



VERTICAL ALIGNMENT

ERFC2014

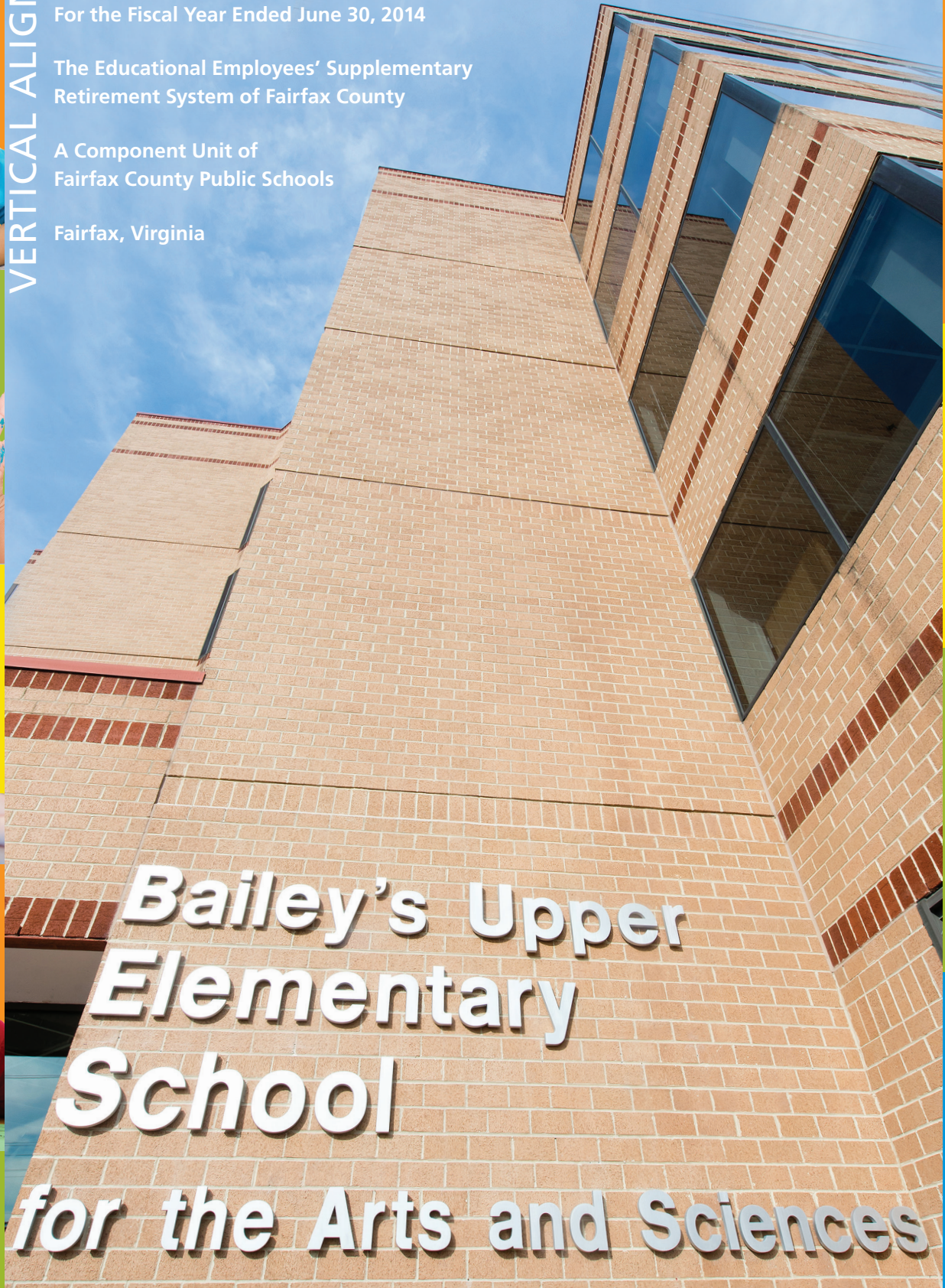
COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2014

The Educational Employees' Supplementary Retirement System of Fairfax County

A Component Unit of Fairfax County Public Schools

Fairfax, Virginia



Bailey's Upper Elementary School

for the Arts and Sciences



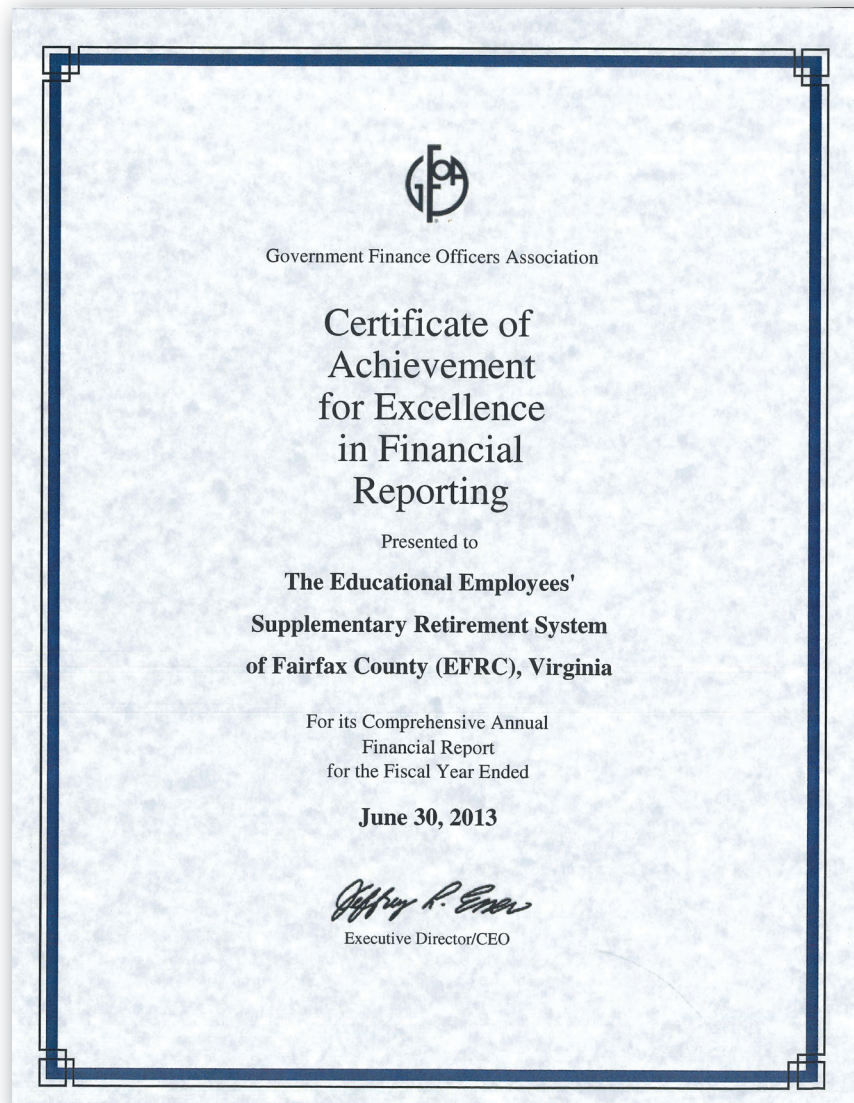
ACHIEVEMENTS

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

This plaque was awarded to the ERFC for excellence in financial reporting for their presentation of the fiscal year *2013 Comprehensive Annual Financial Report*.

This is the highest form of recognition in the area of public employee retirement system accounting and financial reporting. It is a prestigious national award recognizing excellence and represents a significant achievement by the school system.

The award reflects the commitment of the ERFC Board of Trustees, School Board, and ERFC staff to achieve and maintain the highest standards of financial reporting.



2014 ERFC

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2014
Educational Employees' Supplementary
Retirement System of Fairfax County

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

BOARD OF TRUSTEES

Michael Hairston, Chairperson/Trustee
Leonard Bumbaca, Vice Chairperson/Trustee
Susan Quinn, Treasurer/Trustee
Michael Burke, Trustee
Nancy Hammerer, Trustee
De Hawley Brown, Trustee
Dan Parris, Trustee

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



MISSION STATEMENT AND PRINCIPLES



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.

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ACHIEVEMENTS

PUBLIC PENSION STANDARDS 2014 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.



Public Pension Coordinating Council

***Public Pension Standards Award
For Funding and Administration
2014***

Presented to

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

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)

A handwritten signature in cursive script that reads "Alan H. Winkle".

Alan H. Winkle
Program Administrator

INTRODUCTION

IN THIS SECTION:

Letter of Transmittal
Letter from the Chairperson
Board of Trustees
Administrative Organization
Professional Services

FCPS officials got creative in alleviating the overcrowding at Bailey's Elementary School for the Arts and Sciences and converted an empty office building into the new Bailey's Upper Elementary, the only vertical elementary school in the region. Bailey's is now the largest elementary school in the state with two campuses, k-2 and 3-5, where teaching and learning are conducive to making every student successful in a rapidly changing and increasingly diverse environment and where the portrait of a graduate is created.

"The principal goal of education in the schools should be creating men and women who are capable of doing new things, not simply repeating what other generations have done; men and women who are creative, inventive and discoverers, who can be critical and verify, and not accept, everything they are offered."

Jean Piaget



LETTER OF TRANSMITTAL



8001 Forbes Place, Suite 300
Springfield, VA 22151

December 1, 2014

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, 2014. The ERFC management holds responsibility for the financial information presented in this report. Proper internal accounting controls exist to provide reasonable, but not absolute, assurance for both the safekeeping of assets and the fair presentation of the financial statements. The concept of reasonable assurance recognizes that costs of controls should not exceed the anticipated benefits these controls provide. This CAFR reflects the careful stewardship of the System's assets, and dedicated service provided by the Board and staff. For financial reporting purposes, the ERFC is considered a component unit of the Fairfax County Public Schools, Fairfax County, Virginia. As such, this report is designed to comply with the reporting requirements of Sections 3-4-6(a)(8) of the Fairfax County Code and the Virginia Code. We believe this report also conforms to the Government Finance Officers Association's (GFOA) requirements.

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

Plan History

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

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

Administration and Technology Updates

The ERFC staff continued its efforts to implement technology innovations that will result in improved efficiencies or cost savings. For the first time, ERFC distributed member statements through ERFCDirect, ERFC's online member service. Over fifteen thousand active members and retired members now use ERFCDirect, up from nine thousand a year ago. As part of its "ERFC Going Paperless" campaign, newsletters were emailed to active members and retirees where the retiree's email address was available; workshop materials will now be posted to the FCPS Blackboard website rather than printed. Staff developed a hardware replacement and software upgrade policy during the year; replaced servers will be repurposed for use if needed in the event of a disaster.

In fiscal year 2014, staff implemented GASB Statement No. 67, Financial Reporting for Pension Plans, issued in June, 2012. The staff also completed several communications activities with the Virginia Retirement System regarding its new hybrid plan whose members include employees hired on or after January 1, 2014. ERFC introduced its new slogan "Enter Retirement Feeling Confident" through posters distributed to all school locations.

Strategic Plan

During the year, the ERFC staff implemented several action items included in the 2013 Strategic Plan. Staff augmented its communication and education programs to fulfill the Strategic Plan's theme of increasing the understanding and appreciation of the value of ERFC and the total FCPS retirement program among our members and stakeholders. Expansion of ERFC's on-site school presence, development of a new call center guide, completion of an ERFC paperwork information video and award of professional credit hours for workshop attendance were new communications initiatives. The Trustees also made progress on several Strategic Plan initiatives – adopting a Board education policy, updating its funding policy in light of the new GASB standards and developing a succession plan for Trustees and ERFC key staff.

Plan Financial Condition

The ERFC achieved a 16.2 percent return for fiscal year 2014, outpacing the strong 11.2 percent return earned during fiscal year 2013. For the year, ERFC exceeded its policy index by 1.5 percent due to strong equity returns and outperformance by its investment managers. ERFC has achieved a double-digit return in four out of the last five fiscal years.

LETTER OF TRANSMITTAL

ERFC's independent actuary reported that the System's funding ratio increased from 75.4 percent to 76.7 percent for the valuation period ending December 31, 2013 due to lower than anticipated pay increases, higher than assumed investment returns and favorable demographic experience. The recommended employer contribution rate remained unchanged at 5.60 percent of payroll for fiscal year 2015.

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 16.2 percent return for FY 2014 outperformed its benchmark index and its peer systems for the fiscal year with the median fund returning 16.0 percent. This peer system outperformance occurred even though the Fund's 22.4 percent U.S. equity allocation was lower than the median fund's 36.2 percent allocation and domestic equity was the best performing sector during the fiscal year. The international equity portfolios – both developed and emerging markets – helped achieve the outperformance and earned the highest peer rankings. The Fund's longer-term return also remained strong with the ten year return of 7.6 percent ranked in the nineteenth percentile.

The Board continued implementation of its private equity program during the fiscal year. It committed \$15 million to the Lexington Capital Partners Fund VIII. The Board anticipates that ERFC will meet its long-term investment objectives by taking these prudent measures to add further diversification in the portfolio with less reliance on the domestic equity markets. The Investment Section of this report provides further details regarding the Fund's activities and performance.

Professional Services

The ERFC Board of Trustees appoints professional services to provide aid in the efficient management of the System. New England Pension Consultants (NEPC), based in 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 KPMG LLP, Certified Public Accountants, Washington, D.C., to audit the System's financial statements.

Awards

The System proudly announces that the Government Finance Officers Association of the United States and Canada (GFOA) awarded ERFC the **Certificate of Achievement for Excellence in Financial Reporting** for its FY 2013 Comprehensive Annual Financial Report (CAFR). This is the 17th 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' 2014 Award**. The ERFC earned the award in recognition for meeting or exceeding professional standards for plan design and administration, as set forth in the Public Pension Standards.

Conclusion

This report is produced through the combined efforts of the ERFC staff and advisors functioning under your leadership. It is intended to provide complete and reliable information that will advance the management decision process, serve as a means for determining compliance with legal requirements, and allow for an assessment of the stewardship of the System's funds. We extend our sincere appreciation to all those who contributed to the production of this document.

ERFC distributes this annual report to the members of the Fairfax County School Board, the Fairfax County Public Schools' Leadership Team, its Government Finance Offices, and other interested parties. Copies are made available in print and electronically, with the full report posted on the ERFC website. We hope that all recipients find the report informative and useful.

Respectfully submitted,



Jeanne Carr, CFA
Executive Director
and CIO



Michael Lunter
Finance Coordinator

LETTER FROM THE CHAIRPERSON



8001 Forbes Place, Suite 300
Springfield, VA 22151

December 8, 2014

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, 2014. The ERFC Board continues to commit itself to maintaining the financial integrity of the fund, and adhering to best practices in the areas of customer service and governance. The participants and stakeholders in ERFC can be proud of the legacy created to emphasize retirement security and to protect the System's assets in order to provide a predictable source of supplemental retirement income to the members of the ERFC.

The months subsequent to the fiscal year end introduced several changes to the composition of ERFC's Board. The School Board appointed Steven Lockard, the FCPS Deputy Superintendent, and Kristen Michael, the FCPS Assistant Superintendent for the Department of Financial Services, to ERFC's Board. Susan Quinn, the FCPS Chief Operating Officer, and Michael Burke, the individual Trustee, were re-appointed to the Board. Nancy Hammerer was re-elected to her second 3-year term as an ERFC trustee and was named Vice Chairperson in July. I was re-elected as Chairperson in July, 2014. The Board looks forward to working together with the new Trustees to achieve its goals and objectives.

As mentioned last year, the ERFC Board made communication activities a high priority in the 2013 Strategic Plan. The Board and ERFC staff completed many of the Strategic Plan's communications initiatives during the year. The ERFC staff established an extensive school visitation schedule and created targeted communications for members at different phases of their careers including a new "How to Fill Out Your Retirement Paperwork" video for upcoming retirees. ERFC staff also developed a "Call Center Guide" to ensure that accurate and consistent information is provided to our membership. For the first time, member statements were posted to ERFCDirect, ERFC's online member service, saving postage and printing costs. ERFCDirect continues to provide members, retirees, and other benefit recipients direct and secure online access to their individual ERFC retirement information and now boasts over fifteen thousand subscribers.

In its Strategic Plan, the ERFC Board also emphasized adhering to governance best practices. To this end, the Board adopted a Board education policy, a succession plan for Trustees and senior staff and updated its Board procedures and standards of conduct.

LETTER FROM THE CHAIRPERSON

Under the new GASB 67 standards, this annual report details the ERFC system and investment activities specific to the 2014 fiscal year period. The Board is pleased with the 16.2 percent return for the 2014 fiscal year period and the double-digit returns in the last four out of five fiscal years which helped mitigate the results of the 2008-09 downturn. Because of its concern over a possible rising interest rate environment, the Board implemented an absolute return fixed income strategy to help mitigate bond losses due to increased interest rates. 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.

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 VRS hybrid plan for new employees went into effect January 1, 2014 and existing employees were offered the opportunity to opt into the new plan. The ERFC staff acted as a liaison with VRS in assisting existing members with the opt-in decision.

The School Board maintained FCPS' employer contribution rate at 5.60 percent of covered payroll for the 2015 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.

The Board of Trustees gratefully acknowledges the teamwork and commitment provided by the entire ERFC staff during the prior fiscal year. The ERFC Board values your opinions and welcomes your feedback. We encourage you to visit the website at: www.fcps.edu/erfc/ or contact us directly with any questions regarding your pension fund or payable retirement benefits.

