

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Employees' Retirement System of the City of Norfolk A Pension Trust Fund of the City of Norfolk, Virginia

For the Fiscal Year Ended June 30, 2008

**Prepared by the Employees' Retirement System Staff
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www.norfolk.gov/Finance/Retirement

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Introductory Section (Unaudited)

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Employees' Retirement System
of the City of Norfolk, Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Oliver S. Cox

President

Jeffrey R. Emer

Executive Director



December 19, 2008

Letter of Transmittal

The Board of Trustees
Employees' Retirement System
City of Norfolk
Norfolk, Virginia 23510

The Comprehensive Annual Financial Report (CAFR) of the Employees' Retirement System (System) for the City of Norfolk for fiscal year ended June 30, 2008 is submitted herewith. The System is a Pension Trust Fund included in the financial statements of the City of Norfolk, Virginia. The System administration is responsible for the accuracy and fairness of information contained in this report. All disclosures necessary to enable the reader to gain an understanding of the System's financial activities have been included.

The System is the administrator of a single-employer noncontributory defined benefit plan that covers substantially all employees of the City of Norfolk, excluding School Board employees who are covered by the Virginia Retirement System. Although the System presents separate financial statements, it is also included as a component unit in the City of Norfolk's CAFR.

This report consists of five sections:

1. The Introductory Section contains this letter of transmittal, identification of the Board of Trustees, list of professionals who provide services to the Board, and organization chart;
2. The Financial Section contains the opinion of the independent auditors, Management's Discussion and Analysis, the financial statements of the System and required supplementary information;
3. The Investment Section contains investment results and other information relating to investment policy and investment activities;
4. The Actuarial Section contains information from the most recent report from the System's actuary; and
5. The Statistical Section contains significant data pertaining to the membership of the System.

In compliance with U.S. Generally Accepted Accounting Principles, the financial section has been expanded to include Management's Discussion and Analysis (MD&A). The MD&A is intended to provide narrative overview and analysis of the financial status of the System for the year ended June 30, 2008 (for more information, see pages 11 through 14).

System History

The System was established by Section 37 of the code of the City of Norfolk, Virginia, and began operations as of January 1, 1942. Section 37 of the code as amended from time to time established the authority under which the City of Norfolk's obligation to contribute to the plan is established. A single fund for all participants is used and there is no segregation of assets for individual classes of employees.

INTRODUCTORY SECTION

Letter of Transmittal

Benefit Provisions

The System provides normal and early service retirement benefits as well as death and disability benefits. All benefits vest after five years of creditable service effective January 1, 1997. Ad hoc cost-of-living adjustments are provided at the discretion of the City Council. The benefit provisions of the plan are also determined by Section 37 of the code.

The Retirement Office staff provides counseling to all benefit applicants and to others requesting counseling. Presentations at new employee orientations and at various employee groups meetings are provided as requested throughout the year. All forms and retirement planning information are available in the Employees' Retirement Office, 810 Union Street, Suite 309.

Accounting System and Internal Control

Financial statements included in this report are the responsibility of the System's management and have been prepared in accordance with the principles of governmental accounting and reporting promulgated by the Governmental Accountant Standards Board (GASB). The financial report has been prepared in accordance with GASB Statement No. 25, *Financial Reporting for Defined Benefit Plans*. The System implemented GASB Statement No. 34, *Basic Financial Statements—Managements Discussion and Analysis* as of July 1, 2001. The 2008 statements have been audited by KPMG LLP in conjunction with the City of Norfolk's annual audit.

The accrual basis of accounting is used to record assets and liabilities and additions and deductions of the System. Benefits and refunds are recognized when due and payable in accordance with the terms of the City Code of the City of Norfolk. In developing the accounting system, consideration was given to the adequacy of internal accounting controls. These were designed to provide reasonable assurance regarding the safekeeping of assets and the reliability of financial records. A continuing effort is being made toward improving the controls to assure the participants of a financially sound retirement system.

Funded Status

A pension plan is considered adequately funded when sufficient assets are available to meet all expected future obligations to participants. The System's funding objective is to meet long-term benefits through investment returns on trust fund assets and employer contributions. The advantage of a well-funded plan is that participants are confident that sufficient assets are available for the payment of current and future member benefits. An actuarial valuation of the System to determine funding requirements is performed annually. The actuarial valuation used for this report period was completed with payroll data as of June 30, 2008. Information from this report is included in the Actuarial Section.

The City of Norfolk's commitment to provide a financially sound retirement plan for its members is illustrated on two schedules contained in this report. "The Schedule of Funding Progress" found in the Required Supplementary Information of the Financial Section, expresses plan net assets as a percentage of the actuarial accrued liability, providing one indication of the System's funding status. The "Schedule of Employer Contributions" includes historical trend information about the annual required contributions (ARC) of the employer and the contributions made by the employer in relation to the ARC. As of June 30, 2008, the System's funded ratio was 92.9%. This funded ratio does not include any market movements since June 30, 2008. The next valuation will reflect market conditions through June 30, 2009.

Letter of Transmittal

Investments

The Board of Trustees (Trustees) for the Employees' Retirement System formally amended and adopted a written Statement of Investment Policy in December 2006 that includes the guidelines and objectives for the investment of the System. The policy is reviewed annually and changes are made as warranted. No major changes were made to the policy during the current fiscal year.

