	4%	5%
11-12	3%	4%
12-13	3%	4%
13-14	3%	3%
14-15	2%	3%
15-16	2%	3%
16-17	1%	3%
17-18	1%	2%
18-19	1%	2%
19-20	1%	2%
20-21	1%	2%
21-22	1%	2%
22-23	1%	2%
23-24	1%	2%
24-25	1%	2%

SUMMARY OF MEMBER DATA

(Last Eight Years)





		ERFC			***ERFC 2001***			
	Year	**Active**	**Retired**	**Terminated/ Vested**	**Active**	**Retired**	**Terminated/ Vested**	**Total**
Calendar Year	2008	8,791	8,556	2,243	10,940	39	317	30,886
(As of December 31)	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
	2012	6,801	9,524	2,029	14,718	264	1,070	34,406
	2013	6,221	9,776	2,009	15,422	380	1,500	35,308
	2014	5,754	10,006	1,917	15,598	518	1,844	35,637
	2015	5,292	10,253	1,845	16,293	684	2,254	36,621

ACTUARIAL

SUMMARY OF MEMBER DATA

(As of December 31, 2015)

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
35-39	1	10	46	120				177	$ 13,627,506	76,992
40-44	7	44	113	511	47			722	59,845,387	82,888
45-49	5	38	104	498	319	46	2	1,012	87,910,392	86,868
50-54	7	37	81	388	261	222	37	1,033	88,203,243	85,386
55-59	3	18	54	443	247	161	61	987	80,826,872	81,891
60			9	92	45	35	9	190	14,912,777	78,488
61		5	9	105	53	33	11	216	17,458,906	80,828
62		1	7	92	44	29	8	181	14,316,936	79,099
63			8	88	46	32	7	181	13,998,685	77,341
64		2	9	74	38	25	13	161	12,826,709	79,669
65			4	55	33	10	8	110	8,608,215	78,257
66			3	57	17	14	7	98	7,700,049	78,572
67			2	26	16	9	7	60	4,646,372	77,440
68		1	1	22	8	5	3	40	3,211,272	80,282
69			3	15	10	8	1	37	2,682,383	72,497
70				6	9	5	2	22	2,029,777	92,263
71				8	2	5	1	16	1,118,792	69,925
72				4	5	2	2	13	992,765	76,367
73		1		6	4		2	13	1,111,375	85,490
74					3	1	4	8	608,434	76,054
75 & over				5	4	3	3	15	975,144	65,010
Total	**23**	**157**	**453**	**2,615**	**1,211**	**645**	**188**	**5,292**	**$437,611,991**	**$82,693**

SUMMARY OF MEMBER DATA

(As of December 31, 2015)

ACTIVE *ERFC 2001* MEMBERS BY ATTAINED AGE AND YEARS OF SERVICE

Age Group	YEARS OF SERVICE TO VALUATION DATE				TOTALS		
	0-4	5-9	10-14	15 & up	No.	Salary	Average
15-19	1				1	$ 18,824	$18,824
20-24	480				480	20,839,776	43,416
25-29	2,646	257			2,903	146,337,345	50,409
30-34	1,431	1,221	192		2,844	159,341,660	56,027
35-39	806	676	845		2,327	145,082,720	62,348
40-44	759	423	542		1,724	107,292,334	62,235
45-49	786	507	480		1,773	106,666,318	60,161
50-54	667	548	482		1,697	96,777,130	57,028
55-59	349	481	569		1,399	83,440,101	59,643
60	47	60	98		205	11,912,439	58,109
61	35	62	95		192	12,116,066	63,105
62	35	49	99		183	11,465,428	62,653
63	28	33	68		129	7,909,436	61,313
64	16	32	65		113	7,097,143	62,807
65	17	19	52		88	5,254,088	59,706
66	13	24	38		75	4,701,352	62,685
67	5	18	29		52	2,946,809	56,669
68	9	10	16		35	1,854,743	52,993
69	7	4	15		26	1,621,464	62,364
70	5	2	3		10	570,664	57,066
71	2	3	9		14	728,191	52,014
72	1		8		9	683,208	75,912
73	2	2	3		7	430,595	61,514
74			3		3	229,840	76,613
75 & over	1		3		4	240,259	60,065
Total	**8,148**	**4,431**	**3,714**	**-**	**16,293**	**$935,557,933**	**$57,421**