Yours sincerely,



Michael Hairston
Chairperson
ERFC Board of Trustees

BOARD OF TRUSTEES

The Board of Trustees is the governing body of the Educational Employees' Supplementary Retirement System of Fairfax County. The ERFC Board comprises seven members: three appointed by the School Board, three elected by the System's active membership, and one trustee who is neither affiliated with, nor employed by Fairfax County, the Fairfax County School Board, nor by any union or similar organization representing teachers or other Fairfax County

employees. The initial six trustees annually select and recommend a seventh ERFC Board member, or "individual Trustee," for approval by the Fairfax County School Board. The ERFC executive committee comprises the chairperson and treasurer. The Board meets monthly throughout the year, excluding August. ERFC trustees receive no compensation, but are reimbursed for business-related expenses.



Michael A. Hairston
Chairperson/Trustee
Elected Member



Leonard Bumbaca
Vice Chairperson/
Trustee
Elected Member



Susan Quinn
Treasurer/Trustee
Appointed Member



Michael Burke
Individual Trustee
Appointed Member



Nancy Hammerer
Trustee
Elected Member

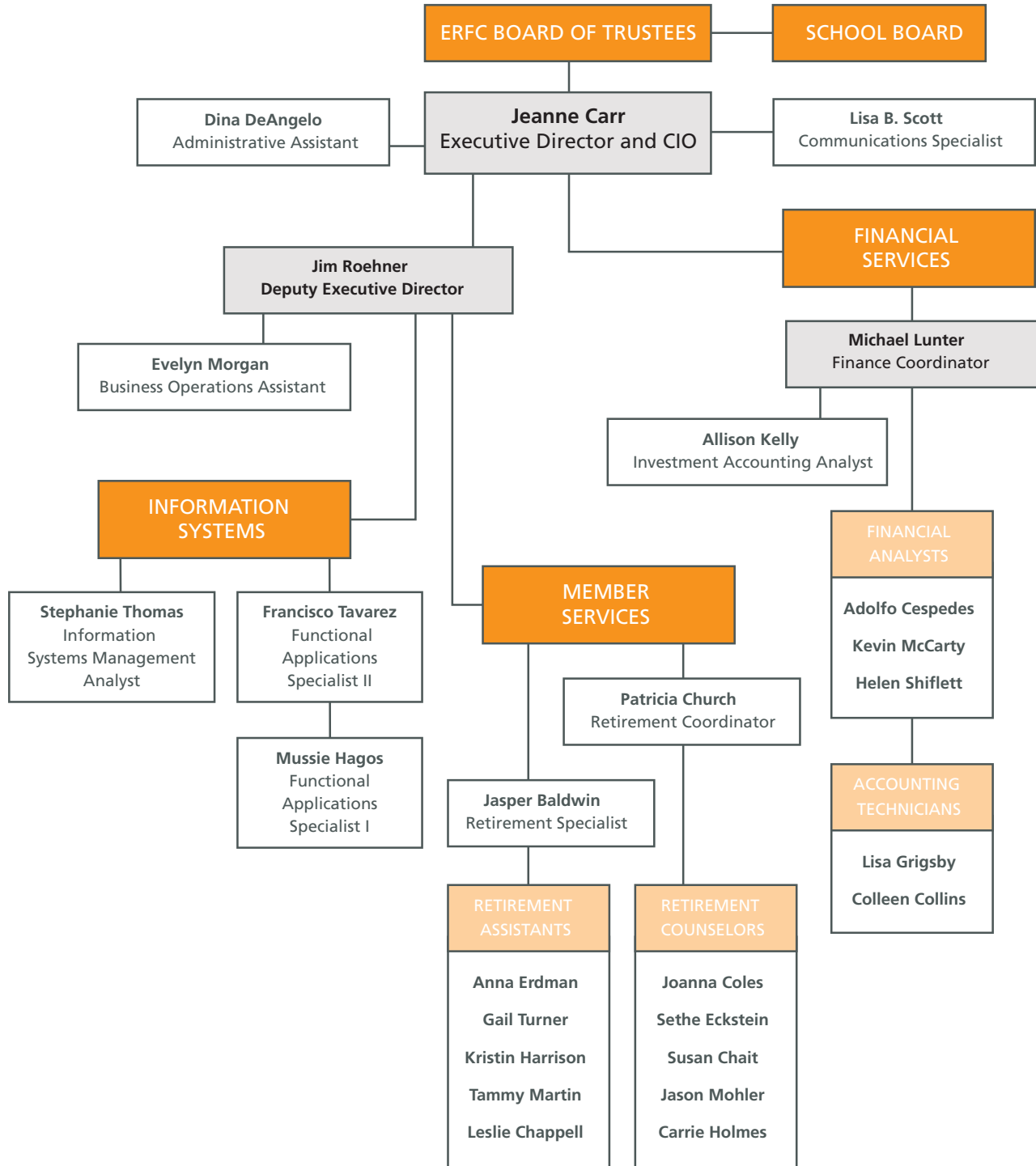


Dan Parris
Trustee
Appointed Member



De Hawley Brown
Trustee
Appointed Member

ERFC ADMINISTRATIVE ORGANIZATION



PROFESSIONAL SERVICES

Investment Managers*

DOMESTIC EQUITY

Aronson Johnson Ortiz, LP
Philadelphia, Pennsylvania

Epoch Investment Partners, Inc.
New York, New York

Lazard Asset Management
New York, New York

Mellon Capital Management Corporation
San Francisco, California

Russell Investments ¹
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

Pacific Investment Management Company
Newport Beach, California

GLOBAL ASSET ALLOCATION

Bridgewater Associates, Inc.
Westport, Connecticut

Wellington Management
Boston, Massachusetts

Pacific Investment Management 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

KPMG LLP
Certified Public Accountants
Washington, D.C.

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 2014

* See page 48 in the Investment Section

FINANCIAL

"A school is a building that has four walls with tomorrow inside."

Lon Watters

IN THIS SECTION:

Independent Auditors' Report
Management Discussion and Analysis (Unaudited)
Statement of Fiduciary Net Position
Statement of Changes in Fiduciary Net Position
Notes to the Financial Statements
Required Supplementary Information (Unaudited)
Notes to the Schedules of Required Supplementary Information (Unaudited)
Other Supplementary Information

Bailey's elementary was operating at 30 percent over capacity supporting 1,300 students in one building and 19 trailers. The main campus, which now houses students in K-2, even lost half of its library to serve as additional classroom space. When school officials first put forth the idea of turning a five-story building into a non-traditional learning environment, the proposal drew skeptical concern from parents and the community. But according to Jeff Platenberg, FCPS's assistant superintendent for facility and transportation services, in a region where there isn't much green space or land, the only way to go was vertical.



INDEPENDENT AUDITORS' REPORT



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

Independent Auditors' Report

The Board of Supervisors
County of Fairfax, Virginia

The School Board
Fairfax County Public Schools

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Educational Employees' Supplementary 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, 2014, and the related notes to the financial statements, which collectively comprise the System's basic 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. 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.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

INDEPENDENT AUDITORS' REPORT



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective fiduciary net position of the System as of June 30, 2014, and the respective changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in fiscal year 2014, the System implemented the Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*, issued on June 2012. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 14-16, the schedule of contributions on page 30, the schedule of changes in the net pension liability and related ratios on page 31, and the schedule of investment returns on page 32 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.

Supplemental and 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 introductory section on pages 2-10, the other supplementary information on pages 33-36, the investment section on pages 38-50, the actuarial section on pages 52-70 and the statistical section on pages 72-81 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and the investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

KPMG LLP

Washington, DC
November 21, 2014

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, 2014. 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 2014 the return on ERFC's assets was 16.2 percent¹. This resulted in a total net asset value of \$2.205 billion which reflects an increase of \$248.1 million over fiscal year 2013's year end total (as reflected in the accompanying chart). Additional detail on this net increase in fund value is outlined in the Summary of Additions and Deductions table contained within this Financial Section. As shown, it is comprised of four major components. They include \$304.6 million in investment income and \$114.2 million in employee and employer contributions. The additions are offset by \$161.3 million in retiree benefit payments and \$9.4 million in member refunds and administrative expenses.

ERFC's 16.2 percent return exceeded the policy benchmark return of 14.7 percent². Three, five, and ten year returns are 9.1 percent, 13.1 percent, and 7.6 percent, respectively.

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

ERFC FUND BALANCES (\$ in millions)

Fiscal Year	Ending Balance	Net Change	
		Dollars	Percent
2010	1,607.7	166.2	11.5
2011	1,887.0	279.3	17.4
2012	1,827.8	(59.2)	(3.1)
2013	1,956.8	129.0	7.1
2014	2,204.9	248.1	12.7

report.

At December 31, 2013, the actuarial value of assets totaled \$2.029 billion while liabilities totaled \$2.645 billion. This resulted in a funding ratio of 76.7 percent. ERFC's funding level is consistent with the funding levels of similar plans nationwide and as addressed in the Actuary's Certification Letter contained within this report, ERFC remains in sound financial condition.

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

2 Policy Index benchmark is 16% 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, 1.5% Cambridge PE, 3% JPM GBI EM.

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

MANAGEMENT DISCUSSION AND ANALYSIS

(Unaudited)

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

Using this Annual Report

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

The Statement of 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. For the current fiscal year, ERFC investments generated sound gains. Expenses, or deductions, which consisted of benefit payments, refunds, and administrative costs were slightly higher this fiscal year.

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

In addition to the basic financial statements and accompanying notes, the annual report also provides required supplementary information regarding the 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.

SUMMARY OF FIDUCIARY NET POSITION

	June 30,2014	June 30,2013	Difference
Assets			
Total cash and investments	\$ 2,386,033,851	\$ 2,022,309,156	\$ 363,724,695
Total receivables	6,792,764	11,291,746	(4,498,982)
Other assets	30,790	28,645	2,145
Total assets	2,392,857,405	2,033,629,547	359,227,858
Liabilities			
Accounts payable	1,957,496	1,864,168	93,328
Securities purchased	10,567,130	8,493,585	2,073,545
Securities lending collateral	175,405,588	66,498,968	108,906,620
Total liabilities	187,930,214	76,856,721	111,073,493
Total net position restricted for pensions	\$ 2,204,927,191	\$ 1,956,772,826	\$ 248,154,365

MANAGEMENT DISCUSSION AND ANALYSIS

(Unaudited)

Financial Statements

As indicated in the Summary of Fiduciary Net Position, the System's net asset value increased \$248.2 million or 12.7 percent in fiscal year 2014. This total increase in net position is due primarily to an increase of \$363.7 million in the value of investments, a decrease in receivables of \$(4.5) million, a \$2.2 million increase in the value of payables along with an increase of \$108.9 million in securities lending collateral liabilities.

As reflected in the Summary of Additions and Deductions (below), the net change is due to \$114.2 million in contributions and \$304.6 million in net investment income, which is offset by \$161.3 million in benefits, \$5.8 million in refunds and \$3.6 million in expenses.

Also presented in the Summary of Additions and Deductions, additional information is provided regarding the differences between the fiscal year 2013 and 2014 results. These differing results are due mainly to a significant increase in investment income of \$114.0 million and an increase in contributions of \$8.0 million, offset by an increase in benefits of \$1.2 million.

Requests for Information

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

SUMMARY OF ADDITIONS AND DEDUCTIONS

	June 30,2014	June 30,2013	Difference
Additions			
Contributions			
Employer	\$ 74,174,082	\$ 67,734,634	\$ 6,439,448
Member	40,018,590	38,428,367	1,590,223
Net investment income	304,640,803	190,947,851	113,692,952
Total	418,833,475	297,110,852	121,722,623
Deductions			
Benefits	161,276,831	160,098,128	1,178,703
Refunds	5,772,959	4,419,806	1,353,153
Admin. Expenses	3,629,320	3,588,414	40,906
Total	170,679,110	168,106,348	2,572,762
Net increase in net position	\$ 248,154,365	\$ 129,004,504	\$ 119,149,861

STATEMENT OF FIDUCIARY NET POSITION

(As of June 30, 2014)

ASSETS	
Cash and short-term investments	
Cash	\$ 2,035,637
Cash with fiscal agent	559,643
Cash collateral for securities on loan	175,405,588
Short-term investments	56,058,086
Total cash and short-term investments	234,058,954
Receivables	
Interest and dividends	3,419,057
Securities sold	3,373,707
Total receivables	6,792,764
Investments, at fair value	
US Government obligations	25,166,149
Mortgage-backed securities	3,437,784
Domestic corporate bonds	87,407,536
Convertible bonds	14,027,290
International bonds	42,403,411
Common stock	661,110,417
Real estate	170,254,849
Preferred stock	1,187,335
Global asset allocation	223,631,110
Better beta	112,865,754
Hedge fund of funds	174,498,284
Private Equity Limited Partnership	34,645,625
Mutual funds	601,339,353
Total investments	2,151,974,897
Prepaid assets	
Prepaid expenses	5,004
Other assets	
Furniture and equipment	130,261
Accumulated depreciation	(104,475)
Total assets	2,392,857,405
LIABILITIES	
Accounts payable	1,957,496
Securities purchased	10,567,130
Securities lending collateral	175,405,588
Total liabilities	187,930,214
Net position restricted for pensions	\$ 2,204,927,191

See accompanying Notes to the Financial Statements

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

(For the Fiscal Year Ending June 30, 2014)

ADDITIONS	
Contributions	
Employer	\$ 74,174,082
Plan members	40,018,590
Total contributions	114,192,672
Investment income	
Net appreciation in fair value of investments	272,689,846
Interest and dividends	40,909,308
Real estate income	2,922,632
Other	54,967
Total investment income	316,576,753
Less investment expenses	
Investment management fees	11,271,734
Investment consulting fees	459,232
Investment custodial fees	217,240
Investment salaries	216,853
Total investment expenses	12,165,059
Income from securities lending activities	
Securities lending income	131,434
Securities lending borrower rebates	173,929
Securities lending management fees	(76,254)
Net securities lending income	229,109
Net investment income	304,640,803
Total additions	418,833,475
DEDUCTIONS	
Benefits	161,276,831
Refunds	5,772,959
Administrative expense	3,629,320
Total deductions	170,679,110
Net increase	248,154,365
Net Position Restricted for Pensions	
Beginning of year	1,956,772,826
End of year	\$ 2,204,927,191

See accompanying Notes to the Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

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

The System contains two primary benefit structures, *ERFC* and *ERFC 2001*. Both are defined benefit structures. The original structure, *ERFC*, became effective July 1, 1973, and is coordinated with the benefits members expect to receive from the Virginia Retirement System (VRS) and Social Security. It remains in effect; however, it 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. The Board meets monthly throughout the year, excluding August. ERFC trustees receive no compensation, but are

reimbursed for business-related expenses.

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, 2013, the date of the most recent actuarial valuation, the System's membership consisted of:

Retirees and beneficiaries currently receiving benefits	10,156
Terminated employees entitled to benefits but not yet receiving them	3,509
Active plan members	21,643
Total	35,308

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

Notes, continued on next page

NOTES TO THE FINANCIAL STATEMENTS

receive a 1.49 percent increase. Participants who retire on or after January 1 receive no cost-of-living increase that first March. Additional detail regarding all benefit payment types can be found in the actuarial valuation and/or the System Plan Document. ERFC also issues this publicly available financial report which includes financial statements and required supplementary information. A copy of this report may be obtained by writing to ERFC, 8001 Forbes Place, Suite 300, Springfield, VA 22151 or by calling 703-426-3900. It is also available online at www.fcps.edu/erfc/publications.shtml.

1. Summary of Significant Accounting and Other Policies

Basis of Accounting

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

In fiscal year 2014, the System implemented GASB Statement No. 67, *Financial Reporting for Pension Plans*, issued June, 2012. GASB No. 67 addresses accounting and financial reporting requirements for pension plans. The requirements for GASB No. 67 include changes in presentation of the financial statements, notes to the financial statements, and required supplementary information. Significant changes include an actuarial calculation of total and net pension liability. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures. The implementation of GASB No. 67 did not significantly impact the investment balances. The total pension liability, determined in accordance with GASB

No. 67, is presented in Note 3 and in the Required Supplementary Information on page 31.

Investment Valuation

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

The values of the commingled funds and limited partnerships are provided to ERFC's master custodian by the investment managers. These commingled funds and limited partnerships include private real estate, global asset allocation, better beta, hedge fund of funds, emerging market equity, emerging market debt, and private equity. The fair value of these investments is determined in different ways. For private real estate, the values of the actual property holdings are determined periodically but usually annually and subject to independent appraisal. However, since these holdings are relatively illiquid, there is not a ready market for these assets and it's possible that fair value can differ from the assessed value. For global asset allocation, better beta, hedge fund of funds, emerging market equity and emerging market debt, the assets are reported at fair value as determined by the markets for those assets. For private equity, since market quotes are not readily available, the investment values are determined by the manager, based upon annual audits, cash flow analysis, purchases and sales of similar investments and other practices used within the industry.

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.

NOTES TO THE FINANCIAL STATEMENTS

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, 2014, the cash balance of \$2,035,637 represents funds that could not be invested in the County's enhanced cash fund until July 1, 2014.

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, 2014, cash with fiscal agent totaled \$559,643. This cash is insured and represents receipts from investment sales occurring on the last day of the month.

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, 2011 valuation recommended that the contribution rate for the two-year period beginning July 1, 2013 to June 30, 2015 be increased to 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.