The Trustees are empowered to invest the System's assets utilizing the "Prudent Person" standard and to take appropriate action regarding the investment, management, and custodianship of plan assets. The investment responsibilities include establishing reasonable investment objectives, developing investment policy guidelines, selecting investment managers, and evaluating performance results to assure adherence to guidelines and the achievement of objectives. Each investment manager must adhere to the guidelines established by the Trustees for investment asset quality, diversification, liquidity and risk. Both annual and longer term (3 to 10 years) goals for investment returns are established for each manager. Attainment of these goals weighs heavily in terms of whether or not a manager's contract is renewed. Typically, managers who fall below the Board's minimum objectives over the longer term are replaced.

The Board of Trustees recognizes that the objective of a sound and prudent investment policy is to generate total returns consistent with its risk tolerance and return requirements. The Board of Trustees has carefully exercised its responsibility by prudently diversifying the System's assets.

During the fiscal year, new investment strategies were implemented by the Trustees, which are designed to meet the System's long-term risk and return objectives. Two new managers were hired: Wellington Opportunistic Fund (Satellite Portfolio) and 1607 Capital International Closed-End Fund (Core Portfolio). Both strategies offered a means for diversifying the System's asset base. 1607 Capital replaced Tattersall as the closed end fund manager. The Board of Trustees also explored and approved a passive portfolio structure during this fiscal year. The structure will be implemented over the course of the next fiscal year.

The investment results of each manager as well as the results for the total fund are monitored by an independent investment consultant and the Chief Investment Officer who report their findings to the Board on a monthly basis. In addition, the System's staff produces a monthly report for the Board, detailing monthly and cumulative investment returns. The total return includes all income from dividends, interests and net gains and losses, both realized and unrealized.

A pension investment consultant with assistance from the Chief Investment Officer consults with the System staff, prepares recommendations on investment policies, investment management structure, and asset allocation. They also monitor and evaluate the performance of the investment managers and the custodian.

The net assets of the System as of June 30, 2008 were \$880.2 million, a decrease of \$81.7 million during the fiscal year. Investment return for the year was (5.11)%. The System is financially and actuarially sound. The Retirement Fund is sound and well positioned to pay retirement benefits as they are due. A summary of the Fund's asset allocation and historic returns can be found in the Investment Section of this report.

Current Economic Condition

Subsequent to June 30, 2008, there was a general decline in worldwide investment markets, which caused the fair value of the System's investment portfolio to decline by approximately 19.8% from June 30, 2008 through October 31, 2008. There have been a series of historical events that have taken place this fall, including the government takeovers of Freddie Mac and Fannie Mae, the bankruptcy of Lehman Brothers, the bailout of insurer AIG, and the largest bank failure in United States history (Washington Mutual). The government has made efforts to stabilize the financial system but markets worldwide have not reacted well to the heightened uncertainty that exists in the marketplace.

INTRODUCTORY SECTION

Letter of Transmittal

Year-to-date through October 31, 2008, the US equity market is down 33.2%, and international markets are down 43.3%. Bond yields have been pushed down at the short end of the curve (to less than a quarter of a percent at the very short end of the curve) as investors have flocked to quality. Credit markets have ceased as institutions have become leery of lending. All investors including the System were affected by the national and global economic decline; however, since this decline, the Board has implemented a monthly meeting of the Investment Management Committee to monitor the assets to minimize losses to the system.

Professional Services

The professional consultants who are contracted by the Board of Trustees to perform services that are essential to the effective and efficient operation of the System are listed on page 7. An independent audit was conducted by KPMG, LLP and a copy of that opinion is found on pages 9 and 10. A certification letter from the actuary, Cheiron, is also included as part of this report on pages 36 and 37.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Employees' Retirement System for the City of Norfolk for its comprehensive annual financial report for the fiscal year ended June 30, 2007. This was the third year that the System has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficient organized comprehensive annual financial report. This report satisfies both accounting principles accepted in the United States of America and applicable legal requirements.

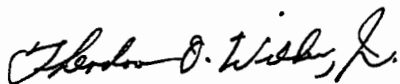
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

The compilation of this report reflects the combined effort of the System's staff under the leadership of the Board of Trustees. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means of determining responsible stewardship of the funds of the system.

On behalf of the Board of Trustees, I would like to take this opportunity to express sincere gratitude to the staff, the advisors, and to the many people who have worked so diligently to assure the successful operation of the System.

Respectfully submitted,



Theodore O. Wilder, Jr.
Executive Director

The Board of Trustees

Stephanie Adler Calliott, CFP Director, Sales Manager UBS Financial Services, Inc.	Chair	Appointed January 9, 2007 Expiring December 31, 2008
Christopher R. Neikirk Assistant Vice-President - Executive Norfolk Southern Corporation	Member	Appointed January 9, 2007 Expiring December 31, 2011
Lawrence A. Bernert III, CFA Principal and Portfolio Manager Wilbanks, Smith and Thomas Asset Management, LLC	Member	Appointed October 30, 2007 Expiring December 31, 2008
Yvonne T. Allmond Senior Vice-President of Private Banking TowneBank	Member	Appointed October 30, 2007 Expiring December 31, 2008
Nicholas E. Nelson (public safety) Fire Lieutenant/Paramedic	Member	Appointed August 28, 2007 Expiring December 31, 2010
Eric G. Tucker (general employee) Assistant Director of Utilities	Member	Appointed August 28, 2007 Expiring December 31, 2010
Vacant (Citizen position)	Member	
Regina V. K. Williams City Manager	Ex-officio Trustee	
Alice M. Kelly, CPA Acting Director of Finance	Ex-officio Trustee	

The members of the Board are appointed and serve pursuant to Chapter 37 of the Norfolk City Code, which provides for nine (9) members. From July 1, 2007 through June 30, 2008, the Board continued its fiduciary duties and responsibilities with one vacancy.