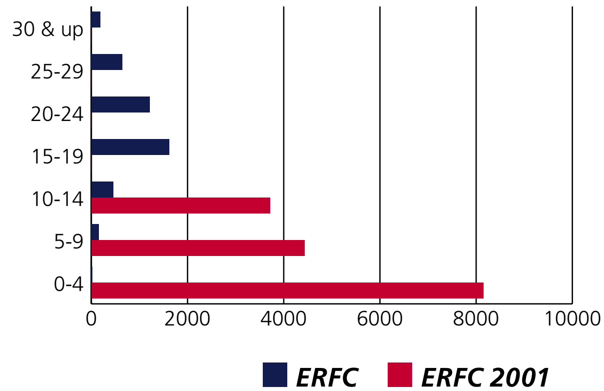
SUMMARY OF MEMBER DATA

(As of December 31, 2015)

ACTIVE MEMBER YEARS OF SERVICE

Average Service = 9.2 years

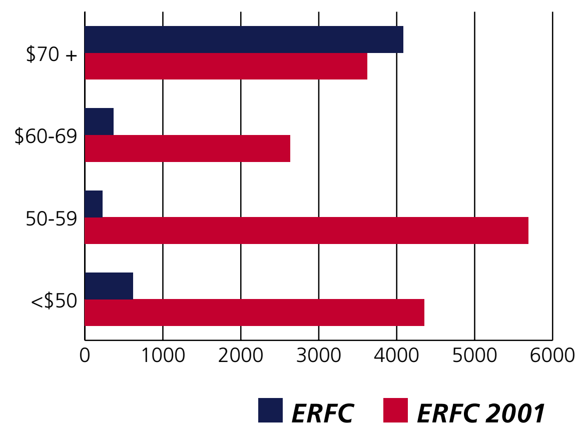
	0-4	5-9	10-14	15-19	20-24	25-29	30 & up
ERFC	23	157	453	2,615	1,211	645	188
ERFC 2001	8,148	4,431	3,714	–	–	–	–



ACTIVE MEMBER SALARIES ($ in thousands)

Average Annual Pay = $63,613

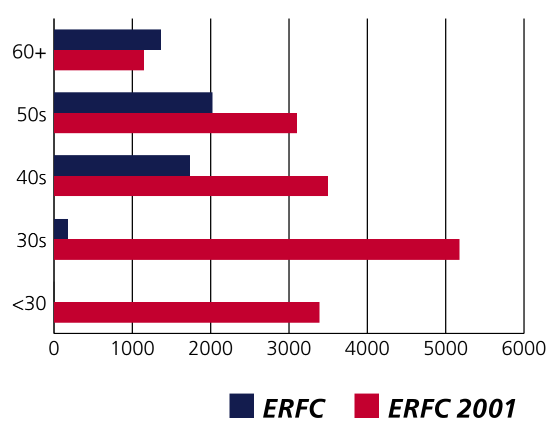
	<$ 50	$ 50-59	$ 60-69	$ 70+
ERFC	615	225	368	4,084
ERFC 2001	4,354	5,689	2,631	3,619



ACTIVE MEMBER AGES

Average Age = 43.7 years
Total Active Members = 21,585

	<30	30's	40's	50's	60+
ERFC	0	177	1,734	2,020	1,361
ERFC 2001	3,384	5,171	3,497	3,096	1,145



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, 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
December 31, 2012	21,519	1,297,536,507	60,297	1.4
December 31, 2013	21,643	1,320,308,508	61,004	1.2
December 31, 2014	21,352	1,340,343,666	62,774	2.9
December 31, 2015	21,585	1,373,095,719	63,613	1.3

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								
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
2012	636	821,485	315	194,842	9,788	12,867,671	1,315	3.69
2013	653	773,322	285	230,145	10,156	13,065,714	1,287	1.54
2014	629	738,766	261	213,231	10,524	13,206,280	1,255	1.08
2015	677	798,525	264	230,255	10,937	13,439,526	1,229	1.77