Notes, continued on next page

VALUATION DATE:	DECEMBER 31, 2013
Notes	Actuarially determined contribution rates are calculated as of December 31 of odd numbered years, which is 18 months prior to the beginning of the fiscal year biennium in which contributions are reported.
METHODS AND ASSUMPTIONS USED TO DETERMINE CONTRIBUTION RATES:	
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years from July 1, 2016
Asset Valuation Method	5 Year smoothed market; 25% corridor
Inflation	3.0%—approximate; No explicit price inflation assumption is used in this valuation.
Salary Increases	3.75% to 9.05% including inflation
Investment Rate of Return	7.50%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2010 valuation pursuant to an experience study of the period 2005-2009.
Mortality	1994 Group Annuity Mortality Table set back 3 years for both males and females. This table appeared to have an approximate 7% margin for future improvement at the time of adoption.
OTHER INFORMATION:	
Notes	There were no benefit changes during the year.

NOTES TO THE FINANCIAL STATEMENTS

3. Net Pension Liability Disclosures

The components of ERFC's net pension liability at June 30, 2014 were as follows:

Total Pension Liability	\$ 2,697,688,622
Plan Fiduciary Net Position	2,204,927,191
Net Pension Liability	\$ 492,761,431
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	81.73 %

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of December 31, 2013, 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 7.5% 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 7.5%. 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 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, 2005 to December 31, 2009. The reasonable range at the time the study was performed was from 5.32% to 8.31%, meaning that there was at least a 50% chance that actual returns would fall within that range.

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

Notes, continued on next page

ASSET ALLOCATION

Asset Class	Target Allocation	Long-Term Expected Real Rate Of Return
Domestic Large Cap Equity	16.00%	4.50%
Domestic Small Cap Equity	6.00%	4.75%
International Equity	14.00%	5.00%
Emerging Market Equity	3.00%	6.25%
Real Estate	7.50%	3.25%
Core Fixed Income	18.00%	1.21%
Investment Grade Credit	8.00%	2.00%
Emerging Market Debt (Local)	3.00%	4.00%
Global Asset Allocation	15.00%	4.01%
Absolute Return	8.00%	3.75%
Private Equity	1.50%	6.50%
Total	100.00%	

NOTES TO THE FINANCIAL STATEMENTS

The investment consultant's inflation expectation is 3%. The Fixed Income category is a blend of US Core Fixed, High Yield, and Non US fixed. 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 7.5% 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 (6.5%) or 1-percentage-point higher (8.5%):

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

Current Single Rate:

1% Decrease	Assumption	1% Increase
6.50%	7.50%	8.50%
\$ 813,126,598	\$ 492,761,431	\$ 226,956,209

Sensitivity results at 6.50% interest were based upon computer runs. Results at 8.50% were based upon the 6.50% 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-year trend information about whether the plan's net position is increasing or decreasing over time relative to the total pension liability.

3. 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 replace with "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	Interim Strategic Targets as of June 30, 2014
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 %

Rate of Return

For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 15.91 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the

Notes, continued on next page

NOTES TO THE FINANCIAL STATEMENTS

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-backed securities as collateral. As of June 30, 2014,

the fair value of the CMOs was \$534,020, 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 Emerging Markets Growth Fund, the Better Beta fund, one of the Emerging Market Debt funds, one Private Equity manager, two of the Real Estate 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

Notes, continued on next page

INVESTMENT COMBINED DURATION AS OF JUNE 30, 2014

Investment Category	Amount	Modified Duration
U.S. Treasuries	\$ 167,221,903	2.78
Agencies	12,463,884	1.74
Corporate Bonds	168,907,871	6.14
Municipals	2,989,199	0.09
Mortgages	103,046,401	2.62
Asset-Backed Securities	3,172,387	6.15
CMBS	3,504,021	3.39
Emerging Market	67,335,499	3.87
Foreign bonds	55,509,207	3.04
Convertible and preferred	14,982,013	6.96
Cash and cash equivalents	6,629,816	0.47
Total	\$ 605,762,201	

* *Weighted Duration in years: 3.91*

NOTES TO THE FINANCIAL STATEMENTS

CREDIT QUALITY SUMMARY (As of June 30, 2014)

Rating	Category	Percent	Amount	Total	Percent
AAA	Domestic bonds	0.1%	\$ 771,736	36,605,540	6.0%
AAA	International bonds	2.5%	15,165,871		
AAA	Mortgage backed securities	0.4%	2,482,576		
AAA	US Government obligations	3.0%	18,185,357		
AA	Domestic bonds	0.7%	4,255,949	109,547,443	18.1%
AA	International bonds	0.3%	1,928,389		
AA	Mortgage backed securities	7.3%	44,002,870		
AA	US Government obligations	9.8%	59,360,235		
A	Convertible bonds	0.5%	2,969,254	70,772,072	11.7%
A	Domestic bonds	5.7%	34,565,897		
A	International bonds	5.4%	32,809,227		
A	Mortgage backed securities	0.1%	427,694		
BBB	Convertible bonds	0.7%	4,069,112	97,859,808	16.2%
BBB	Domestic bonds	8.6%	52,304,411		
BBB	International bonds	6.7%	40,694,317		
BBB	Mortgage backed securities	0.1%	577,218		
BBB	Preferred stocks	0.0%	214,750		
BB	Convertible bonds	0.7%	4,455,894	38,950,851	6.4%
BB	Domestic bonds	3.6%	21,849,920		
BB	International bonds	2.1%	12,527,430		
BB	Preferred stocks	0.0%	117,607		
B	Convertible bonds	0.3%	1,965,801	8,038,361	1.3%
B	Domestic bonds	0.9%	5,395,442		
B	International bonds	0.1%	309,428		
B	Mortgage backed securities	0.0%	42,501		
B	Preferred stocks	0.1%	325,189		
Below B	Domestic bonds	0.9%	5,753,940	5,753,940	0.9%
Not rated	Cash and Cash equivalent	5.7%	34,299,953	237,811,486	39.3%
Not rated	Convertible Bonds	0.1%	567,229		
Not rated	Domestic bonds	31.2%	189,154,090		
Not rated	International bonds	1.1%	6,784,194		
Not rated	US Government obligations	1.2%	7,006,020		
Withdrawn rating	Domestic bonds	0.1%	422,700	422,700	0.1%
Total		100.0%	\$ 605,762,201	\$ 605,762,201	100.0%

NOTES TO THE FINANCIAL STATEMENTS

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. At June 30, 2014, exposure to interest rate swaps was \$(5,509,290), exposure to interest rate caps was \$406,164, exposure to futures contracts was \$15,645,131, exposure to NDF's was \$(1,716,805), exposure to forward commodity contracts was \$165,839, exposure to currency forward contracts was \$(20,434,594) and exposure to options was \$343,087.

Regarding certain risk factors, the Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, requires that state and local governments report their exposure to investment risks in four categories: interest rate risk, credit risk, concentration of credit risk, and foreign currency risk.

Interest Rate Risk

Three of ERFC's four fixed income managers use the modified duration method to control interest rate risk. 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. The fourth fixed income manager uses the effective duration method to control interest rate risk. This manager's duration 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, 2014, the System had three active fixed income managers and one passive fixed income manager. The schedule on the prior page lists the ratings of all of ERFC's fixed income investments according to Moody's Investment Services and Standard & Poor's.

Notes, continued on next page

SUMMARY OF SECURITY LENDING JUNE 30, 2014

Securities	Cash Market Value	Cash Collateral
Domestic corporate bonds	\$ 21,634,017	\$ 22,153,379
International stock	5,783,060	7,498,751
Domestic stock	139,232,764	143,177,410
Government	2,522,947	2,576,048
Total	\$ 169,172,788	\$ 175,405,588

NOTES TO THE FINANCIAL STATEMENTS

Concentration of Credit Risk

The System's policy limits the securities of any one issue to 10% at cost and 15% at market of each fixed income portfolio. The policy allows an exception for government securities and its agencies.

At June 30, 2014, and as addressed previously, the System had three active fixed income managers and one passive fixed income manager. The active manager portfolios had values of \$62.2 million, \$218.2 million and \$176.4 million. The indexed portfolio had a value of \$148.9 million. The market value of the largest issue other than the U.S. Government in the portfolios of the active managers was only 7.64 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, 2014, short-term investments with the custodial bank totaled \$56,058,086. These investments are collateralized with securities held by the agent in the System's name or are in a short-term investment pool.

Securities Lending

The System's Board of Trustees' policy permits the fund to participate in a securities lending program. The securities lending program is administered by the System's custodian. Certain securities of the System are loaned to approved broker/dealers who borrow the securities and provide collateral in the form of cash, U.S. Treasury or Government Agency Securities, letters of credit issued by approved banks, or other securities of a quality specified in the securities lending agreement. Collateral must be provided in the amount of 102 percent of market value for domestic securities and 105 percent for international securities. The System did not impose any restrictions during the period on the 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 market value of collateral is monitored daily by the custodian.

Notes, continued on next page

INVESTMENTS WITH THE CUSTODIAN AS OF JUNE 30, 2014, INCLUDING THE FOLLOWING:

Investment Type	Market Value
US Government obligations	\$ 25,166,149
Mortgage-backed securities	3,437,784
Domestic corporate bonds	87,407,536
Convertible bonds	14,027,290
International bonds	42,403,411
Common stock	661,110,417
Real Estate	170,254,849
Preferred stock	1,187,335
Global asset allocation	223,631,110
Better beta	112,865,754
Hedge fund of funds	174,498,284
Private Equity Limited Partnership	34,645,625
Mutual funds	601,339,353
Sub-total investments	\$ 2,151,974,897
Cash collateral for securities on loan	175,405,588
Total	\$ 2,327,380,485

NOTES TO THE FINANCIAL STATEMENTS

Market Value of Foreign Currency Risk (As of June 30, 2014)					
Currency	Cash & Cash Equivalents	Equity	Fixed Income Securities	Preferred Securities	Grand Total
AUSTRALIAN DOLLAR	\$ 186,651	\$ 3,858,751	\$ 3,857,797		\$ 7,903,199
BRAZIL REAL	82,427	243,566	12,745,782	208,172	13,279,947
CANADIAN DOLLAR	81,519	22,477,478	6,242,494		28,801,491
CHILEAN PESO	1,817,416				1,817,416
COLOMBIAN PESO	58,636		4,298,940		4,357,576
DANISH KRONE		3,292,175			3,292,175
EURO CURRENCY UNIT	621,786	83,069,504	894,937	295,146	84,881,373
HONG KONG DOLLAR	130,863	8,667,366			8,798,229
HUNGARIAN FORINT			1,202,602		1,202,602
INDONESIAN RUPIAH	71,073	415,835	3,616,486		4,103,394
ISRAELI SHEKEL	945	24,069			25,014
JAPANESE YEN	214,488	42,816,774			43,031,262
MALAYSIAN RINGGIT	93,749	1,928,694	4,310,316		6,332,759
MEXICAN NEW PESO	257,243	1,101,080	13,202,366		14,560,689
NEW TAIWAN DOLLAR	46,095	6,029,766			6,075,861
NEW TURKISH LIRA		1,448,833			1,448,833
NEW ZEALAND DOLLAR	42,969	683,805	8,305,230		9,032,004
NORWEGIAN KRONE	74,753	3,098,520	2,661,290		5,834,563
PERUVIAN NUEVO SOL	95,859		3,114,600		3,210,459
PHILIPPINES PESO	137	118,147			118,284
POLISH ZLOTY	28,253	1,545,265	6,826,363		8,399,881
POUND STERLING	104,322	44,540,055	316,433	1,101	44,961,911
RUSSIAN ROUBLE			5,111,637		5,111,637
S AFRICAN COMM RAND	77,912	2,933,515	5,495,434	25,371	8,532,232
SINGAPORE DOLLAR	19,252	3,866,129			3,885,381
SOUTH KOREAN WON	59,390	13,082,812			13,142,202
SWEDISH KRONA	226	9,554,564			9,554,790
SWISS FRANC	84,454	20,105,482			20,189,936
THAILAND BAHT		1,388,311	1,225,248		2,613,559
TURKISH LIRA			3,717,303		3,717,303
Grand Total	\$ 4,250,418	\$ 276,290,496	\$ 87,145,258	\$ 529,790	\$ 368,215,962

Notes, continued on next page

NOTES TO THE FINANCIAL STATEMENTS

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 \$175,405,588 as of June 30, 2014, are shown on the Statement of Plan Net Assets. As of June 30, 2014, the market value of securities on loan for cash collateral was \$169,172,788. 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 depositing its monthly securities lending income to the cash collateral account. This will reduce the collateral insufficiency over time until the deficit is repaid. As of June 30, 2014, the outstanding Sigma liability amount is \$535,177.

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 previous page provides a summary of ERFC's foreign currency risk.

4. Income Taxes

The Internal Revenue Service (IRS) issued a determination letter on May 22, 2012, which stated that the System and its underlying trust qualify under the applicable provisions of the Internal Revenue Code and therefore are exempt from federal income taxes. In the opinion of the plan administrator, the System and its underlying trust have operated within the terms of the IRS regulations and are qualified under the applicable provisions of the Internal Revenue Code.

REQUIRED SUPPLEMENTARY INFORMATION

(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. Please refer to the actuarial assumptions on page 21 for relevant notes to this schedule.

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, 2013. 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, 2014. 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
2005	\$ 32,198,596	\$ 32,198,596	\$ -	\$ 955,447,953	3.37%
2006	34,648,918	34,648,918	-	1,028,157,804	3.37%
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	73,673,215	74,174,082	(500,867)	1,324,537,175	5.60%

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

FY Ending June 30	2014
Total pension liability	
Service Cost	\$ 75,787,752
Interest on the Total Pension Liability	192,723,577
Changes of benefit terms	-
Difference between expected and actual experience of the Total Pension Liability	(19,051,630)
Changes of assumptions	-
Benefit payments, including refunds of employee contributions	(167,049,790)
Net Change in Total Pension Liability	\$ 82,409,909
Total Pension Liability - Beginning	2,615,278,713
Total Pension Liability - Ending (a)	\$ 2,697,688,622
Plan Fiduciary Net Position	
Contributions - Employer	\$ 74,174,082
Contributions - Employee	40,018,590
Net Investment Income	304,640,803
Benefit Payments, including refunds of employee contributions	(167,049,790)
Pension Plan Administrative Expense	(3,629,320)
Other	-
Net Change in Plan Fiduciary Net Position	248,154,365
Plan Fiduciary Net Position - Beginning	1,956,772,826
Plan Fiduciary Net Position - Ending (b)	\$ 2,204,927,191
Net Pension Liability - Ending (a) - (b)	492,761,431
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	81.73%
Covered Employee Payroll	\$ 1,324,537,175
Net Pension Liability as a Percentage of Covered Employee Payroll	37.20%

¹ This schedule presents information for available years. Additional years will be added prospectively until 10 years of information is available.

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

SCHEDULE OF INVESTMENT RETURNS

FY Ending June 30	Annual Return¹
2014	15.91%

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

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

OTHER SUPPLEMENTARY INFORMATION

SUMMARY OF SIGNIFICANT CHANGES TO THE PENSION SYSTEM

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

Contribution Rates (as a percent of salary)

Fiscal Year	Composite Employer	Employee	Total
June 2005	3.37	4.00	7.37
2006	3.37	4.00	7.37
2007	3.37	4.00	7.37
2008	3.37	4.00	7.37
2009	3.37	4.00	7.37
2010	3.20	4.00	7.20
2011	4.04	4.00	8.04
2012	4.34	4.00	8.34
2013	5.34	3.00	8.34
2014	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.

OTHER SUPPLEMENTARY INFORMATION

SCHEDULE OF ADMINISTRATIVE EXPENSES

(Year Ended June 30, 2014)

Personnel services	
Salaries and wages	\$ 1,909,924
Retirement contributions	365,985
Insurance	278,616
Social security	154,384
Total personnel services	2,708,909
Professional services	
Actuarial	151,018
Legal	82,732
Payroll disbursement	44,830
Plan automation support	16,250
Strategic planning	14,307
Audit	66,101
Total professional services	375,238
Communications	
Printing	26,603
Postage	32,050
Total communications	58,653
Supplies	
Office supplies	16,861
Dues and subscriptions	9,501
Total supplies	26,362
Other services and charges	
Board travel and staff development	41,342
Equipment	128,803
Building rent	264,058
Depreciation expense and asset disposal	12,292
Miscellaneous	13,663
Total other services and charges	460,158
Total administrative expenses	\$ 3,629,320

OTHER SUPPLEMENTARY INFORMATION

SCHEDULE OF INVESTMENT EXPENSES

(Year Ended June 30, 2014)

Investment management fees	
Fixed income managers	
Loomis-Sayles and Company, L.P.	\$ 516,708
Mellon Capital Management Corporation	26,173
Mondrian Investment Partners (US), Inc.	389,532
Pacific Investment Management Company	492,899
Equity managers	
Aronson Johnson Ortiz, LLC	353,427
Epoch Investment Partners, Inc.	467,278
Lazard Asset Management	349,242
Mellon Capital Management Corporation	23,701
Westfield Capital Management	317,875
International managers	
Acadian Asset Management, Inc.	693,578
AllianceBernstein L.P.	-
Causeway Capital Management, LLC	550,062
William Blair & Company	902,346
Real Estate managers	
J.P. Morgan Asset Management	380,608
Prudential Financial	198,890
UBS Realty Investors, LLC	324,540
CenterSquare Investment Management (formerly Urdang)	521,332
Global Asset Allocation managers	
Pacific Investment Management Company	856,080
Wellington Management Company LLP	1,116,469
Better Beta	
Bridgewater Associates	503,951
Hedge fund of funds	
Grosvenor Capital Management, L.P.	791,418
Permal Investment Management Services, Ltd.	606,897
Private equity	
Audax Mezzanine Fund III, L.P.	125,310
HarbourVest Partners, LLC Buyout	108,972
HarbourVest Partners, LLC Credit	60,112
HarbourVest Partners, LLC Venture	115,604
Lexington Capital Partners VII	79,767
Lexington Capital Partners VIII	64,588
Newstone Capital Partners, LLC	106,875
Permal Private Equity Opportunities IV, L.P.	62,500
Private Advisors Fund IV, L.P.	75,000
Private Advisors Fund V, L.P.	90,000
Total investment management fees	11,271,734
Other investment service fees	
Custodial fees - Mellon Trust	217,240
Investment consultant fees—New England Pension Consulting, Inc.	441,050
Monitor managers' trading processes—Zeno Consulting Group	15,000
Foreign tax consulting—Pricewaterhouse Coopers	3,182
Investment salaries	216,853
Total other investment service fees	893,325
Total investment expenses	\$ 12,165,059

OTHER SUPPLEMENTARY INFORMATION

SCHEDULE OF PROFESSIONAL SERVICE FEES

(Year Ended June 30, 2014)

Service Provider	Nature of Service	Amount
Gabriel, Roeder, Smith & Company	Actuary	\$ 151,018
Levi, Ray & Shoup, Inc.	Plan automation support	\$ 16,250
Bredhoff & Kaiser, P.L.L.C.	Legal counsel	\$ 73,662
Groom Law Group, Chartered	Legal counsel	\$ 9,070
ADP payroll services	Pension disbursement	\$ 44,830
KPMG, LLP	Audit	\$ 66,101
Various	Miscellaneous	\$ 14,307
Total professional service fees		\$ 375,238

INVESTMENT

“Do not train a child to learn by force or harshness; but direct them to it by what amuses their minds, so that you may be better able to discover with accuracy the peculiar bent of the genius of each.”