The Ex-officio trustees serve by virtue of their position with the City of Norfolk.

INTRODUCTORY SECTION

Consultants and Professional Services

Legal Advisor
Mary L. G. Nexsen
Deputy City Attorney

Actuary
CHEIRON

Custodian
State Street Bank

Medical Examiner
Dr. Richard L. Cullen, Jr., M.D.
Bayview Physicians Services, P.C.

Dr. Chantal Brooks
Medical Consultants of Virginia

Consultants
Summit Strategies Group,
Eric J. Ralph, Senior Vice President

Lotus Financial Consulting
Kamal K. Khanna, Chief Investment Officer

Investment Managers

Domestic Equity

State Street Global Advisors
Boston, Massachusetts

Wellington Management Company
Boston, Massachusetts

Oberweis Asset Management, Inc.
Lisle, Illinois

International

LSV Asset Management
Chicago, Illinois

New Star Asset Management
London, England

1607 Capital Partners
Glenn Allen, Virginia

Pyramis
Boston, Massachusetts

Sanderson Asset Management
New York, NY

Fixed Income

Tattersall Advisory Group
Richmond, Virginia

Pacific Investment Management Company
Newport Beach, California

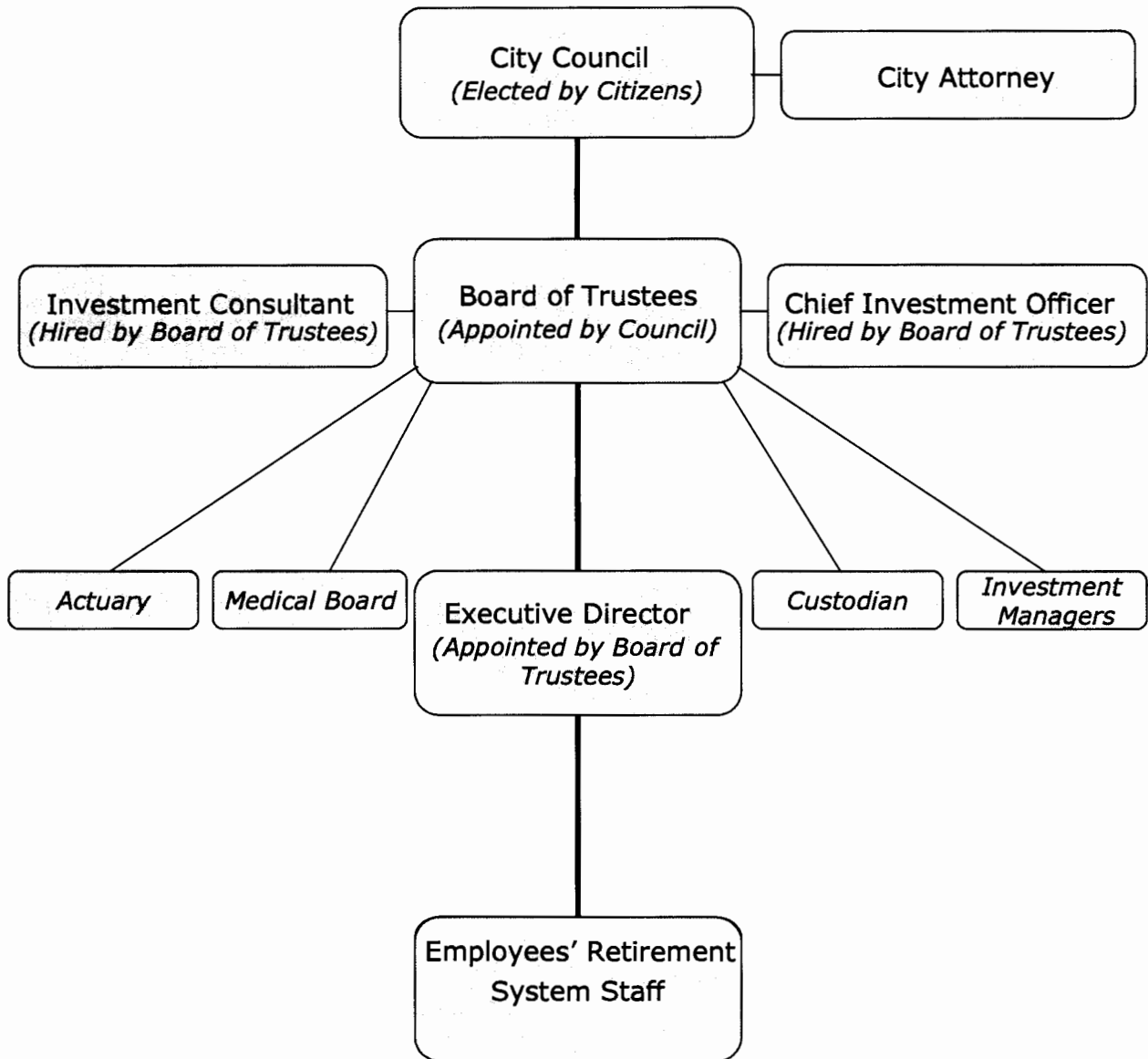
Balanced

Vanguard STAR Fund
Malvern, Pennsylvania

Wellington Opportunistic Asset Allocation Fund
Boston, Massachusetts

Investment Manager and Investment Assignments can be found on page 30.