ACTUARIAL

SHORT-TERM SOLVENCY TEST

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

A **short-condition test** is one means of checking a system's progress under its funding program. In a short-condition 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) Retirees and Beneficiaries	(3) Members (Employer Financed Portion)	Valuation Assets	Portion of Accrued Liabilities Covered by Assets (1)	(2)	(3)
	($ in thousands)						
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	666,240	1,866,952	100	100	9
12/31/2012	426,609	1,448,291	691,228	1,935,292	100	100	9
12/31/2013	439,310	1,482,770	723,420	2,029,005	100	100	15
12/31/2014	457,591	1,510,717	765,537	2,123,910	100	100	20
# 12/31/2015	472,933	1,590,489	817,281	2,188,037	100	100	15

@ 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								
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)
2012	12.3	(10.8)	4.6	(0.3)	(3.4)	(10.2)	(7.8)	(0.3)
2013	16.6	7.6	5.7	0.0	2.9	(5.1)	27.7	1.1
2014	8.5	(2.8)	5.8	(0.1)	0.6	2.8	14.8	0.6
#2015	17.7	(40.2)	5.9	(0.4)	1.0	(12.4)	(28.4)	(1.0)

Experience Study
* Updated Gain Formulas
@ Gain Loss analysis not performed
& Includes post-retirement mortality

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 amount payable at age 65 according to June 30, 1987 provisions or the amount payable at age 65 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 highest consecutive average annual salary (FAC) multiplied by years of credited service, and

(ii) means 1.65 percent of the portion of VRS FAC 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 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 FAC multiplied by years of credited service.

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

Reduced Service Retirement: Amount After 25 Years Service. Service Retirement amount 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 reduced to reflect that the retirement age younger than age 65. For payment periods before the age the member becomes eligible for full Social Security benefits, an additional temporary benefit equal to the Service Retirement temporary benefit reduced to reflect 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 FAC 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. The minimum pension payable is 2.5 percent of FAC.

Death-in-Service Benefits: An active member with 5 or more years of service who dies will have benefits payable to the surviving spouse or other eligible beneficiary. The 5 year service requirement is waived if the death is service-connected.

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

Member Contributions: Members contribute 3 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 3 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**
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			
2012	4.00	4.34	8.34			
2013	3.00	5.34	8.34			
2014	3.00	5.60	8.60			
2015	3.00	5.60	8.60			
2016	3.00	5.60	8.60			

SUMMARY OF PLAN CHANGES

There were no significant plan changes during the valuation period ending December 31, 2015.