Plato



IN THIS SECTION:

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

The L-shaped Bailey's Upper Elementary building features learning "communities" at the end of each wing. Classrooms open onto central spaces featuring learning theaters and one-flight staircases connecting color-coded floors. Hallways end at creative reading, studying and presentation areas, many of which have soaring views, where students can spread out and limit their movements between floors.

Consultant Report on Investment Activity



NEPC, LLC

October 21, 2014

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, 2014.

As of the June 30th fiscal year-end, the Fund was in compliance with policy ranges, and had 40.0 percent in equities, 7.7 percent in real estate equity, 27.5 percent in bonds, 7.8 percent in hedge fund strategies, 1.6 percent in private equity, 15.3 percent in global asset allocation/better beta strategies, and 0.1 percent in cash. Over the past year, the Fund has maintained public equity levels lower than the median equity allocation when measured against public fund peers in the InvestorForce Public Defined Benefit Universe.

The Fund earned 16.2%¹ in the year ending June 30, 2014, which ranked in the 42nd percentile of all public funds within the InvestorForce Universe. Over the last 12 months ending June 30, 2014, ERFC outperformed its assumed actuarial return target of 7.5% by 8.7%. Assets increased from \$1.96 billion at the end of fiscal 2013 to approximately \$2.20 billion as of June 30, 2014².

Market Commentary

If 2013 was the year to own equities, 2014, so far, has been the year to have balance. Global equities and fixed income assets are mostly in the black and their gains have come amidst startlingly low volatility. The 2014 fiscal year posted solid gains and investors showed resilience with headline risks related to the government shutdown, debt ceiling, a severe downward revision to US GDP, the Fed quantitative easing program, and geopolitical tensions arising from Russia and the Middle East.

As the calendar year came to a close, the US economy appeared to be picking up steam with rising growth and falling unemployment even as the Fed began to taper its monetary stimulus. Macro policy and politics affected global markets with fears of the US hitting its debt ceiling and slowing growth in emerging markets. Investor sentiment turned positive when Janet Yellen emerged as the favored candidate to serve as the chair of the Federal Reserve. Following a strong 2013, growth assets in developed markets continued their upward trajectory, while emerging market stocks and bonds rallied in March. Markets mostly shrugged off the geopolitical tensions arising from Russia taking control of Crimea, and the sustained economic slowdown in

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



emerging economies. In the final quarter of the fiscal year, all major asset classes moved higher, even overlooking a severe revision downward for the first quarter US GDP growth to -1.0%, attributing the miss to poor weather. Emerging market assets continued their recovery with large inflows pouring into equity and debt during the quarter as investors dismissed balance of payment concerns.

The broad domestic equity market, as measured by the S&P 500 Index, posted its sixth consecutive quarterly gain, capping off the fiscal year with a +24.6% return. The domestic bond market, as measured by the Barclays Aggregate Bond Index, returned +4.4% in the fiscal year 2014. The global equity market, as measured by the MSCI All Country World Index (net), returned +21.6% for the fiscal year.

During the quarter ended September 30th, 2013 US equities continued their march upward; the S&P 500 index gained +5.2%, shrugging off uncertainty around the continuity of the Federal Reserve's accommodative monetary policy. Housing remained strong as unemployment inched lower and consumers regained confidence. Stock market gains were tempered at the end of the quarter as investors fretted over the political gridlock and a potential debt default by the US. Small-caps continued to lead in the quarter, with the Russell 2000 Growth Index returning +12.8%. Improving economic data in Europe, especially in some of the more troubled regions such as Greece, Italy and Spain also boosted returns. The MSCI Europe, Australia, Far East (EAFE) rose +11.6% and the MSCI Emerging Markets index rose +5.8%. In fixed income, an unexpected announcement by the Fed to leave the bond-purchase program unaltered ratcheted up investors' risk appetite. US Treasury obligations sold off as yields reached 2.98% in September from 2.52% in June, subsequently ending the quarter at +2.64%. The Barclays Aggregate Index, which tracks the US investment-grade fixed income market, lost -0.6% in the quarter. The thirst for yield persisted as lower quality and less liquid portions of the speculative-grade market outperformed higher quality issues. High-yield bonds and leveraged loans maintained their reign over domestic fixed income, with the Barclays High Yield Index returning +2.3% for the quarter. Leveraged loans benefited from strong demand from retail and institutional investors, gained +1.2% during the same period according to the S&P LSTA Leveraged Loan Index.

The quarter ended December 31st, 2013 saw consumer confidence, which dipped early in the quarter, rebound nicely in December, perhaps in response to a brighter economic outlook and continued Fed stimulus. US equities had a strong quarter with the S&P posting +10.5%. Macro policy and politics affected global markets during the quarter with fears of the US hitting its debt ceiling and slowing growth in emerging markets initially pushing non-US stocks lower. Markets subsequently turned positive when Janet Yellen emerged as the favored candidate to serve as the chairperson of the Fed. A solid showing in December rounded off a strong quarter for global equities, which gained +7.6%, according to the MSCI World Index. European stocks returned +7.9%, outperforming the UK and Japan while emerging markets' equities trailed, posting gains of +1.9%. High yield bonds and leveraged loans continued to lead fixed income in the fourth quarter with the Barclays High Yield index returning +3.6% during this period. Leveraged Loans returned +1.7% as yield-hungry investors and concern around rising interest rates increased demand. The so-called fragile five—Brazil, Indonesia, India, Turkey and South Africa—were responsible for much of the underperformance in the bond indices of emerging markets, with the JP Morgan GBI-EM index down -1.5%.

U.S. stocks posted modest gains for the quarter ending March 31st, 2014, but there was a shift in dynamics, especially in the final week of the quarter. US equities dipped in January amid concerns regarding the Fed tapering. They rebounded in February, hitting new record highs, on the heels of the Fed stating it would maintain current short-term interest rates near zero. However, equities oscillated again in March, falling after the Fed touched on the possibility of

CONSULTANT REPORT ON INVESTMENT ACTIVITY



raising interest rates. In anticipation of rising interest rates, investors sold their positions in small caps, fast-growing stocks and non-earners, while moving into stocks of more moderately-valued, stable companies exhibiting cyclical growth. The S&P 500 Index rose +1.8% while the Russell 2000 gained a modest +1.1%. International equities lagged US markets, returning +0.7%, as measured by the MSCI EAFE Index. Despite rallying in March, emerging markets ended the quarter down -0.4% after absorbing volatility throughout the quarter. Russia was the worst performing market with a -14.4% return. Bond markets rallied as investors snapped up safer, higher-quality assets amid concerns around an economic slowdown in China and the unseasonably harsh winter in the US. This flight to quality was further reinforced following the crisis in Ukraine and Russia taking control of Crimea. The US Credit Index gained +2.9% and the Long Duration Credit Index returned +6.3% in the quarter. Emerging market debt continued to underperform through January amid concerns surrounding China's growth and its shadow banking system, but rebounded strongly in February and March, with JP Morgan GBI-EM Index, posting +1.9% for the quarter.

US equities advanced in the last quarter of the fiscal year amid improving economic data underscoring growth in the United States and Europe. For the quarter, large cap stocks outperformed small cap stocks, with the S&P 500 Index returning +5.2% versus +2.1% for the Russell 2000 Index. So far this year, value has outpaced growth across the capitalization spectrum. International equities gained 4.1% underperforming domestic and emerging markets. Emerging markets rallied to a 12-month high and gained +6.6% according to the MSCI Emerging Markets Index. Returns during the quarter were bolstered by improving conditions in the Ukraine, positive election results in India, and better economic conditions in China. Fixed income markets continued to rally through June on the heels of the robust prior quarter. Treasury Inflation-Protected Securities, or TIPS, outperformed nominal Treasuries due to increased inflation (expectations and actual), with the Barclays US TIPS Index posting gains of +3.8% over the period. Despite record new supply, investment grade credit posted strong performance, with spreads narrowing 7 basis points to 96 basis points. The US Credit Index gained +2.7% and the Long Duration Credit Index returned +5.0%. In addition to the accommodative action by the European Central Bank, declining Treasury yields and economic stability in several emerging market countries provided a tailwind for the asset class. Coming off a strong February and March, local currency (JP Morgan GBI-EM GD Unhedged) and external currency (JP Morgan EMBI+) emerging markets debt had a stellar quarter, returning +4.0% and +5.8%, respectively.

Changes to the fund during Fiscal Year 2014 included hiring GAM USA Inc. to manage an absolute return focused mandate as part of a change to the overall fixed income portfolio's structure and positioning. The fund continued to build out the private equity portfolio which grew from a market value of approximately \$24 million in June 2013 to \$35 million as of June 2014. In April, the Board voted to commit \$15 million to Lexington Partners Fund VIII. In addition the Board approved an updated Investment Policy Statement. The portfolio is well positioned and 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

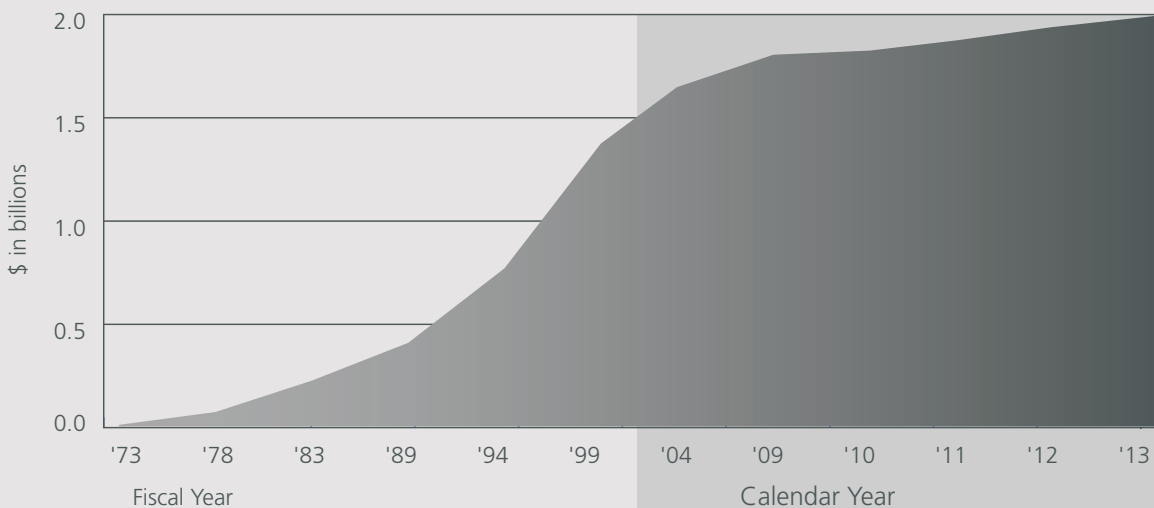
- consideration of risk tolerance; and
- the need to document and communicate objectives, guidelines and standards to the investment managers.

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 7.5 percent, compounded annually, of which 3.75 percent constitutes an assumed rate of inflation and 3.75 percent reflects an assumed real rate of return on investments. The fund's objective is to meet or exceed the assumed real rate of return over time, while preserving the fund's principal.

ERFC TOTAL FUND GROWTH — VALUATION ASSETS SINCE INCEPTION

(As reflected in the December 31, 2013 actuarial valuation)



Investment Managers

ASSETS UNDER MANAGEMENT

As of June 30, 2014 (\$ in millions)

Investment Manager	Investment Type	Amount
Equities		
Large Capitalization		
Aronson Johnson Ortiz	Value	\$ 120.1
Mellon Capital Management Corp.	Core Index (Russell 1000)	116.1
Russell	Growth	117.8
Small/Mid Capitalization		
Epoch Investment Partners, Inc.	Value	45.0
Lazard Asset Management	Core	48.2
Westfield Capital Management	Growth	46.3
International		
Acadian Asset Management	Core	131.0
Causeway Capital	Value	93.5
William Blair & Company	Growth	93.7
William Blair & Company	Emerging Market	70.2
Fixed Income		
Loomis-Sayles & Company	Core Plus	176.4
Mellon Capital Management Corp.	Core Index	148.9
Pacific Investment Management Co.	Core Plus	218.2
Mondrian Investments	Emerging Market	62.2
Global Asset Allocation/Better Beta		
Bridgewater Associates, Inc.	Better Beta	112.9
Wellington Management Co.	Global Asset Allocation	114.4
Pacific Investment Management Co.	Global Asset Allocation	109.3
Hedge fund of funds		
Grosvenor Institutional Partners, L.P.	Hedge Fund of Funds	86.1
Permal Group of Funds	Hedge Fund of Funds	88.3
Private Equity		
Audax Mezzanine Fund III, L.P.	Private	3.4
Lexington Capital Partners VII, L.P.	Private	6.7
Newstone Capital Partners II, L.P.	Private	3.6
Permal Private Equity Opportunities IV, L.P.	Private	4.1
Private Advisors, LLC	Private	7.4
HarbourVest	Private	9.5
Real Estate		
JP Morgan Asset Management	Private	25.7
Prudential Financial	Private	24.0
UBS Realty Investors, LLC	Private	30.5
Center Square Investment Management	Public	90.1
Cash (temporary cash)		2.6
Total		\$ 2,206.2

ASSET STRUCTURE

Interim Strategic Target Allocation

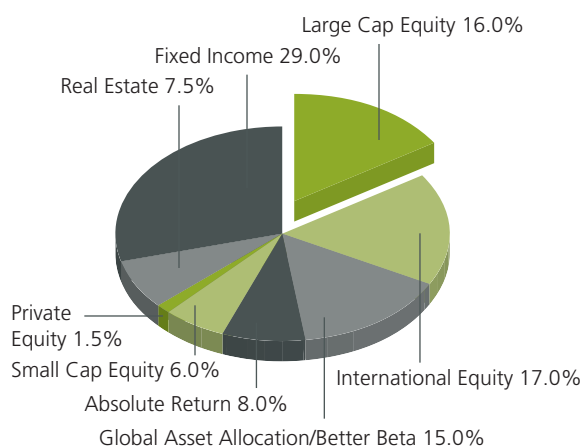
The asset structure shown below represents the Trustees' assessment of their optimal asset allocation as of June 30, 2014. This interim strategic allocation provides a reasonable expectation that the fund's investment objective can be achieved based on historic relationships of asset class performance.

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, 2014.