ORGANIZATIONAL CHART



Financial Section



KPMG LLP
Suite 2100
999 Waterside Drive
Norfolk, VA 23510

Independent Auditors' Report

The Board of Trustees
Employees' Retirement System of the City of Norfolk
Norfolk, Virginia:

We have audited the accompanying statement of plan net assets of the Employees' Retirement System of the City of Norfolk (the System), a component unit of the City of Norfolk, Virginia, as of June 30, 2008, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the System as of June 30, 2008, and the changes in its plan net assets for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2008 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis and the required supplementary actuarial information on pages 11 through 14 and pages 23 through 25 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative



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 schedules listed in the table of contents on pages 26 and 27 and the introductory section, investment section, actuarial section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules on pages 26 and 27 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, investment section, actuarial section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

December 18, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the financial performance of the Employees' Retirement System of the City of Norfolk (the "System") provides an overview of financial activities for the fiscal years ended June 30, 2008 and 2007. Please read Management's Discussion and Analysis in conjunction with the basic financial statements, which follow this discussion.

FINANCIAL HIGHLIGHTS

- System assets exceeded liabilities at the close of fiscal years 2008 and 2007 by \$880.2 million and \$961.8 million, respectively (reported as total net assets). Total net assets are held in trust to meet future benefit payments.
- The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2008 and 2007, the funded ratio was 92.9% and 95.2%, respectively.
- Total additions decreased \$153.9 million to a negative \$22.8 million or about (137.6)% from the prior year. This decrease was mainly due to a decrease in net appreciation in fair value of System's investments in the most recent period versus the prior period.
- Total deductions increased over the prior year from \$56.3 million to \$58.9 million or 4.7%. Most of this increase represented increased retirement benefits paid.

THE STATEMENT OF PLAN NET ASSETS AND THE STATEMENT OF CHANGES IN PLAN NET ASSETS

This Comprehensive Annual Financial Report (CAFR) consists of two financial statements: The Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets. These financial statements report information about the System as a whole and about its financial condition that should help answer the question: Is the System, as a whole, better or worse off as a result of this year's activities? These statements include all assets and liabilities that are due and payable using an economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, all additions and deductions are taken into account regardless of when cash is received or paid.

The Statement of Plan Net Assets presents all of the System's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets measure whether the System's assets available for benefits is improving or deteriorating. The Statement of Changes in Plan Net Assets presents how the System's net assets changed during the most recent fiscal year. These two financial statements should be reviewed along with the Schedule of Funding Progress and Schedule of Employers' Contributions to determine whether the System is becoming financially stronger or weaker and to understand changes over time in the funded status of the System.

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

FINANCIAL ANALYSIS

**Employees' Retirement System of the City of Norfolk
Net Assets
As of June 30, 2008 and 2007**

	2008	2007	2008-2007 Total% Change
ASSETS			
Cash	\$ 47,950,535	\$ 58,493,577	(18.0)%
Receivables	56,308,182	44,679,772	26.0 %
Investments	<u>849,149,456</u>	<u>904,662,471</u>	(6.1)%
Total Assets	<u>953,408,173</u>	<u>1,007,835,820</u>	(5.4)%
LIABILITIES			
Accounts Payable and Other Accrued Liabilities	1,024,195	828,215	23.7%
Due to Brokers for Securities Purchased	<u>72,186,529</u>	<u>45,158,947</u>	59.8 %
Total Liabilities	<u>73,210,724</u>	<u>45,987,162</u>	59.2 %
TOTAL NET ASSETS	<u>\$880,197,449</u>	<u>\$ 961,848,658</u>	(8.5)%

Total assets as of June 30, 2008 and 2007 were \$953,408,173 and \$1,007,835,820, and comprised cash, receivables, and investments. Total assets decreased \$54,427,647 or (5.4)% for FY 2008, due in part to a decrease in investments.

Total liabilities that are due and payable as of June 30, 2008 and 2007 were \$73,210,724 and \$45,987,162, respectively, and were comprised of payables to brokers for investment purchases and administrative costs. For FY 2008, total liabilities increased \$27,223,562 or 59.2% from the prior year primarily due to the timing of investments purchased.

System assets exceeded its due and payable liabilities at the close of fiscal year 2008 and 2007 by \$880,197,449 and \$961,848,658, respectively. In fiscal year 2008, total net assets held in trust for pension benefits decreased \$81,651,209 or (8.5)% from the previous year primarily due to unfavorable and volatile market conditions.