STATISTICAL

Unaudited

PLAY IS THE HIGHEST FORM OF RESEARCH

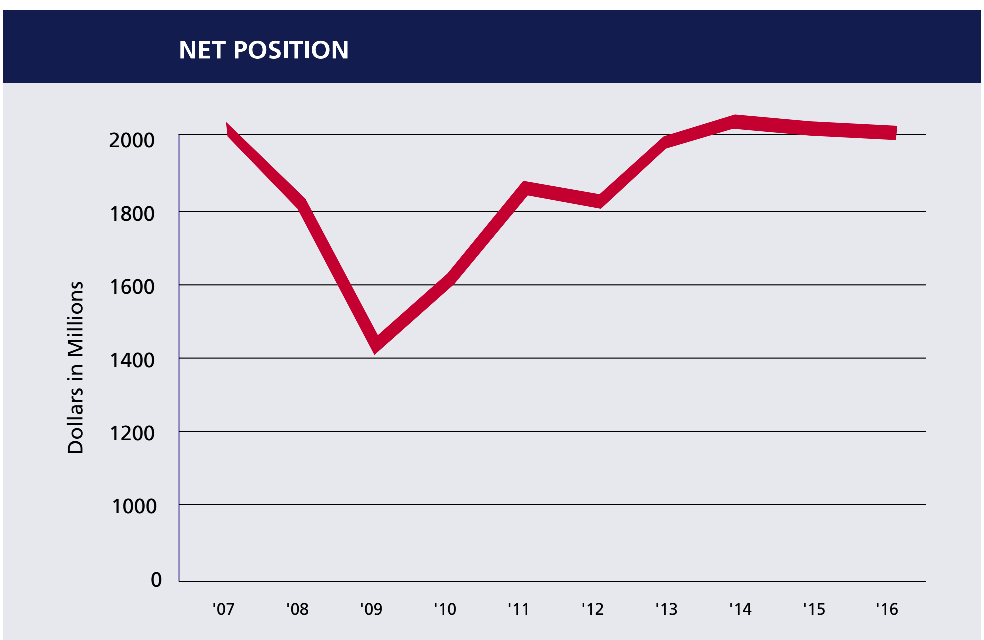
ALBERT EINSTEIN

Fort Belvoir Elementary's location on a busy military installation creates the need for unique school safety features. In order to meet post-9/11 code, the school was constructed with reinforced windows, raised curbs, front entrance barricades and specially designed gates. Inside the school, administrators tried to balance flexibility with affordability by selecting furnishings that are mobile and allow classrooms and workstations to be configured in multiple ways. Furniture is versatile and features student chairs that rock, uniquely shaped desks and rolling bookcases with whiteboards on the back. Principals Carhart and Toussaint-Williams emphasize the importance of making students feel safe and appreciated as they grow into themselves and expand their horizons.

NET POSITION

Last 10 Fiscal Years

FISCAL YEARS	NET POSITION
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
2013	1,956,772,826
2014	2,204,927,191
2015	2,179,724,057
2016	2,107,587,698

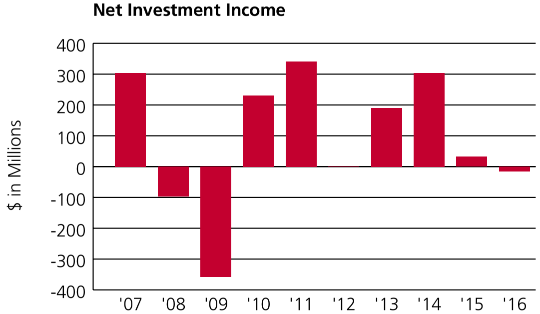


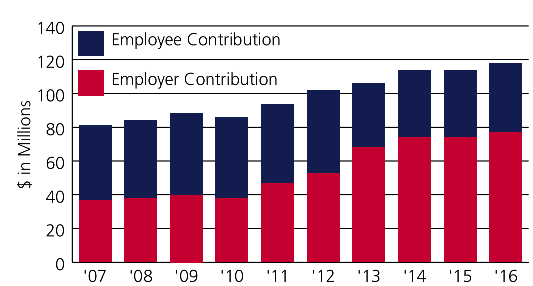
CHANGES IN NET POSITION

Last 10 Fiscal Years

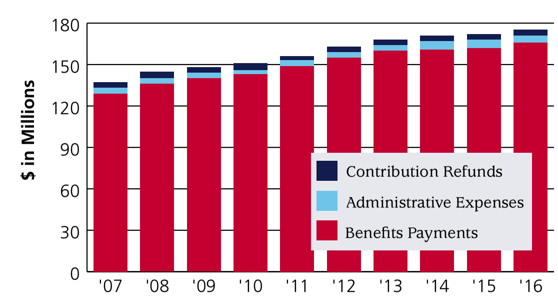
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
ADDITIONS										
Employee contributions	$ 44,453,617	$ 46,143,803	$ 47,996,408	$ 47,918,341	$ 47,167,129	$ 49,142,379	$ 38,428,367	$ 40,018,590	$ 39,982,963	$ 41,383,642
Employer contributions	36,644,001	38,334,140	40,012,480	37,868,623	47,118,111	52,934,245	67,734,634	74,174,082	74,324,396	76,599,695
Investment income (net of expenses)	304,119,327	(96,855,060)	(357,672,266)	231,574,404	341,669,367	1,635,435	190,947,851	304,640,803	32,083,908	(15,766,967)
Gain\loss from sale of capital assets	27,632	—	(5,494)	—	(1,503)	—	—	—	—	—
Total additions to plan net position	**385,244,577**	**(12,377,117)**	**(269,668,872)**	**317,361,368**	**435,953,104**	**103,712,059**	**297,110,852**	**418,833,475**	**146,391,267**	**102,216,370**
DEDUCTIONS										
Benefit payments	128,739,638	135,927,308	139,594,144	143,128,569	149,046,042	155,041,762	160,098,128	161,276,831	162,145,265	165,721,790
Contribution refunds	3,583,007	4,229,850	3,975,907	3,339,910	4,258,033	4,295,171	4,419,806	5,772,959	5,697,311	4,626,057
Administrative expenses	3,718,761	4,631,844	3,898,620	4,663,896	3,344,333	3,574,923	3,588,414	3,629,320	3,751,825	4,004,882
Total deductions to plan net position	**136,041,406**	**144,789,002**	**147,468,671**	**151,132,375**	**156,648,408**	**162,911,856**	**168,106,348**	**170,679,110**	**171,594,401**	**174,352,729**
Change in net position net of expenses	**$ 249,203,171**	**$ (157,166,119)**	**$ (417,137,543)**	**$ 166,228,993**	**$ 279,304,696**	**$ (59,199,797)**	**$ 129,004,504**	**$ 248,154,365**	**$ (25,203,134)**	**$ (72,136,359)**