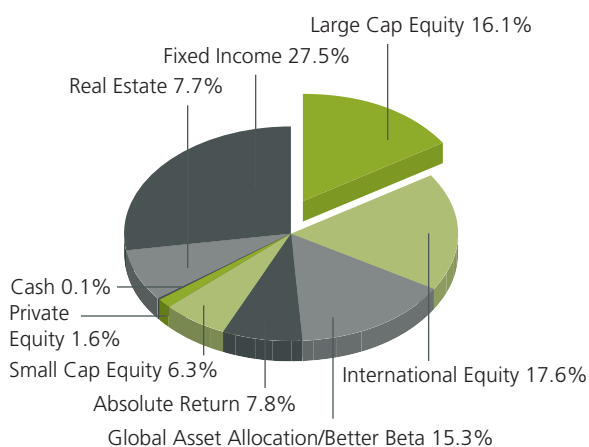
Actual Asset Allocation as of June 30, 2014

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



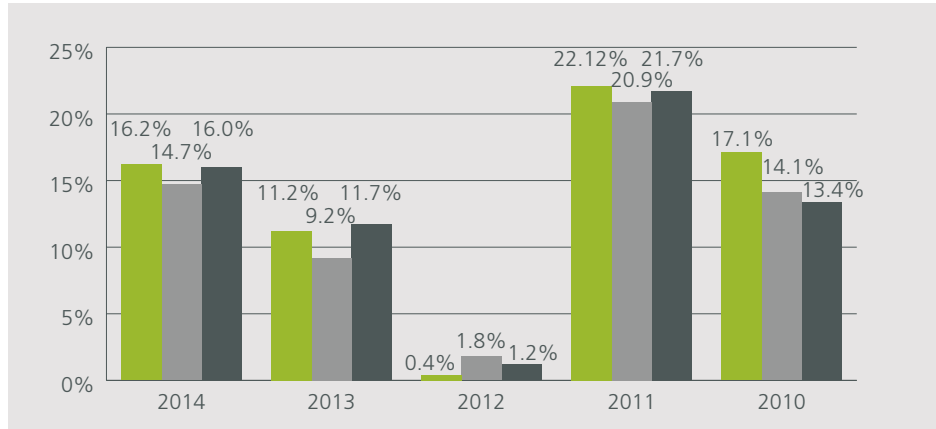
Security Class	Interim Strategic Targets as of June 30, 2014	Actual Asset Allocation as of June 30, 2014
Domestic Large Cap Equity	16.0 %	16.1 %
Domestic Small Cap Equity	6.0	6.3
International Equity	17.0	17.6
Real Estate	7.5	7.7
Fixed Income	29.0	27.5
Global Asset Allocation/Better Beta	15.0	15.3
Absolute Return	8.0	7.8
Private Equity	1.5	1.6
Cash	—	0.1
Total	100.0%	100.0%

INVESTMENT RESULTS

Fiscal Years Ending June 30

TOTAL FUND RETURNS

- ERFC
- Benchmark*
- Public Funds**



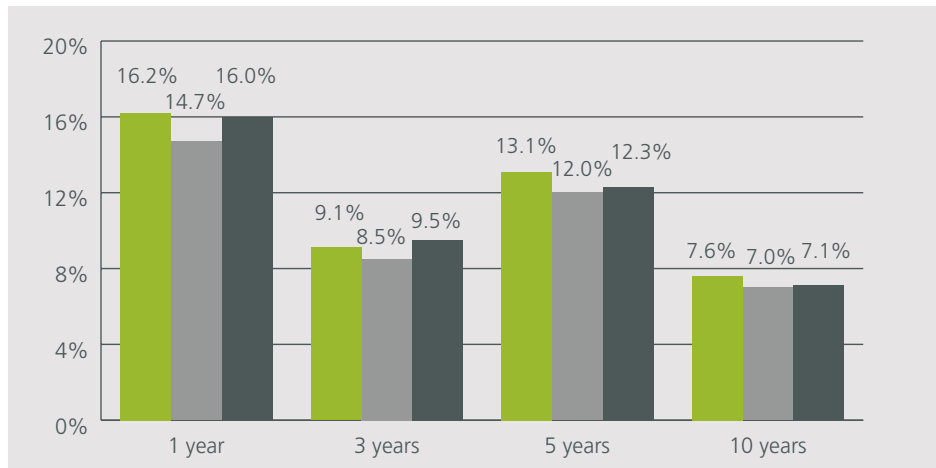
* Diversified benchmark is 16.0% Russell 1000, 6.0% Russell 2000, 14% MSCI ACWI Ex-US, 3.0% MSCI Emerging Markets, 3.75% FTSE EPRA/NAREIT, 3.75% NCREIF, 18.0% Barclays Aggregate Bond Index, 4.0% BC Credit, 4.0% BC Long Credit, 7.5% MSCI World Net, 7.5% CitiWorld Govt Bond, 8.0% HFRI FoF, 1.5% Cambridge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

** New England Pension Consultants Universe

For the Periods Ending June 30, 2014

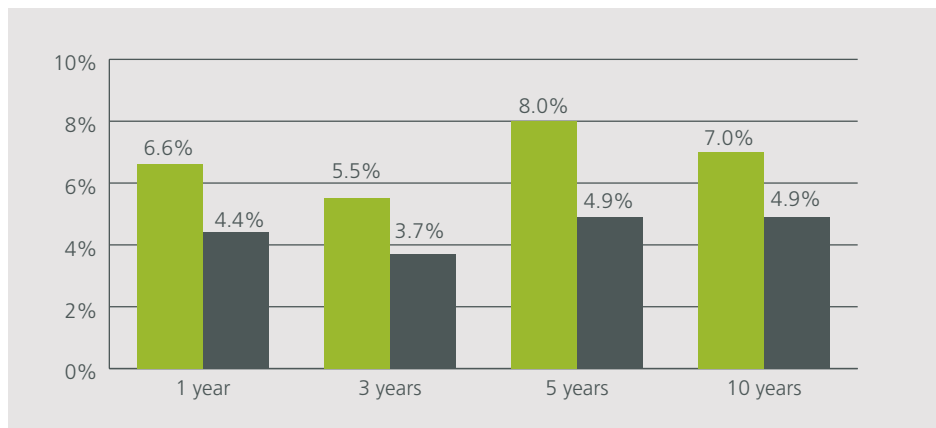
TOTAL FUND RETURNS

- ERFC
- Benchmark*
- Public Funds**



DOMESTIC FIXED INCOME

- Fixed Income
- Benchmark:
Barclays
Capital
Aggregate Bond

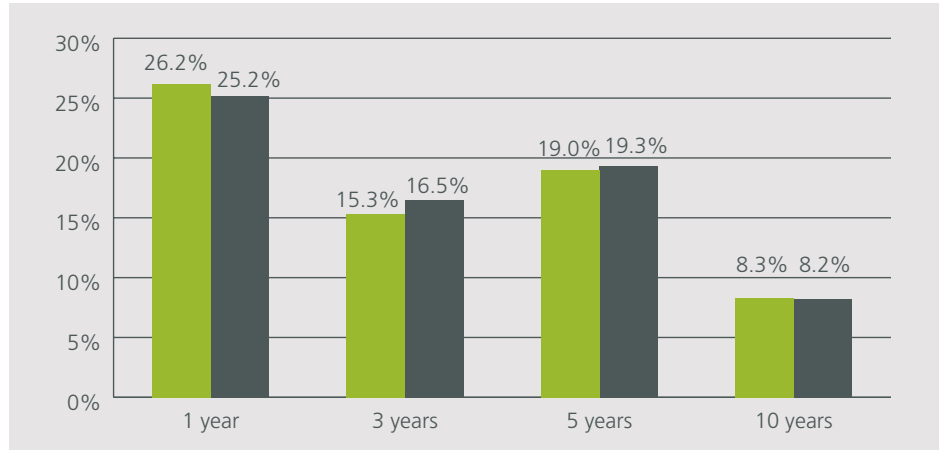


INVESTMENT RESULTS

(For the Periods Ending June 30, 2014)

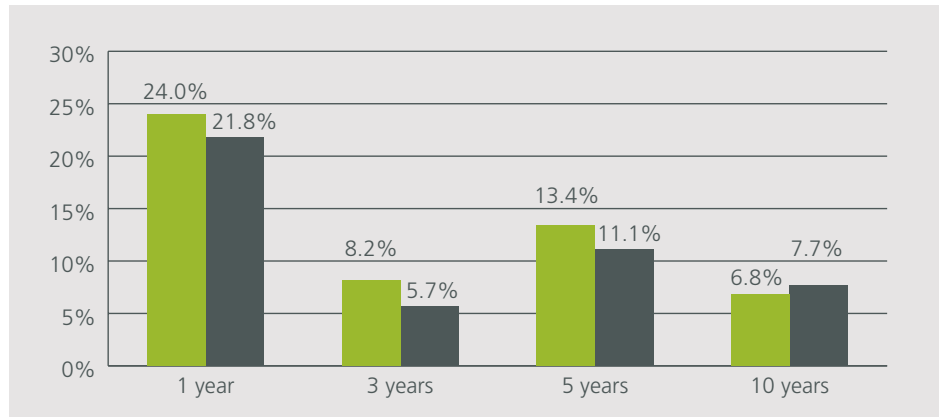
DOMESTIC EQUITY

- Domestic Equity
- Benchmark: Russell 3000 Index



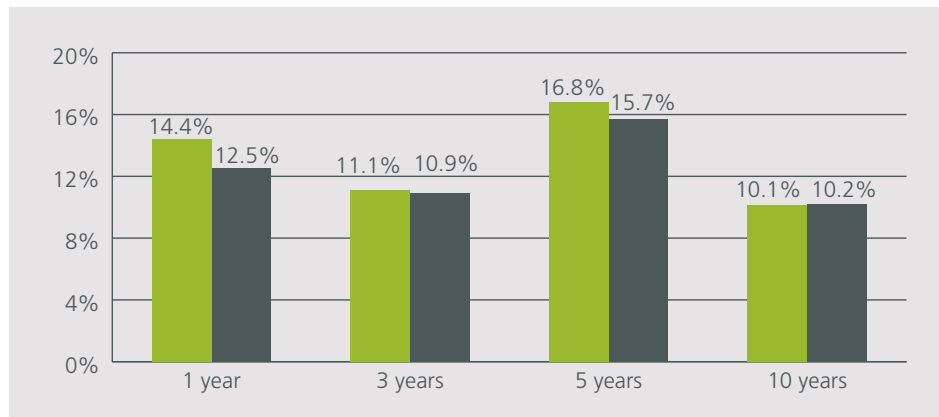
INTERNATIONAL EQUITY

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



REAL ESTATE

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



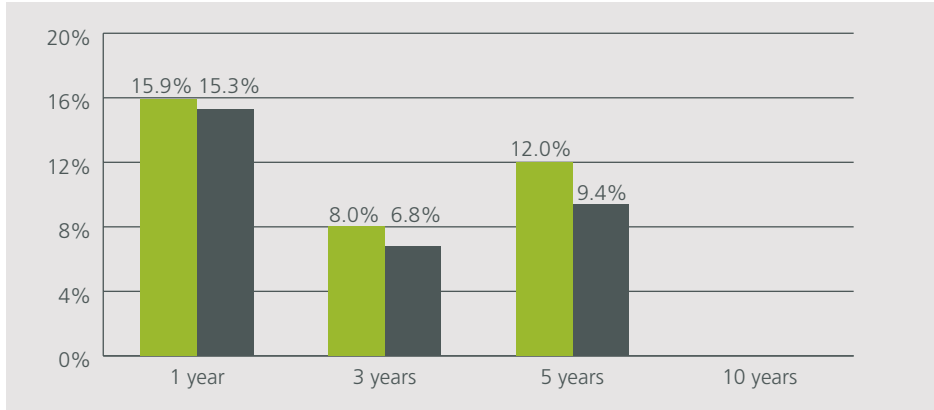
Note: All investment performance figures were calculated using a time-weighted rate of return based on market values.

INVESTMENT RESULTS

(For the Periods Ending June 30, 2014)

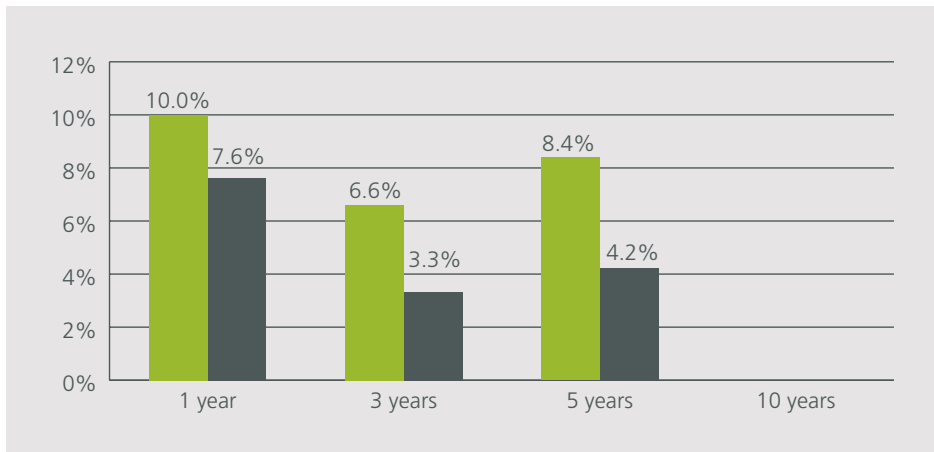
GLOBAL ASSET ALLOCATION

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



HEDGE FUND

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



SCHEDULES OF TEN LARGEST EQUITY & FIXED INCOME HOLDINGS

(As of June 30, 2014)

TEN LARGEST EQUITY HOLDINGS*

No. Shares	Description	Cost	Fair Value	% of Total Portfolio
57,673	APPLE INC	\$ 1,722,423	\$ 5,359,552	0.24%
43,600	EXXON MOBIL CORP	\$ 3,548,233	\$ 4,389,648	0.20%
101,891	ROYAL DUTCH SHELL PLC	\$ 3,176,539	\$ 4,218,603	0.19%
89,562	MICROSOFT CORP	\$ 3,530,659	\$ 3,734,735	0.17%
2,466	SAMSUNG ELECTRONICS CO LTD	\$ 2,546,601	\$ 3,222,033	0.15%
41,109	AKZO NOBEL NV	\$ 2,821,804	\$ 3,081,570	0.14%
28,100	MAGNA INTL INC	\$ 1,384,828	\$ 3,030,152	0.14%
5,057	GOOGLE INC	\$ 1,677,263	\$ 2,956,676	0.13%
128,196	REED ELSEVIER NV	\$ 2,061,277	\$ 2,939,953	0.13%
41,174	COLGATE-PALMOLIVE CO	\$ 2,378,056	\$ 2,807,243	0.13%
TOTAL		\$ 24,847,683	\$ 35,740,165	1.62%

TEN LARGEST FIXED INCOME HOLDINGS*

Par Value	Security	Coupon	Maturity	Cost	Fair Value	% of Total Portfolio
8,285,000	U S TREASURY NOTE	0.375%	03/31/2016	\$ 8,280,793	\$ 8,286,574	0.38%
7,000,000	U S TREASURY NOTE	0.500%	06/30/2016	\$ 7,006,016	\$ 7,006,020	0.32%
5,505,000	INTER-AMERICAN DEVELOPMENT BANK	6.000%	12/15/2017	\$ 3,779,204	\$ 5,018,213	0.23%
3,115,000	GEORGIA-PACIFIC LLC	7.750%	11/15/2029	\$ 2,766,891	\$ 4,283,717	0.19%
3,355,000	NEW SOUTH WALES TREASURY CORP	6.000%	02/01/2018	\$ 3,785,333	\$ 3,491,651	0.16%
2,795,000	OLD REPUBLIC INTERNATIONAL CORP	3.750%	03/15/2018	\$ 2,743,203	\$ 3,478,042	0.16%
37,450,000	MEXICAN BONOS	8.000%	12/07/2023	\$ 3,347,568	\$ 3,372,578	0.15%
2,760,000	MORGAN STANLEY	4.100%	05/22/2023	\$ 2,663,044	\$ 2,799,772	0.13%
2,400,000	MERRILL LYNCH & CO INC	6.110%	01/29/2037	\$ 2,064,106	\$ 2,768,736	0.13%
2,190,000	INTEL CORP	2.950%	12/15/2035	\$ 2,161,153	\$ 2,722,455	0.12%
TOTAL				\$ 38,597,311	\$ 43,227,758	1.96%

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

SCHEDULE OF BROKERAGE COMMISSIONS

(Year Ended June 30, 2014)

Broker Name	Base Volume	Total Shares	Base Commission	Commission Percentage
INVESTMENT TECHNOLOGY GROUP, NEW YORK	\$124,690,202	2,157,496	\$31,832	0.03
SG AMERICAS SECURITIES LLC, NEW YORK	69,240,445	1,694,532	15,450	0.02
CREDIT SUISSE, NEW YORK (CSUS)	62,977,213	6,032,767	34,829	0.06
BNY CONVERGEX / LJR, HOUSTON	43,840,658	1,528,303	56,897	0.13
MORGAN STANLEY & CO INC, NY	43,827,324	7,262,995	30,651	0.07
DEUTSCHE BK SECS INC, NY	43,502,860	4,067,344	20,276	0.05
LIQUIDNET INC, BROOKLYN	38,027,875	1,272,038	28,299	0.07
BARCLAYS CAPITAL LE, JERSEY CITY	28,465,532	693,186	7,590	0.03
CITIGROUP GBL MKTS INC, NEW YORK	26,909,745	784,820	19,176	0.07
UBS SECURITIES LLC, STAMFORD	25,228,915	512,940	8,952	0.04
INSTINET CORP, NY	25,030,547	543,360	9,986	0.04
MERRILL LYNCH INTL LONDON EQUITIES	24,723,472	3,932,838	20,782	0.08
UBS EQUITIES, LONDON	19,806,131	1,343,422	15,352	0.08
GOLDMAN SACHS & CO, NY	17,968,565	1,289,002	15,944	0.09
INSTINET EUROPE LIMITED, LONDON	16,011,101	817,154	16,956	0.11
GUZMAN & COMPANY, CORAL GABLES	15,042,233	633,140	9,671	0.06
J P MORGAN SECS LTD, LONDON	14,295,672	988,110	11,965	0.08
J.P. MORGAN CLEARING CORP, NEW YORK	13,020,410	686,720	7,378	0.06
BERNSTEIN SANFORD C & CO, NEW YORK	12,917,818	457,173	4,476	0.03
CREDIT SUISSE (EUROPE), LONDON	12,733,742	728,163	9,427	0.07
JNK SECURITIES INC, NEW YORK	12,649,672	287,260	4,832	0.04
ROSENBLATT SECURITIES LLC, JERSEY CITY	10,764,475	235,390	3,533	0.03
JP MORGAN SECS ASIA PACIFIC, HONG KONG	10,570,261	627,417	6,103	0.06
JP MORGAN SECURITIES INC, BROOKLYN	10,546,918	481,467	16,913	0.16
MERRILL LYNCH PIERCE FENNER, WILMINGTON	9,282,622	627,417	6,694	0.07
JEFFERIES & CO INC, NEW YORK	9,135,724	246,217	6,621	0.07
CITIGROUP GBL MKTS/SALOMON, NEW YORK	9,043,031	2,329,723	5,177	0.06
BARCLAYS CAPITAL, LONDON	8,979,145	1,326,140	10,121	0.11
BLOOMBERG TRADEBOOK LLC, NEW YORK	8,433,979	172,010	3,440	0.04
UBS WARBURG ASIA LTD, HONG KONG	7,253,577	1,101,614	7,512	0.10
MERRILL LYNCH PIERCE FENNER SMITH INC NY	6,267,552	200,594	4,851	0.08
BROCKHOUSE AND COOPER, MONTREAL	6,032,218	147,958	2,415	0.04
CITIGROUP GLOBAL MARKETS LTD, LONDON	5,897,609	400,895	7,614	0.13
MERRILL LYNCH & CO INC ATLAS GLOBAL, NY	5,808,244	1,241,385	3,252	0.06
GUZMAN & CO, NEW YORK	5,529,693	116,500	2,330	0.04
JONESTRADING INSTL SVCS LLC, WESTLAKE	5,416,727	234,845	7,045	0.13
BROADCOURT CAP CORP,NEW YORK	5,223,534	196,110	7,825	0.15
JPMORGAN SECURITIES INC, NEW YORK	5,039,699	630,118	5,372	0.11
INVESTMENT TECHNOLOGY GROUP LTD,DUBLIN	4,840,952	240,507	2,049	0.04
RBC CAPITAL MARKETS LLC, NEW YORK	4,834,006	195,182	6,173	0.13
FIDELITY CAP MKTS (DIV OF NFSC), BOSTON	4,792,583	76,620	1,155	0.02
CREDIT LYONNAIS SECS, SINGAPORE	4,096,269	210,286	3,047	0.07
ITG HONG KONG LIMITED, HONG KONG	4,060,869	6,391,320	2,134	0.05
RAYMOND JAMES & ASSOC INC, ST PETERSBURG	4,019,596	108,197	3,899	0.10
HSBC BANK PLC , LONDON	3,916,751	569,827	3,562	0.09
OTHER BROKERS	133,695,831	11,309,306	136,157	0.10
TOTAL	\$ 984,392,019	71,628,499	\$ 645,736	