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

**Employees' Retirement System of the City of Norfolk
Changes in Plan Net Assets
For the Fiscal Years Ended June 30, 2008 and 2007**

	2008	2007	2008-2007 Total% Change
Investment Income (Loss)	\$(48,428,455)	\$128,724,819	(137.6)%
Contributions	<u>25,667,556</u>	<u>25,135,944</u>	2.1 %
Total	<u>(22,760,899)</u>	<u>153,860,763</u>	(114.8)%
Benefits Payments	58,264,017	55,491,006	5.0 %
Refund of Contributions	26,228	24,794	5.8 %
Administrative Expenses	<u>600,065</u>	<u>734,282</u>	(18.3)%
Total	<u>58,890,310</u>	<u>56,250,082</u>	4.7 %
Net Increase (Decrease)	(81,651,209)	97,610,681	(183.6)%
Net Assets Held in Trust for Pension Benefits			
Beginning of Year	<u>961,848,658</u>	<u>864,237,977</u>	11.3 %
End of Year	<u>\$880,197,449</u>	<u>\$961,848,658</u>	(8.5)%

ADDITIONS TO PLAN ASSETS

The reserves needed to finance retirement benefits are accumulated through the collection of employer contributions and through earnings on investments. Contributions and net investment income for fiscal years 2008 and 2007 totaled \$(22,760,899) and \$153,860,763, respectively.

Additions decreased for FY 2008 by \$(176,621,662) from that of the prior year, primarily due to net depreciation in fair value of System's investments in the most recent period versus the net appreciation in the prior period. For FY 2008, total investment income decreased from the previous year by \$(177,153,274). The total portfolio returned (5.11)% for fiscal year ended June 30, 2008 versus 15.63% for the prior fiscal year. The current fiscal year return was 12.61 percentage points below our 7.5% target.

MANAGEMENT'S DISCUSSION AND ANALYSIS (concluded)

DEDUCTIONS FROM PLAN NET ASSETS

The deductions of the System include pension payments to members and beneficiaries, refunds of contributions to former members, and the cost of administering the System. Total deductions for FY 2008 were \$58,890,310, an increase of 4.7% over FY 2007 deductions.

The pension benefits payments increased by \$2,773,011 in FY 2008 or 5.0% from the previous year. The increase in pension benefit payments resulted from post-retirement cost of living (COLA) adjustments increases of 2.0% granted to retirees on July 1, 2007 and an increase in number of retirees. The number of additional retirees was 145 and 176 in fiscal year 2008 and 2007, respectively. Administrative expenses as of June 30, 2008 and 2007 were \$600,065 and \$734,282, respectively. This was a decrease of \$134,217 or (18.3)% from the previous year due to a lower number of vested members transferring their accrued benefits to the Virginia Retirement System.

RETIREMENT SYSTEM AS A WHOLE

As a result of a decrease in the equity markets, combined net assets decreased in FY 2008 over FY 2007. The System's funding ratio as determined by the System's actuary was 92.9% at June 30, 2008 and 95.2% at June 30, 2007. The Board, with the assistance of its Chief Investment Officer, pension consultant, and actuary, continues to utilize the concepts of prudent investment management, cost controls, and strategic planning.

CONTACTING SYSTEM FINANCIAL MANAGEMENT

The financial report is designed to provide citizens, taxpayers, plan participants, and the marketplace's credit analysis with an overview of the System's finances and the prudent exercise of the Board's oversight. Any questions regarding this report or requests for additional financial information should be directed to the Employees' Retirement System of the City of Norfolk, 810 Union Street, Room 309, Norfolk, Virginia 23510.

FINANCIAL SECTION

Employees' Retirement System of the City of Norfolk

(A Pension Trust Fund of Norfolk, Virginia)

Statement of Plan Net Assets

June 30, 2008

Assets:

Cash and cash equivalents \$ 47,950,535

Receivables:

Employer contribution 25,667,556

Accrued investment income 2,496,290

Due from broker for securities sold 28,144,336

Total receivables 56,308,182

Investments:

Fixed Income 340,821,012

Balanced commingled funds 95,672,865

Common stocks 79,512,677

Domestic equity funds 172,259,882

International equity funds 160,883,020

Total investments 849,149,456

Total assets 953,408,173

Liabilities:

Accounts payable and accrued expenses 1,024,195

Due to broker for securities purchased 72,186,529

Total liabilities 73,210,724

Net assets held in trust for pension benefits \$ 880,197,449

(A Schedule of Funding Progress is reported on page 23.)

See Accompanying Notes to Financial Statements.

FINANCIAL SECTION

Employees' Retirement System of the City of Norfolk

(A Pension Trust Fund of Norfolk, Virginia)

Statement of Changes in Plan Net Assets

Year Ended June 30, 2008

Changes to net assets attributed to:

Investment income (loss):

Net depreciation in fair value of investments	\$ (76,409,412)
Interest	22,195,793
Dividends	10,013,324
Other	<u>(117,841)</u>
	(44,318,136)

Less investment expenses

Net investment loss	<u>(4,110,319)</u>
	(48,428,455)

Contributions

Total	<u>25,667,556</u>
	<u>(22,760,899)</u>

Benefit payments and expenses:

Benefits paid directly to participants	55,033,789
Beneficiary payments	3,230,228
Refunds of contributions	26,228
Administrative costs	<u>600,065</u>
Total	<u>58,890,310</u>

Net decrease	(81,651,209)
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Net assets held in trust for pension benefits:

Beginning of year	<u>961,848,658</u>
End of year	<u>\$ 880,197,449</u>

See Notes to Financial Statements.