ADDITIONS BY SOURCE





DEDUCTIONS BY TYPE



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
6/30/1996	$ 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
12/31/2012	1,297,537	1,448,291	1,117,837	2,566,128	1,935,292	630,836	75.4
12/31/2013	1,320,309	1,482,770	1,162,730	2,645,500	2,029,005	616,495	76.7
12/31/2014	1,340,344	1,510,717	1,223,128	2,733,845	2,123,910	609,935	77.7
# 12/31/2015	1,373,096	1,590,489	1,290,214	2,880,703	2,188,037	692,666	76.0

@ After change in asset valuation method.

* After change in benefits.

After changes in actuarial assumptions.

BENEFIT DEDUCTIONS FROM NET POSITION BY TYPE

Last 10 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
Calendar Years												
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	146,046,042
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
2013	5,124	110,634,206	4,232	46,926,222	169	1,308,058	21	265,153	173	964,489	9,719	160,098,128
2014	5,354	111,429,145	4,422	47,263,400	176	1,357,852	20	272,888	170	953,108	10,142	161,276,831
2015	5,557	112,009,606	4,590	47,509,606	181	1,401,710	20	272,296	165	952,482	10,513	162,145,700
2016	5,803	114,503,622	4,793	48,567,459	191	1,516,843	17	212,462	161	921,404	10,965	165,721,790

BENEFIT REFUNDS BY TYPE

Last 10 Years

	SEPARATION		DEATHS		TOTAL	
Fiscal Year	No.	Amount	No.	Amount	No.	Amount
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
2013	634	4,081,157	19	338,649	653	4,419,806
2014	727	5,164,862	40	608,097	767	5,772,959
2015	718	5,300,442	22	396,869	740	5,697,311
2016	521	4,271,678	27	354,379	548	4,626,057

RETIRED MEMBERS BY TYPE OF BENEFIT

(As of December 31, 2015)

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	1,862	515	1,282	30	29	6	1,398	117	5	48	35	259
251–500	1,915	855	927	20	108	5	1,448	142	8	69	41	207
501–750	958	453	469	7	26	3	696	62	8	28	19	145
751–1,000	860	512	334	6	8	0	559	27	14	47	11	202
1,001–1,250	1,057	725	321	5	6	0	739	40	18	40	10	210
1,251–1,500	775	584	183	3	5	0	553	30	7	42	5	138
1,501–1,750	652	527	124	0	1	0	430	25	9	36	8	144
1,751–2,000	633	556	75	2	0	0	381	26	11	48	3	164
Over 2,000	2,225	1,776	441	3	0	5	1,303	124	11	160	23	604
Total	**10,937**	**6,503**	**4,156**	**76**	**183**	**19**	**7,507**	**593**	**91**	**518**	**155**	**2,073**