INVESTMENT SUMMARY

	AS OF JUNE 30, 2014		AS OF JUNE 30, 2013	
	Market Value	% Market Value	Market Value	% Market Value
Fixed Income				
U.S. Government obligations	\$ 25,166,149	1.1%	\$ 22,836,510	1.2%
Mortgage-backed securities	3,437,784	0.2%	3,973,060	0.2%
Domestic corporate bonds	87,407,536	4.0%	84,011,424	4.3%
Convertible bonds	14,027,290	0.6%	12,143,244	0.6%
International bonds	42,403,411	1.9%	38,735,376	2.0%
Preferred stocks	1,187,335	0.1%	2,409,937	0.1%
Index / Commingled fund	399,926,578	17.9%	356,838,334	18.4%
Total fixed income	573,556,083	25.8%	520,947,885	26.8%
Domestic Equities:				
Basic industry	59,066,021	2.7%	66,136,779	3.4%
Consumer and services	136,124,232	6.2%	110,471,161	5.7%
Financial and utility	70,260,774	3.2%	81,022,092	4.1%
Technological	75,539,999	3.4%	60,526,874	3.1%
Index / Commingled fund	116,082,968	5.3%	106,662,381	5.5%
Total domestic stock	457,073,994	20.8%	424,819,287	21.8%
International Equity				
Basic industry	85,799,455	3.9%	74,770,555	3.8%
Consumer and services	107,578,024	4.9%	100,604,259	5.1%
Financial and utility	83,471,494	3.8%	75,408,684	3.9%
Technological	43,270,418	2.0%	33,706,829	1.7%
Index / Commingled fund	85,329,807	3.9%	75,141,087	3.8%
Total international stock	405,449,198	18.5%	359,631,414	18.3%
Real Estate				
Commercial	54,462,973	2.5%	55,423,279	2.8%
Commingled	115,791,876	5.2%	103,294,385	5.3%
Total real estate	170,254,849	7.7%	158,717,664	8.1%
Alternative investments				
Better beta	112,865,754	5.1%	90,595,119	4.6%
Global asset allocation	223,631,110	10.1%	186,066,940	9.5%
Hedge fund of funds	174,498,284	7.9%	156,881,646	8.0%
Limited partnerships	34,645,625	1.6%	25,221,027	1.3%
Total alternative investments	545,640,773	24.7%	458,764,732	23.4%
Subtotal investments at fair value	2,151,974,897	97.5%	1,922,880,982	98.4%
Short-term Investments				
Money Market	56,058,086	2.5%	30,897,541	1.6%
Total short-term investments	56,058,086	2.5%	30,897,541	1.6%
Total	2,208,032,983	100.0%	\$ 1,953,778,523	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, 2014)

Investment Category	Assets Under Management	Expense
Better beta	\$ 112,865,754	\$ 503,951
Domestic equity managers	516,611,739	1,511,523
Fixed income managers	540,193,173	1,425,312
Global asset allocation managers	223,631,110	1,972,549
Hedge fund of funds	174,498,284	1,398,315
International equity managers	379,274,363	2,145,986
Private equity	34,645,625	888,728
Real estate managers	170,254,849	1,425,370
Total	\$ 2,151,974,897	\$ 11,271,734

Note: Excludes cash and cash equivalents

ACTUARIAL

“There is a brilliant child locked inside every student.”
Marva Collins

IN THIS SECTION:

Actuary's Certification Letter
Summary of Actuarial Assumptions and Methods
Summary of Member Data
Short-Term Solvency Test
Analysis of Financial Experience
Summary of Benefit Provisions
Contribution Rates
Summary of Plan Changes

In just 21 weeks, Bailey's Upper underwent the conversion that transformed an empty space into the school's second campus. Both buildings share one principal and three assistant principals whose goals are to keep the culture between the schools consistent. Friday afternoon slideshows feature students at the primary and upper campuses experiencing positive learning, and both faculties enjoy trips between campuses for shared staff meetings. The primary focus at Bailey's Upper is to continue to build student knowledge so that every child leaves on grade level.



ACTUARY'S CERTIFICATION LETTER



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 20, 2014

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, 2013.

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

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

Actuarial Section

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

ACTUARY'S CERTIFICATION LETTER

Board of Trustees
October 20, 2014
Page 2

Summary of Member Data Included in Valuation as of December 31, 2013
Active Members by Years of Service on December 31, 2013
All Active Members in Valuation on December 31, 2013 by Attained Age and Years of Service
Summary of Member Data
Short-Term Solvency Test
Analysis of Financial Experience Including Gains and Losses by Risk Area
Contribution Rates

Financial Section

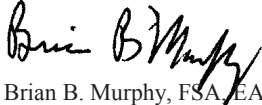
Schedule of Funding Progress
Schedule of Employer Contributions
Summary of Actuarial Methods and Assumptions
Schedule of Changes in Net Pension Liability and Related Ratios
Notes to Schedule of Contributions
Sensitivity of the Net Pension Liability to the Single Discount Rate Assumption

Assets are valued on a market-related basis that recognizes each year's difference between actual and assumed investment return over a closed five-year period, subject to a 75% to 125% corridor on market value.

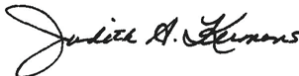
Actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rates of investment return and payroll growth, eligibility for the various classes of benefits, and longevity among retired lives. These assumptions are adopted by the Board after considering the advice of the actuary and other professionals. 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, 2013 valuation was based upon assumptions that were recommended in connection with a study of experience during the period from January 1, 2005 to December 31, 2009.

Based upon the results of the December 31, 2013 valuation, we are pleased to report to the Board that the Educational Employees' Supplementary Retirement System of Fairfax County (ERFC) is meeting its basic financial objective and continues to operate in accordance with actuarial principles of level percent-of-payroll financing.

Respectfully submitted,



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



Judith A. Kermans, EA, FCA, MAAA

BBM:JAK:clh

Gabriel Roeder Smith & Company

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

The actuarial assumptions and methods used in making the annual actuarial valuation are summarized in this section.

The assumptions were adopted by the Trustees following a study of experience covering the five-year period ending December 31, 2009.

Economic Assumptions

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

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

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

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

Non-Economic Assumptions

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

The **mortality table** used to measure active and retired life mortality was the 1994 Group Annuity Mortality Table set back 3 years for males and females. Related values are shown on Table D.

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

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

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

Present assets (cash and investments) are valued on a market-related basis *effective June 30, 1986*. A one time adjustment toward market was made in connection with the 1990–93 experience study and an additional one-time adjustment set the funding value equal to the market value as of December 31, 2004. Further, an 85–115% market value corridor was added in the December 31, 2005 valuation. Additionally, the market value corridor on assets was changed from 75% to 125% in the December 31, 2008 valuation.

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

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

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

TABLE A: Sample Pay Increase Assumptions for an Individual Member

Service Index	PAY INCREASE ASSUMPTION		
	Merit & Seniority	Base (Economy)	Increase Next Year
1	5.30%	3.75%	9.05%
2	3.80%	3.75%	7.55%
3	3.30%	3.75%	7.05%
4	3.10%	3.75%	6.85%
5	2.90%	3.75%	6.65%
6	2.70%	3.75%	6.45%
7	2.70%	3.75%	6.45%
8	2.30%	3.75%	6.05%
9	2.10%	3.75%	5.85%
10-19	1.80%	3.75%	5.55%
20-24	1.00%	3.75%	4.75%
25	0.00%	3.75%	3.75%

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

Sample Ages	Years of Service	PERCENT OF ACTIVE MEMBERS SEPARATING WITHIN NEXT YEAR									
		DEATH				DISABILITY				OTHER	
		Ordinary		Duty		Ordinary		Duty		Men	Women
		Men	Women	Men	Women	Men	Women	Men	Women		
25	4 & over	0.02%	0.01%	0.00%	0.00%	0.03%	0.02%	0.01%	0.00%	11.20	15.40
30		0.03	0.01	0.00	0.00	0.03	0.02	0.01	0.01	7.60	11.20
35		0.03	0.02	0.00	0.00	0.05	0.04	0.01	0.01	5.40	7.60
40		0.04	0.02	0.00	0.00	0.07	0.06	0.02	0.02	3.80	4.20
45		0.05	0.03	0.01	0.00	0.10	0.09	0.03	0.02	3.00	3.00
50		0.08	0.04	0.01	0.01	0.17	0.15	0.04	0.04	2.00	3.00
55		0.13	0.07	0.02	0.01	0.29	0.25	0.07	0.06	3.20	4.20
60		0.22	0.12	0.03	0.01	0.49	0.35	0.12	0.09	4.00	5.00

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

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

TABLE C: Probability of Retirement for Members Eligible to Retire

<i>ERFC (Hired before 7/1/2001)</i>			<i>ERFC 2001 (Hired on or after 7/1/2001)</i>		
TYPE OF RETIREMENT			TYPE OF RETIREMENT		
Ages	Service	Reduced Service	Age Based	Service	Service Based
45		2%			
46		2			
47		2			
48		2			
49		2			
50		2			
51		3			
52		6			
53		8			
54		8			
55	45%	9	22.5%	30	22.5%
56	35	4	17.5	31	17.5
57	25	4	12.5	32	12.5
58	25	4	12.5	33	12.5
59	25	4	12.5	34	12.5
60	30	8	15.0%	35	15.0
61	35	9	17.5	36	17.5
62	35	15	17.5	37	17.5
63	30	18	15.0	38	35.0
64	25	18	12.5	39	50.0
65	25		12.5	40 & up	100
66	25		12.5		
67	25		25.0		
68	25		25.0		
69	20		20.0		
70	20		20.0		
71	20		20.0		
72	20		20.0		
73	30		30.0		
74	30		30.0		
75	100		100		
76	100		100		
77	100		100		
78	100		100		
79	100		100		
80	100		100		

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

TABLE D: Single Life Retirement Values

STANDARD MORTALITY				
Sample Attained Ages	Present Value of \$1 Monthly for Life Increasing 3% Annually		Future Life Expectancy (years)	
	Men	Women	Men	Women
55	\$ 187.03	\$ 201.44	28.85	32.99
60	169.63	185.77	24.39	28.31
65	150.45	167.93	20.18	23.82
70	130.51	148.72	16.37	19.65
75	110.33	128.05	12.98	15.78
80	89.95	106.03	9.96	12.22

DISABLED MORTALITY				
Sample Attained Ages	Present Value of \$1 Monthly for Life Increasing 3% Annually		Future Life Expectancy (years)	
	Men	Women	Men	Women
55	\$ 128.18	\$ 144.69	17.14	20.34
60	118.67	135.13	15.18	18.04
65	110.09	124.28	13.46	15.71
70	99.71	111.14	11.60	13.27
75	86.55	94.59	9.55	10.66
80	70.31	76.55	7.37	8.16

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

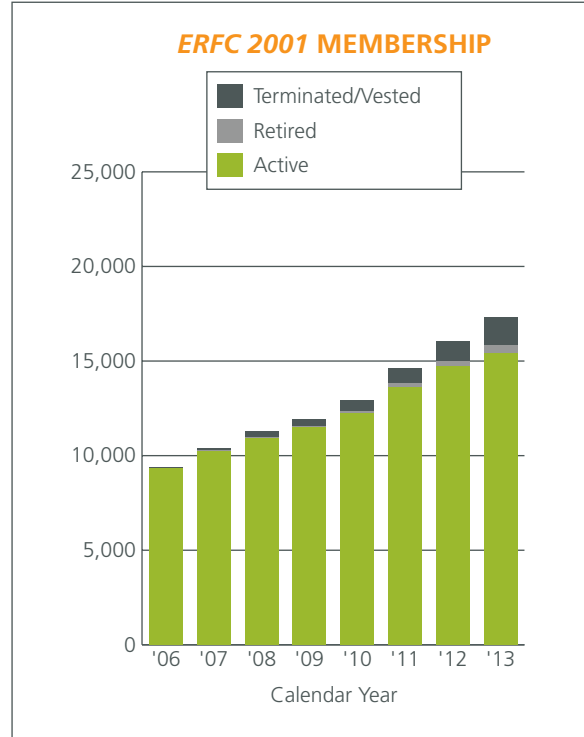
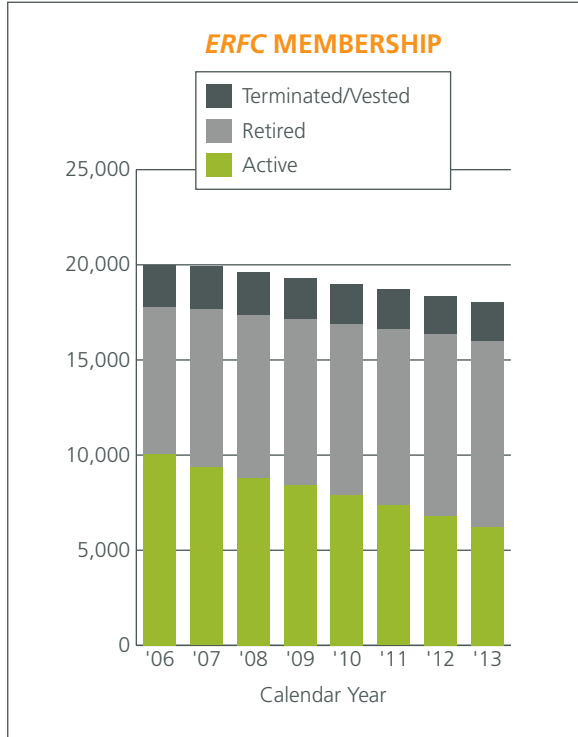
TABLE E: Rates of Forfeiture Following Vested Separation

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

Age at Separation	SAMPLE ENTRY AGE				
	25	30	35	40	45
30	0.5000				
31	0.4750				
32	0.4500				
33	0.4250				
34	0.4000				
35	0.3750	0.5000			
36	0.3500	0.4667			
37	0.3250	0.4333			
38	0.3000	0.4000			
39	0.2750	0.3667			
40	0.2500	0.3333	0.5000		
41	0.2250	0.3000	0.4500		
42	0.2000	0.2667	0.4000		
43	0.1750	0.2333	0.3500		
44	0.1500	0.2000	0.3000		
45	0.1250	0.1667	0.2500	0.5000	
46	0.1000	0.1333	0.2000	0.4000	
47	0.0750	0.1000	0.1500	0.3000	
48	0.0500	0.0667	0.1000	0.2000	
49	0.0250	0.0333	0.0500	0.1000	
50	0.0000	0.0000	0.0000	0.0000	0.0000

SUMMARY OF MEMBER DATA

(Last Eight Years)



Calendar Year	Year	ERFC			ERFC 2001			Total
		Active	Retired	Terminated/ Vested	Active	Retired	Terminated/ Vested	
	2006	10,065	7,710	2,179	9,306	6	65	29,331
(As of December 31)	2007	9,350	8,333	2,249	10,249	21	157	30,359
	2008	8,791	8,556	2,243	10,940	39	317	30,886
	2009	8,417	8,707	2,177	11,474	65	390	31,230
	2010	7,900	8,968	2,137	12,241	113	582	31,941
	2011	7,353	9,293	2,063	13,623	174	798	33,304
	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

SUMMARY OF MEMBER DATA

(As of December 31, 2013)