FINANCIAL SECTION

Employees' Retirement System of the City of Norfolk

(A Pension Trust Fund of Norfolk, Virginia)

Notes to Financial Statements

For the Year Ended June 30, 2008

Note 1. Significant Accounting Policies

Reporting entity: The Employees' Retirement System (System) of the City of Norfolk is the administrator of a single-employer noncontributory defined benefit plan that covers substantially all employees of the City of Norfolk, excluding School Board and Constitutional Officers employees covered by the Virginia Retirement System, as authorized by Section 143(a) of the City Charter and was established and placed under the management of the Board of Trustees for the Employees' Retirement System for the purpose of providing retirement allowances and death benefits as authorized by the provisions of Chapter 37 of the Norfolk City Code. The System has a nine-member Board of Trustees appointed by the City Council of the City of Norfolk, including the City Manager and Director of Finance as ex-officio members. The System falls within the definition of a "Blended Component Unit" provided in applicable accounting standards. The City of Norfolk allocates contributions, which are combined with investment earnings of the System, to provide funding for pension benefits and administrative costs. The System's financial data are incorporated into the Comprehensive Annual Financial Report of the City of Norfolk. These financial statements are those of the System and not of the City of Norfolk, Virginia as a whole.

Basis of accounting: The financial statements of the System are prepared using the accrual basis of accounting. Employer contributions are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The System has applied the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* ("GASB 25") in the preparation of these financial statements. GASB 25 establishes financial reporting standards for defined benefit pension plans and for the notes to the financial statements of defined contribution plans of state and local governmental entities and requires two basic financial statements, a statement of plan net assets and a statement of changes in plan net assets, that provide current financial information about plan assets and financial activities. Actuarially determined information, from a long-term perspective, about the funded status of the plan and related funding progress is presented in two required schedules, a schedule of funding progress and a schedule of employer contributions. GASB 25 also establishes certain parameters for the measurement of all actuarially determined information included in financial reports of defined benefit pension plans.

Investment valuation method: Investments are stated at fair value. Short-term investments are recorded at cost, which is equivalent to fair value. Securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the System's fiscal year. Investments that do not have an established market are reported at estimated fair value. Purchases and sales of securities are accounted for on a trade date basis. Purchases and sales of securities traded but not yet settled at year-end are recorded as due to broker for securities purchased and due from broker for securities sold, respectively.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets during the reporting period. Actual results could differ from those estimates.

FINANCIAL SECTION

Notes to Financial Statements

Note 2. Description of the Plan

The System is the administrator of a single-employer, noncontributory, defined benefit plan that covers substantially all employees of the City of Norfolk, Virginia, excluding School Board and Constitutional Officers employees who are covered by the Virginia Retirement System. Although the System presents separate financial statements, it is also included as a component unit in the City of Norfolk's Comprehensive Annual Financial Report as a pension trust fund. The types of employees covered and current membership as of June 30, 2008 consists of the following:

Retirees and beneficiaries receiving benefits:	
General	2,209
Public safety	1,070
Terminated plan members entitled to but not yet receiving benefits:	
General	772
Public safety	161
Active plan members:	
Fully vested:	
General	1,733
Public safety	814
Nonvested:	
General	1016
Public safety	<u>409</u>
Total	<u>8,184</u>

The System provides retirement benefits as well as death and disability benefits. All benefits vest after five years of creditable service effective January 1, 1997. Employee eligibility requirements are as follows:

Retirement (for employees who became members prior to July 1, 1980): Normal retirement is the earlier of age 60 or after completion of 30 years of credited service for general employees, and the earlier of age 55 or after the completion of 25 years of credited service for public safety employees. The normal service retirement benefit per annum is equal to 2.0% of average final compensation (average of the three highest years of compensation) times years of creditable service, with service limited to 35 years. Public safety employees accrue benefits at 2.5% of average final compensation times years of creditable service, not to exceed 65% of average final compensation. Mandatory retirement is age 62 for public safety employees.

Retirement (for employees who became members on or after July 1, 1980): Normal retirement is the earlier of age 60 or after completion of 30 years of credited service for general employees, and age 55 or after the completion of 25 years of credited service for public safety employees. The normal service retirement benefit per annum for general employees is equal to 1.75% of average final compensation times of years of creditable service, with service limited to 35 years. Public safety employees accrue benefits at 2.5% of average final compensation times years of creditable service, not to exceed 65% of average final compensation. Mandatory retirement is age 62 for public safety employees.

Notes to Financial Statements

Note 2. Description of Plan, concluded:

The System also provides for ordinary death and disability benefits and accidental death and disability benefits. Ad hoc cost-of-living adjustments ("COLAs") are provided at the discretion of the City Council. Participants should refer to the Plan document for a complete description of these benefits.

The Employees' Retirement System is established by Section 37 of the Code of the City of Norfolk, Virginia, 1979, as amended 1997. The benefit provisions of the System are also determined by this Code section.

Note 3. Contributions Required and Contributions Made

Significant assumptions used to calculate contribution requirements are the same as those used to calculate the actuarial accrued liability. Normal cost is funded on a current basis. Periodic contributions for normal cost are based on the level percentage-of-payroll method. The unfunded actuarial accrued liability as of June 30, 2008 is \$71,288,321. The funding strategy for normal cost should provide sufficient resources to pay employee pension benefits on a timely basis.