*** 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 1/1/11 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
Period 1/1/12 to 12/31/12						
Avg Monthly Benefit	$ 272.98	$ 434.75	$ 678.98	$ 1,088.46	$ 2,239.49	$ 2,667.58
Avg Final Average Salary	$ 4,962.62	$ 5,182.69	$ 5,965.10	$ 6,278.19	$ 7,040.31	$ 8,026.53
No. of Retired Members	87	121	99	83	159	79
Period 1/1/13 to 12/31/13						
Avg Monthly Benefit	$ 280.13	$ 427.87	$ 650.93	$ 935.23	$ 2,134.83	$ 2,701.66
Avg Final Average Salary	$ 5,190.10	$ 5,292.03	$ 6,089.14	$ 6,206.50	$ 6,784.33	$ 7,862.51
No. of Retired Members	100	115	125	96	136	81
Period 1/1/14 to 12/31/14						
Avg Monthly Benefit	$ 294.80	$ 463.79	$ 703.01	$ 968.54	$ 2,216.21	$ 2,518.11
Avg Final Average Salary	$ 4,965.46	$ 5,477.16	$ 5,963.68	$ 6,310.28	$ 7,418.79	$ 7,816.52
No. of Retired Members	86	137	118	64	124	82
Period 1/1/15 to 12/31/15						
Avg Monthly Benefit	$ 286.55	$ 473.64	$ 698.48	$ 915.92	$ 2,109.75	$ 2,614.66
Avg Final Average Salary	$ 5,088.12	$ 5,192.36	$ 5,988.36	$ 6,524.08	$ 7,210.20	$ 7,955.96
No. of Retired Members	89	123	151	79	127	100

AVERAGE COMPOSITE MONTHLY BENEFIT PAYMENTS FOR RETIREES

Last 10 Years

BY TYPE OF BENEFIT BEING PAID

	Year	Service Retirement	Reduced Service	Ordinary Disability
Calendar Year	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
	2012	1,688	839	570
	2013	1,626	815	575
	2014	1,557	799	583
	2015	1,523	807	579

RETIREES AND BENEFICIARIES CURRENT ANNUAL BENEFITS TABULATED BY ATTAINED AGES

(As of December 31, 2015)

	TOTAL	
Attained Ages	**No.**	**Annual Amount**
Under 40	5	$ 16,016
40-44	3	22,229
45	1	886
46	3	14,700
47	2	8,030
48	3	24,271
49	1	886
50	8	189,273
51	6	132,915
52	15	222,022
53	16	331,629
54	16	434,286
55	48	951,375
56	91	2,316,016
57	129	3,093,464
58	166	4,141,630
59	196	4,772,472
60	278	5,945,998
61	335	7,115,768
62	374	7,927,954
63	449	9,643,800
64	505	10,600,075
65	596	12,477,206
66	592	6,844,195
67	647	6,655,553
68	727	7,633,497
69	622	6,641,864
70-74	2,212	24,819,851
75-79	1,392	17,705,699
80 & Up	1,499	19,531,702
Grand Total	**10,937**	**$ 160,215,262**

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, 2015)

	TOTAL	
Attained Ages	**No.**	**Annual Amount**
27	12	$ 32,968
28	26	80,193
29	47	155,592
30	66	223,770
31	105	399,788
32	128	500,891
33	144	584,598
34	176	737,049
35	177	748,380
36	180	728,111
37	177	661,948
38	177	601,416
39	163	525,840
40	146	459,432
41	152	370,334
42	150	423,853
43	142	379,219
44	168	499,201
45	149	391,892
46	142	393,467
47	126	397,293
48	130	398,975
49	111	346,025
50	103	273,186
51	103	301,698
52	103	347,483
53	105	312,986
54	102	340,843
55	80	264,242
56	71	271,326
57	63	236,475
58	71	280,282
59	76	310,418
60	38	144,704
61	34	252,178
62	35	146,702
63	33	129,030
64	22	120,011
65 & Over	52	136,602
Grand Total	**4,085**	**$ 13,908,401**

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

Note: *Does not include 14 additional inactive vested members from the 1973 Plan.*

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THE EDUCATIONAL EMPLOYEES'
SUPPLEMENTARY RETIREMENT SYSTEM
of Fairfax County

EXPANDING OUR HORIZONS

At Fort Belvoir Elementary

Fairfax County PUBLIC SCHOOLS
ENGAGE • INSPIRE • THRIVE

ERFC would like to thank the staff and administrators of Fort Belvoir Elementary for allowing us the opportunity to feature them in our 2016 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.

THE EDUCATIONAL EMPLOYEES' SUPPLEMENTARY RETIREMENT SYSTEM OF FAIRFAX COUNTY
8001 FORBES PLACE | SUITE 300 | SPRINGFIELD, VA 22151-2205