ACTIVE ERFC MEMBERS BY ATTAINED AGE AND YEARS OF SERVICE

Age Group	YEARS OF SERVICE TO VALUATION DATE							TOTALS		Average
	0-4	5-9	10-14	15-19	20-24	25-29	30 & Up	No.	Salary	
30-34		1	6					7	\$382,955	\$54,708
35-39	3	29	297	78				407	29,092,629	71,481
40-44	14	64	340	435	65			918	72,246,931	78,700
45-49	15	32	294	343	257	48	2	991	79,594,214	80,317
50-54	5	32	281	305	259	212	25	1,119	89,699,286	80,160
55-59	4	19	315	376	270	184	62	1,230	95,689,700	77,797
60		2	63	84	48	24	10	231	17,449,662	75,540
61		2	74	67	68	30	12	253	19,242,544	76,057
62	1	3	64	78	29	35	13	223	16,799,329	75,333
63		2	44	66	50	13	14	189	14,480,599	76,617
64			41	68	34	28	11	182	14,152,268	77,760
65		1	27	53	43	18	6	148	10,945,868	73,959
66	1	1	24	34	20	12	5	97	7,060,796	72,792
67		2	14	22	16	13	2	69	4,896,329	70,961
68			7	10	15	4	1	37	3,179,724	85,938
69			9	11	10	4		34	2,449,805	72,053
70			6	5	7	2	3	23	1,756,540	76,371
71			7	8	4	3	3	25	1,920,298	76,812
72				1	2	3	3	9	652,722	72,525
73			2	3	3		3	11	728,628	66,239
74			1	4	1	1		7	386,135	55,162
75 & over				4	2	3	2	11	662,149	60,195
Total	43	190	1,916	2,055	1,203	637	177	6,221	\$483,469,111	\$77,716

SUMMARY OF MEMBER DATA

(As of December 31, 2013)

ACTIVE ERFC 2001 MEMBERS BY ATTAINED AGE AND YEARS OF SERVICE

Age Group	YEARS OF SERVICE TO VALUATION DATE				TOTALS		Average
	0-4	5-9	10-14	15 & up	No.	Salary	
15-19	1				1	\$18,632	\$18,632
20-24	699				699	29,917,879	42,801
25-29	2,687	297	1		2,985	145,780,737	48,838
30-34	1,385	1,430	178		2,993	163,250,502	54,544
35-39	671	776	461		1,908	112,981,103	59,214
40-44	724	579	311		1,614	94,585,588	58,603
45-49	670	611	232		1,513	84,021,974	55,533
50-54	581	683	307		1,571	83,795,193	53,339
55-59	338	506	330		1,174	66,619,037	56,745
60	43	84	80		207	12,288,363	59,364
61	33	81	38		152	8,612,970	56,664
62	24	71	41		136	8,038,629	59,108
63	21	46	40		107	6,343,806	59,288
64	20	60	33		113	6,532,264	57,808
65	12	42	31		85	4,987,999	58,682
66	12	24	16		52	2,677,972	51,499
67	7	17	12		36	2,214,118	61,503
68	3	9	3		15	825,578	55,039
69	6	11	5		22	1,117,590	50,800
70		7	7		14	955,378	68,241
71	3	6	2		11	588,984	53,544
72		7			7	332,849	47,550
73	1	2			3	134,744	44,915
75 & OVER		2	2		4	217,508	54,377
Total	7,941	5,351	2,130	-	15,422	\$836,839,397	\$54,263

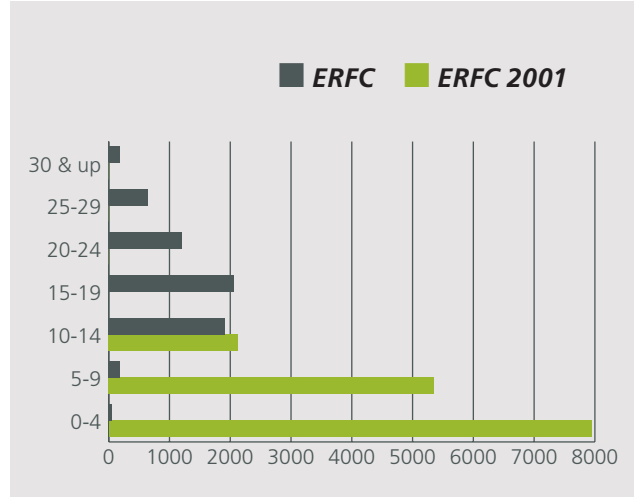
SUMMARY OF MEMBER DATA

(As of December 31, 2013)

ACTIVE MEMBER YEARS OF SERVICE

Average Service = 8.9 years

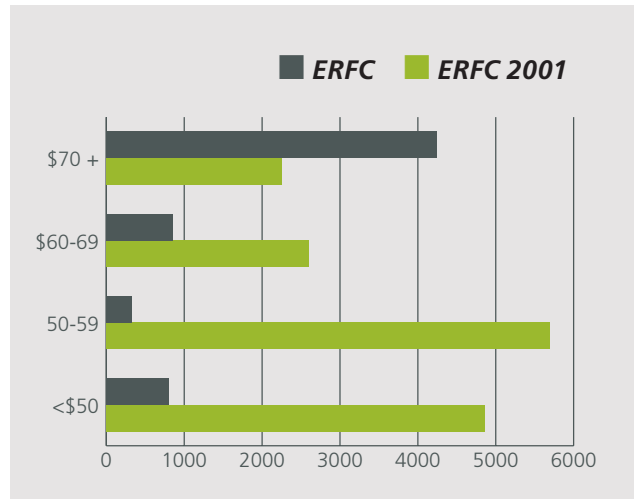
	0-4	5-9	10-14	15-19	20-24	25-29	30 & up
<i>ERFC</i>	43	190	1,916	2,055	1,203	637	177
<i>ERFC 2001</i>	7,941	5,351	2,130	-	-	-	-



ACTIVE MEMBER SALARIES (\$ in thousands)

Average Annual Pay = \$61,004

	< \$ 50	\$ 50-59	\$ 60-69	\$ 70+
<i>ERFC</i>	807	322	848	4,244
<i>ERFC 2001</i>	4,865	5,698	2,606	2,253

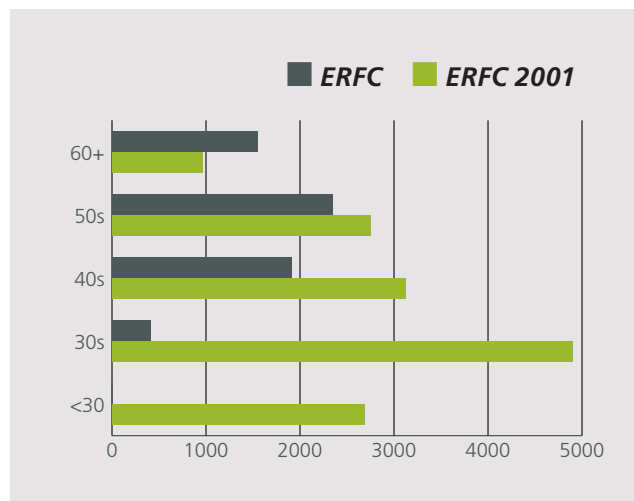


ACTIVE MEMBER AGES

Average Age = 43.4 years

Total Active Members = 21,643

	<30	30's	40's	50's	60+
<i>ERFC</i>	0	414	1,909	2,349	1,549
<i>ERFC 2001</i>	3,685	4,901	3,127	2,745	964



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, 2006	19,371	\$ 1,111,827,576	\$ 57,396	4.3
December 31, 2007	19,599	\$ 1,161,431,668	\$ 59,260	3.2
December 31, 2008	19,731	\$ 1,211,140,009	\$ 61,383	3.6
December 31, 2009	19,891	\$ 1,208,092,606	\$ 60,735	(1.1)
December 31, 2010	20,141	\$ 1,191,290,190	\$ 59,148	(2.6)
December 31, 2011	20,976	\$ 1,246,973,240	\$ 59,448	0.5
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

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								
2006	531	\$ 729,364	212	\$ 124,532	8,029	\$ 10,124,699	\$ 1,261	5.60
2007	539	\$ 727,585	214	\$ 129,189	8,354	\$ 10,705,991	\$ 1,282	5.74
2008	461	\$ 660,186	220	\$ 147,638	8,595	\$ 11,189,751	\$ 1,302	4.52
2009	426	\$ 596,102	249	\$ 162,485	8,772	\$ 11,565,358	\$ 1,318	3.36
2010	563	\$ 774,606	254	\$ 170,078	9,081	\$ 11,916,352	\$ 1,312	3.03
2011	629	\$ 851,853	243	\$ 169,704	9,467	\$ 12,410,208	\$ 1,311	4.14
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

SHORT-TERM SOLVENCY TEST

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

A **short-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) Retirants and Beneficiaries	(3) Members (Employer Financed Portion)	Portion of Accrued Liabilities Covered by Assets			
				Valuation Assets	(1)	(2)	(3)
	(\$ in thousands)						
6/30/1994	\$ 129,428	\$ 374,849	\$ 467,802	\$ 766,480	100	100	56
\$ 6/30/1995	143,150	395,249	534,137	839,930	100	100	56
6/30/1996	146,228	436,181	548,135	934,572	100	100	64
6/30/1997	144,063	464,345	606,959	1,045,412	100	100	72
# 6/30/1998	149,261	490,261	638,891	1,194,556	100	100	87
6/30/1999	154,582	539,917	651,160	1,365,417	100	100	103
6/30/2000	157,148	614,739	595,484	1,505,231	100	100	123
6/30/2001	178,564	667,605	674,857	1,599,219	100	100	112
\$ 6/30/2001	178,564	667,605	706,389	1,599,219	100	100	107
6/30/2002	170,849	699,251	823,856	1,619,889	100	100	91
\$ 6/30/2003	176,648	903,963	691,807	1,597,459	100	100	75
# 12/31/2004	227,725	1,083,988	623,869	1,643,020	100	100	53
12/31/2005	257,142	1,130,378	635,442	1,718,399	100	100	52
12/31/2006	239,780	1,176,979	688,793	1,818,930	100	100	58
12/31/2007	269,404	1,221,969	695,428	1,924,886	100	100	62
@ 12/31/2008	302,910	1,237,613	714,775	1,733,946	100	100	27
12/31/2009	342,663	1,264,675	706,944	1,769,540	100	100	23
# 12/31/2009	342,663	1,314,885	682,321	1,769,540	100	100	16
@ 12/31/2010	374,086	1,355,093	654,882	1,822,603	100	100	14
\$ 12/31/2011	402,847	1,401,877	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

@ 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)

Experience Period	ECONOMIC RISK AREA			DEMOGRAPHIC RISK AREA			TOTAL GAIN (LOSS)	
	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								
1994-95	\$ (9.7)	\$ 25.2	\$ 5.1	\$ (1.4)	\$ (4.4)	\$ (5.5)	\$ 9.3	0.9%
1995-96	(7.7)	45.4	4.1	(1.8)	(5.6)	4.3	38.7	3.6
1996-97	9.9	53.5	2.9	(1.7)	(4.5)	(8.7)	51.4	4.5
#1997-98	(2.6)	81.1	5.9	(0.5)	6.4	(13.9)	76.4	6.3
*1998-99	(8.4)	95.4	0.3	(1.0)	6.5	(3.8)	89.0	7.0
1999-00	(17.6)	62.3	3.8	(1.2)	12.9	38.9	99.1	7.4
2000-01	(9.1)	17.6	(0.3)	(1.0)	13.0	(19.5)	0.7	0.0
2001-02	3.0	(50.4)	3.5	(1.1)	2.6	(29.9)	(72.3)	(4.7)
2002-03	18.5	(92.5)	11.0	(0.3)	4.0	(23.3)	(82.6)	(4.9)
For Periods Ending December 31								
@2003-04	<i>Due to transition to calendar year valuations, a gain/loss analysis was not conducted for this valuation period.</i>							
#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

Experience Study

* Updated Gain Formulas

@ Gain Loss analysis not performed

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, multiplied 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 ($\frac{1}{2}$ of a year's increase).

Lifetime Level Benefit: Members retiring after July 1, 2004 are eligible for a lifetime level benefit (LLB) that is calculated by determining

the annuitized value of the greater of their accumulated contribution balance or the present value of the currently provided benefit.

Optional Forms of Payment:

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

SUMMARY OF BENEFIT PROVISIONS

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

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

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

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

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

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

- an additional reduction of the smaller of
 - 1) $\frac{1}{2}$ of 1 percent for the first 60 months and $\frac{4}{10}$ of 1 percent for each additional month between the member's age at the date of death and age 60, and

- 2) $\frac{1}{2}$ of 1 percent for the first 60 months and $\frac{4}{10}$ 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
1995	2.00 %	5.08 %	7.08 %	2.00 %	5.53 %	7.53 %
1996	2.00	5.08	7.08	2.00	5.53	7.53
1997	2.00	5.58	7.58	2.00	6.03	8.03
1998	2.00	5.58	7.58	2.00	6.03	8.03
1999	2.00	5.58	7.58	2.00	6.03	8.03
<i>ERFC began using composite rates effective July 1, 1999</i>						
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			

SUMMARY OF PLAN CHANGES

There were no significant plan changes during the valuation period ending December 31, 2013.

STATISTICAL

“Education breeds confidence. Confidence breeds hope. Hope breeds peace.”
Confucius

IN THIS SECTION:

- Financial Trends Information
- Net Assets
- Changes in Net Assets
- Assets and Liabilities Comparative Statement
- Benefit Deductions by Type
- Benefit Refunds by Type
- Operating Information
- Retired Members by Type of Benefit
- Average Benefit Payments by Years of Service
- Average Composite Monthly Benefit Payments
- Current Benefits by Attained Ages
- Deferred Benefits by Attained Ages

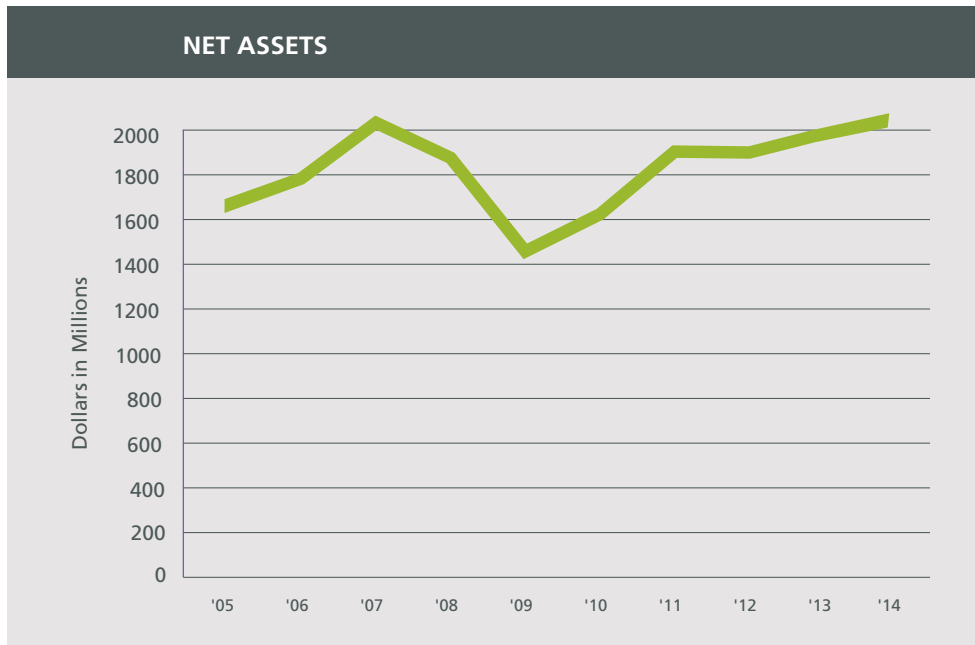
In addition to the many technological advances found at Bailey’s Upper, the school features an unusual physical education layout. Cooper Carry, the design firm contracted for the campus, incorporated four exercise spaces whose total square footage equals a standard school gymnasium. The rooms include two general fitness rooms, one dance room and one room featuring interactive elements such as a golf simulator. Other innovations include whiteboard walls, cafeteria lunch counters and birthday booths, ergonomic classroom seating, water bottle filling stations and a science lab with views of Reagan National Airport.