Section 37 of the Code of the City of Norfolk, Virginia 1979, as amended 1997 establishes the authority under which the employer's obligation to contribute to the plan is established or may be amended. Contribution requirements are actuarially determined at the end of each fiscal year and paid by the City of Norfolk in the ensuing year. The contribution requirement of \$25,667,556 for the year ended June 30, 2008 was based on 11.16% of covered payroll for general employees and 21.92% of covered payroll for public safety employees.

Voluntary contributions were discontinued in 1979 and have been accumulated thereafter with interest at a rate of 7%. Such contributions are refundable to members who terminate before becoming eligible for retirement benefits. At retirement, members' contributions plus accumulated interest are refunded. Such amounts totaled \$132,119 at June 30, 2008.

Note 4. Investments and Deposits

Deposits: At June 30, 2008, the carrying value of the System's cash deposits with banks and investment companies was \$7,055,936, and the bank and investment company balance was \$7,991,405. The entire bank balance was covered by federal depository insurance or commercial insurance or collateralized in accordance with the Virginia Security for Public Deposits Act. Under the Virginia Security for Public Deposits Act, bank holding public deposits in excess of the amounts insured by Federal Deposit Insurance Corporation must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Virginia Security for Public Deposits Act and for notifying local governments of compliance by banks. The System's policy is to maintain all accounts collateralized in accordance with the Virginia Security for Public Disclosures Act, Sec 2.2-4400 et. seq. of the Code of Virginia.

FINANCIAL SECTION

Notes to Financial Statements

Note 4. Investments and Deposits, continued:

Investments: The Board of Trustees of the System has full power to invest and reinvest the trust funds in accordance with Section 51.1-124.30 of the Code of Virginia (1950), as amended. This section requires the board to discharge its duties solely in the interest of the beneficiaries and to invest the assets with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Board must also diversify such instruments so as to minimize the risk of large losses unless under the circumstances, it is clearly prudent not to do so.

Custodial credit risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Equity and fixed income investments are not insured and are registered in the name of the System and held by State Street Bank as custodian. The System's policy is that all securities purchased by or for the System be properly and clearly labeled as an asset of the System and held in safekeeping by a third party custodial bank or institution in compliance with Section 2.2-4515 of the Code of Virginia.

Interest rate risk: The System uses a "duration" policy to manage its interest rate risk. The duration policy is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

Segmented Time Distribution:

June 30, 2008 Investment Type	Fair Value	Investment Maturities (in years)			
		Less 1 yr	1-5 yrs	6-10 yrs	10 yrs +
Corporate Debt	\$177,472,608	\$21,774,143	\$30,085,515	\$ 8,494,291	\$117,118,659
Floater	289,884	289,884	N/A	N/A	N/A
Mortgages	163,058,520	2,557,504	7,447,575	3,388,336	149,665,105
Domestic Equity Funds	172,259,882	N/A	N/A	N/A	N/A
Balanced Income Funds	95,672,865	N/A	N/A	N/A	N/A
Common Stock	79,512,677	N/A	N/A	N/A	N/A
International Equity Funds	160,883,020	N/A	N/A	N/A	N/A
Money Market Investments	40,884,780	N/A	N/A	N/A	N/A
Total	<u>\$890,034,236</u>	<u>\$24,621,531</u>	<u>\$37,533,090</u>	<u>\$11,882,627</u>	<u>\$266,783,764</u>

Foreign currency risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The System does not have a formal policy; however, the System manages its exposure to fair value loss by requiring its international securities investment managers to maintain diversified portfolios by issuer to limit foreign currency and security risk. The System's exposure to foreign currency risk is presented on the following table.

FINANCIAL SECTION

Notes to Financial Statements

Note 4. Investments and Deposits, continued:

Currency	Short-Term	Fixed Income	Equity	Total
Australian dollar	\$ 1,224	\$ (17,204)	\$ -	\$ (15,980)
Brazilian real	-	(79,750)	-	(79,750)
Canadian dollar	2,281	-	-	2,281
Euro	92,296	-	-	92,296
Pound sterling	2,951,530	75,787	26,865,677	29,892,994
Japanese yen	28,503	-	-	28,503
	<u>\$ 3,075,834</u>	<u>\$ (21,167)</u>	<u>\$26,865,677</u>	<u>\$29,920,344</u>

Credit risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The System's formal policy governing credit risk is that securities rated below investment grade by two of the three primary rating agencies, Moody's, Fitch Ratings, and Standard and Poor's (S&P's) are not permitted. The System invests in certain derivatives including real estate mortgage investment conduits and collateralized mortgage obligations. Those securities are included in reported investments. Investments in derivatives with a cost of \$71,776,976 and a market value of \$66,934,640 were held at June 30, 2008. The System's rated debt investments as of June 30, 2007 were rated by S&P's and/or an equivalent national rating organization and the ratings are presented below using the S & P's credit quality rating scale.