NET ASSETS

Last Ten Fiscal Years

FISCAL YEARS	NET ASSETS
2005	\$ 1,647,713,156
2006	\$ 1,766,534,921
2007	\$ 2,015,738,092
2008	\$ 1,858,571,973
2009	\$ 1,441,434,430
2010	\$ 1,607,663,423
2011	\$ 1,886,968,119
2012	\$ 1,827,768,322
2013	\$ 1,956,772,826
2014	\$ 2,204,927,191

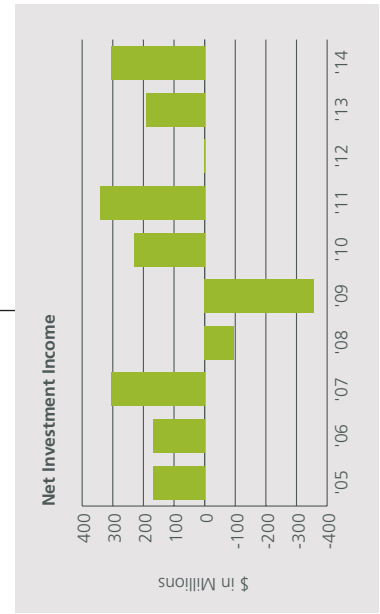


CHANGES IN NET ASSETS

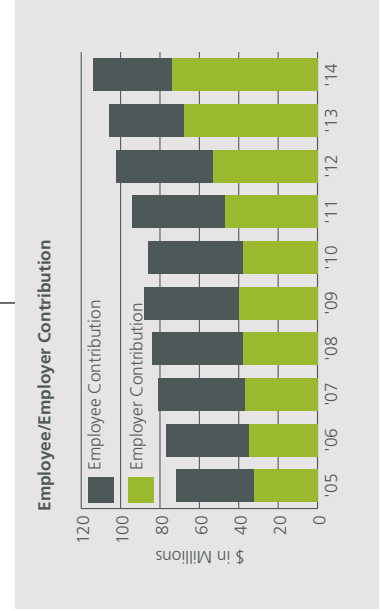
Last Ten Fiscal Years

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
ADDITIONS										
Employee contributions	\$ 59,818,585	\$ 42,292,828	\$ 44,453,617	\$ 46,143,803	\$ 47,996,408	\$ 47,918,341	\$ 47,167,129	\$ 49,142,379	\$ 38,428,367	\$ 40,018,590
Employer contributions	52,198,596	34,648,918	36,644,001	38,334,140	40,012,480	37,868,623	47,118,111	52,934,245	67,734,634	74,174,082
Investment income (net of expenses)	168,479,920	169,944,356	304,119,327	(96,855,060)	(357,672,266)	231,574,404	341,669,367	1,635,435	190,947,851	304,640,803
Gain/loss from sale of capital assets	—	—	27,632	—	(5,494)	—	(1,503)	—	—	—
Total additions to plan net assets	240,497,101	246,886,102	385,244,577	(12,377,117)	(269,668,872)	317,361,368	435,953,104	103,712,059	297,110,852	418,833,475
DEDUCTIONS										
Benefit payments	114,999,379	121,687,318	128,739,638	155,927,308	139,594,144	143,128,569	149,046,042	155,041,762	160,098,128	161,276,831
Contribution refunds	2,794,118	3,087,501	3,583,007	4,229,850	3,975,907	3,339,910	4,258,033	4,295,171	4,419,806	5,772,959
Administrative expenses	3,110,563	3,289,518	3,718,761	4,631,844	3,898,620	4,663,896	3,344,333	3,574,923	3,588,414	3,629,320
Total deductions to plan net assets	120,904,060	128,064,337	136,041,406	144,789,002	147,468,671	151,132,375	156,648,408	162,911,856	168,106,348	170,679,110
Change in net assets net of expenses	\$ 119,593,041	\$ 118,821,765	\$ 249,203,171	\$ (157,166,119)	\$ (417,137,543)	\$ 166,228,993	\$ 279,304,696	\$ (59,199,797)	\$ 129,004,504	\$ 248,154,365

ADDITIONS BY SOURCE



DEDUCTIONS BY TYPE



ASSETS AND LIABILITIES COMPARATIVE STATEMENT

Last 20 Years—Dollars in Thousands

Valuation Date	Active Member Payroll	COMPUTED LIABILITIES			Valuation Assets	[Excess of Assets] Unfunded Accrued Liabilities	Funded Percent
		Retired	Members	Total			
6/30/1994	\$ 480,995	\$ 374,849	\$ 597,230	\$ 972,079	\$ 766,480	\$ 205,599	78.8 %
\$ 6/30/1995	521,044	395,249	677,287	1,072,536	839,930	232,606	78.3
6/30/1996	531,060	436,181	694,363	1,130,544	934,571	195,973	82.7
6/30/1997	553,709	464,345	751,022	1,215,367	1,045,412	169,955	86.0
# 6/30/1998	582,755	490,261	788,111	1,278,372	1,194,556	83,816	93.4
6/30/1999	626,015	539,917	805,742	1,345,659	1,365,417	(19,758)	101.5
6/30/2000	678,937	614,739	752,632	1,367,371	1,505,231	(137,860)	110.1
\$ 6/30/2001	759,906	667,605	884,953	1,552,558	1,599,219	(46,661)	103.0
6/30/2002	781,756	699,251	994,705	1,693,956	1,619,889	74,067	95.6
\$ 6/30/2003	866,502	903,963	868,455	1,772,418	1,597,459	174,959	90.1
12/31/2004	977,817	1,043,677	853,565	1,897,242	1,640,216	257,026	86.5
# 12/31/2004	977,817	1,083,988	851,594	1,935,582	1,643,020	292,562	84.9
12/31/2005	1,050,271	1,130,378	892,584	2,022,962	1,718,399	304,563	84.9
12/31/2006	1,111,828	1,176,979	928,573	2,105,552	1,818,930	286,662	86.4
12/31/2007	1,161,432	1,221,969	964,832	2,186,801	1,924,886	261,915	88.0
@ 12/31/2008	1,211,140	1,237,613	1,017,685	2,255,298	1,733,946	521,352	76.9
12/31/2009	1,208,093	1,264,675	1,049,607	2,314,282	1,769,540	544,742	76.5
# 12/31/2009	1,208,093	1,314,885	1,024,984	2,339,869	1,769,540	570,329	75.6
12/31/2010	1,191,290	1,355,093	1,028,968	2,384,061	1,822,603	561,458	76.5
\$ 12/31/2011	1,246,973	1,401,887	1,069,087	2,470,964	1,866,952	604,012	75.6
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

@ After change in asset valuation method.

\$ After change in benefits.

After changes in actuarial assumptions.

BENEFIT DEDUCTIONS FROM NET ASSETS BY TYPE

Last Ten Years

	SERVICE BENEFITS		DEATH BENEFITS		DISABILITY BENEFITS				Total	
	Normal	Early	Duty/Non-Duty	Duty	Non-Duty	Participants	Benefits	Participants	Benefits	
Calendar Years	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Benefits
2005	3,989	\$ 81,734,466	110	\$ 850,781	27	\$ 309,656	220	\$ 1,049,826	7,710	\$ 116,223,765
2006	4,156	87,010,607	112	910,194	27	318,947	221	1,066,747	8,029	123,402,840
2007	4,334	91,777,998	120	1,048,496	26	322,317	216	1,057,794	8,354	130,307,079
2008	4,476	94,522,827	124	1,059,054	25	319,262	210	1,043,164	8,595	134,346,260
2009	4,615	96,983,027	134	1,105,438	24	294,234	208	1,043,259	8,772	137,692,304
Fiscal Years										
2010	4,600	100,020,271	145	1,167,515	23	308,454	194	1,018,115	8,745	143,128,569
2011	4,717	104,792,727	160	1,276,445	22	300,684	189	1,021,679	9,078	146,046,042
2012	4,999	106,487,568	171	1,341,323	21	276,421	177	989,588	9,418	155,041,762
2013	5,124	110,634,206	169	1,308,058	21	265,153	173	964,489	9,719	160,098,128
2014	5,354	111,429,145	176	1,357,852	20	272,888	170	953,108	10,142	161,276,831

BENEFIT REFUNDS BY TYPE

Last Ten Years

Fiscal Year	SEPARATION		DEATHS		TOTAL	
	No.	Amount	No.	Amount	No.	Amount
2005	871	\$ 2,620,070	26	\$ 174,048	897	\$ 2,794,118
2006	818	\$ 2,865,448	20	\$ 222,052	838	\$ 3,087,500
2007	746	\$ 3,407,248	18	\$ 175,759	764	\$ 3,583,007
2008	857	\$ 4,064,627	24	\$ 165,223	881	\$ 4,229,850
2009	722	\$ 3,644,789	25	\$ 331,118	747	\$ 3,975,907
2010	648	\$ 3,201,604	15	\$ 138,306	663	\$ 3,339,910
2011	725	\$ 4,046,929	26	\$ 211,104	751	\$ 4,258,033
2012	659	\$ 3,934,877	26	\$ 360,294	685	\$ 4,295,171
2013	634	\$ 4,081,157	19	\$ 338,649	653	\$ 4,419,806
2014	727	\$ 5,164,862	40	\$ 608,097	767	\$ 5,772,959

RETIRED MEMBERS BY TYPE OF BENEFIT

(As of December 31, 2013)

Amount of Monthly Benefit	Number of Retired Members	TYPE OF RETIREMENT*					Basic Benefit	OPTION SELECTED**				
		1	2	3	4	5		1	2	3	4	5
\$ 1-\$ 250	1,744	389	1,286	30	33	6	1,314	86	5	46	29	264
251-500	1,657	624	901	16	110	6	1,243	103	11	50	28	222
501-750	857	378	448	9	20	2	619	35	8	26	19	150
751-1,000	856	521	315	8	12	0	584	24	25	40	8	175
1,001-1,250	927	650	266	3	8	0	710	26	11	33	8	139
1,251-1,500	678	515	159	1	3	0	498	17	9	36	4	114
1,501-1,750	635	518	115	1	1	0	440	26	8	34	8	119
1,751-2,000	570	486	81	2	0	1	385	13	12	33	2	125
Over 2,000	2,232	1,736	487	3	0	6	1,184	111	11	153	25	748
Total	10,156	5,817	4,058	73	187	21	6,977	441	100	451	131	2,056

*** TYPE OF RETIREMENT:** **** OPTION SELECTED:**

- | | |
|--|--|
| <ul style="list-style-type: none"> 1 Full Service 2 Reduced Service 3 Ordinary Death 4 Ordinary Disability 5 Service Connected Disability | <ul style="list-style-type: none"> 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 1/1/09 to 12/31/09						
Avg Monthly Benefit	\$ 237.69	\$ 390.72	\$ 791.10	\$ 1,067.98	\$ 2,451.95	\$ 2,782.62
Avg Final Average Salary	\$ 4,839.74	\$ 4,776.32	\$ 5,974.65	\$ 6,496.54	\$ 7,376.69	\$ 7,595.88
No. of Retired Members	58	63	58	59	115	56
Period 1/1/10 to 12/31/10						
Avg Monthly Benefit	\$ 295.81	\$ 296.64	\$ 669.73	\$ 1,031.12	\$ 2,439.18	\$ 2,625.63
Avg Final Average Salary	\$ 4,964.70	\$ 4,995.25	\$ 5,724.04	\$ 6,377.40	\$ 7,307.50	\$ 7,871.13
No. of Retired Members	82	90	77	80	146	80
Period 1/1/11 to 12/31/11						
Avg Monthly Benefit	\$ 264.65	\$ 349.22	\$ 759.30	\$ 920.42	\$ 2,266.05	\$ 2,872.97
Avg Final Average Salary	\$ 4,842.94	\$ 4,912.25	\$ 5,806.50	\$ 6,084.78	\$ 7,278.50	\$ 8,073.08
No. of Retired Members	75	103	112	81	168	83
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

AVERAGE COMPOSITE MONTHLY BENEFIT PAYMENTS FOR RETIREES

Last Ten Years

BY TYPE OF BENEFIT BEING PAID

	Year	Service Retirement	Reduced Service	Ordinary Disability
Calendar Year	2004	\$ 1,663	\$ 784	\$ 446
	2005	\$ 1,707	\$ 800	\$ 459
	2006	\$ 1,745	\$ 809	\$ 466
	2007	\$ 1,765	\$ 822	\$ 475
	2008	\$ 1,760	\$ 829	\$ 469
	2009	\$ 1,751	\$ 841	\$ 480
	2010	\$ 1,727	\$ 849	\$ 495
	2011	\$ 1,717	\$ 853	\$ 492
	2012	\$ 1,688	\$ 839	\$ 570
	2013	\$ 1,626	\$ 815	\$ 575

RETIREES AND BENEFICIARIES CURRENT ANNUAL BENEFITS TABULATED BY ATTAINED AGES

(As of December 31, 2013)

Attained Ages	TOTAL	
	No.	Annual Amount
Under 40	4	\$ 11,135
40-44	5	26,433
45	1	5,027
46	2	18,097
47	1	835
48	3	28,181
49	2	30,979
50	9	48,626
51	8	129,618
52	7	102,918
53	9	239,599
54	16	486,984
55	70	1,589,731
56	115	2,902,946
57	157	3,646,133
58	195	4,273,907
59	232	5,595,034
60	277	6,194,637
61	356	7,766,004
62	418	8,900,323
63	482	10,163,947
64	527	12,379,045
65	660	14,079,062
66	696	7,977,154
67	604	6,196,907
68	468	4,730,406
69	468	5,192,836
70-74	1,845	20,286,196
75-79	1,282	16,655,101
80 & Up	1,237	14,647,134
Grand Total	10,156	\$154,304,935

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, 2013)

Attained Ages	TOTAL	
	No.	Annual Amount
27	10	\$ 34,110
28	14	46,563
29	35	119,860
30	60	221,016
31	82	313,012
32	127	481,458
33	134	525,086
34	137	509,677
35	140	496,372
36	132	387,739
37	140	414,259
38	127	335,369
39	148	334,384
40	136	327,320
41	133	338,006
42	151	409,430
43	145	353,003
44	130	333,051
45	120	352,320
46	126	383,842
47	101	251,056
48	104	270,289
49	94	233,786
50	94	283,734
51	95	291,718
52	83	264,698
53	90	268,060
54	93	425,904
55	62	227,181
56	67	241,786
57	67	258,641
58	61	205,836
59	61	277,016
60	42	146,120
61	40	145,900
62	32	128,734
63	29	143,527
64	22	102,710
65 & Over	35	74,768
Grand Total	3,499	\$ 10,967,341

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

STATISTICAL

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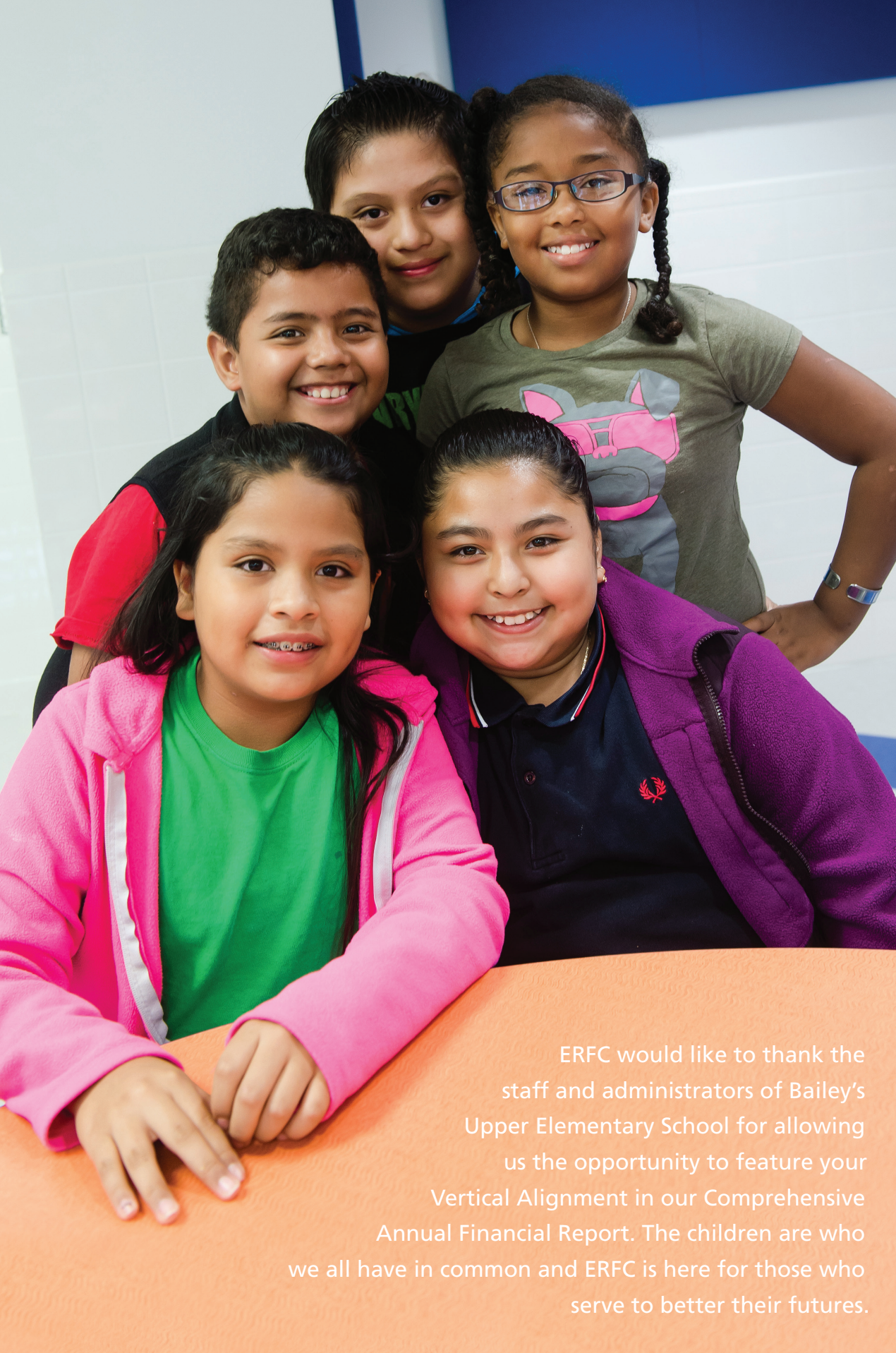


THE EDUCATIONAL EMPLOYEES'
SUPPLEMENTARY RETIREMENT SYSTEM
of Fairfax County



VERTICAL ALIGNMENT

According to Assistant Superintendent for facilities and transportation service, Jeff Platenberg, “in relatively short order, we have created a solution and put together an amazing learning environment. The new school is a window into the future for the rapidly expanding Fairfax County school system. We keep growing at an alarming rate, and that growth has to be met. The only way to meet it in the future is to go vertical.”



ERFC would like to thank the staff and administrators of Bailey's Upper Elementary School for allowing us the opportunity to feature your Vertical Alignment in our Comprehensive Annual Financial Report. The children are who we all have in common and ERFC is here for those who serve to better their futures.