June 30, 2008 Related Debt Investment Value	Fair Quality Ratings	Corporate Debt	Floaters	Mortgages	Money Market Investments
	AAA	\$ 45,319,185	\$ -	\$163,058,520	\$ -
	AA+	15,438,139	-	-	-
	AA	15,915,055	-	-	-
	AA-	32,009,684	-	-	-
	A	24,319,718	-	-	-
	A+	13,709,526	-	-	-
	A-	5,911,086	289,884	-	-
	BA	1,693,436	-	-	-
	BBB	4,345,952	-	-	-
	BBB+	8,592,619	-	-	-
	BBB-	5,147,176	-	-	-
	BB+	93,821	-	-	-
	BB	100,500	-	-	-
	B	1,696,230	-	-	-
	NR	3,180,481	-	-	40,884,780
		<u>\$177,472,608</u>	<u>\$ 289,884</u>	<u>\$163,058,520</u>	<u>\$ 40,884,780</u>

Notes to Financial Statements

Note 4. Investments and Deposits, concluded:

Concentration of credit risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a system's investment in a single issuer. Mutual funds are excluded from this disclosure requirement. The System's formal policy governing concentration of credit risk is that securities rated below investment grade by two of the three primary rating agencies, Moody's, Fitch Ratings and S&P's are not permitted. No more than 20% of each account's fixed income portfolio, including cash equivalents, shall be invested in bonds rated below Baa (1, 2, and 3) or BBB (+ or -). Upon written request from the manager, the board will consider allowing more than 20% in these ratings and the purchase of bonds rated below Baa3 or BBB-. More than 5% of the System's investments are in the Federal National Mortgage Association investment pools, SSGA S&P 500 Flagship Fund and Wellington Opportunistic Fund. These investments represent 14.5%, 19.2%, and 5.7%, respectively, of the System's total investments.

Note 5. Transactions with City of Norfolk

Effective January 1, 1992, the System began reimbursing the City for all administrative costs related to the System's operations. The costs reimbursed for the year ended June 30, 2008 was \$460,068.

Note 6. Income Tax Status

The Internal Revenue Service has ruled that the System qualifies under Section 401-1(b)(3) of the Internal Revenue Code and is, therefore, not subject to tax under present income tax laws. Although the Plan has been amended since receiving a determination letter from the Internal Revenue Service, the System management believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the Internal Revenue Code.

Note 7. Subsequent Events

Recent market conditions have resulted in an unusually high degree of volatility and increased the risks and short term liquidity associated with certain investments held by the System which could impact the value of investments after the date of these financial statements. There has been a negative return on the System's assets through November 30, 2008 which could ultimately effect the System's funded status. The ultimate impact on the funded status will be determined based upon market conditions in effect when the System's assets are measured at June 30, 2009.

FINANCIAL SECTION

Required Supplementary Actuarial Information

Historical trend information about the System is presented herewith as required supplementary information. An actuarial valuation is performed annually at fiscal year-end. Information from the seven most recent valuations is presented below. This information is intended to help users assess the System's funding status, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

**Schedule of Funding Progress
Dollar Amounts in Millions
(Unaudited)**

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Liability	(a-b) Funding Excess (Shortage)	(a/b) Funded Ratio	(c) Covered Payroll	((a-b)/c) Funding Excess (Shortage) as a Percentage of Covered Payroll
June 30, 2008	\$ 937.8	\$ 1,009.1	\$ (71.3)	92.9%	\$ 175.4	(40.6)%
June 30, 2007*	925.8	972.2	(46.4)	95.2%	168.1	(27.6)%
June 30, 2006	881.0	939.1	(58.1)	93.8%	159.3	(36.5)%
June 30, 2005	854.1	883.9	(29.8)	96.6%	160.2	(18.6)%
June 30, 2004**	816.1	845.7	(29.6)	96.5%	157.7	(18.8)%
June 30, 2003	760.5	813.2	(52.7)	93.5%	152.1	(34.6)%
June 30, 2002	798.1	784.7	13.4	101.7%	150.7	8.9%

* The actuarial cost method was changed June 30, 2007 from the Projected Unit Credit to the Entry Age Normal. Actuarial assumptions were also changed as a result of an experience study.

** The actuarial asset valuation method was changed June 30, 2004 to a new smoothing method. The prior actuarial asset valuation method reflected dividends and interest immediately and smoothed all other investment income over three years. The new method reflects expected income (based on the valuation interest rate) and spreads over three years recognition of any gains (losses) due to investment return in excess of (or less than) the expected return. The actuarial value of assets increased and the funding shortage decreased by \$54.6 million, as a result of this change.

Required Supplementary Actuarial Information

**Schedule of Employer Contributions
(Unaudited)**

<u>Fiscal Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2008	\$25,667,556	100
2007	25,135,944	100
2006	25,728,228	100
2005	23,652,756	100
2004	23,469,744	100
2003	21,390,058	100

FINANCIAL SECTION

Required Supplementary Actuarial Information

Actuarial Assumptions:

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	June 30, 2008
Actuarial cost method *	Entry age normal cost method
Amortization method	Level dollar open, except for Public Safety Retirement Enhancement Program which is amortized over a closed 20-year period commencing July 1, 2005
Remaining amortization period	19.29 years
Asset valuation method	3-year smoothed market
Actuarial assumptions:	
Assumed inflation rate	3.5%
Investment rate of return	7.5% per annum, compounded annually
Projected salary increases**	Average salary increases of 5.24% for general employees and 5.67% for public safety employees. Based on rates that vary by year-of-service and are compounded annually.
Cost-of-living allowance	None
Separation from active service	Assumed rates of separation from service vary depending on the employee's years of service and whether the employee is a general employee or public safety employee. Mortality is based on the RP-2000 mortality tables for healthy and disabled members.
Marital status	65% of the general employees and 80% of the public safety employees are assumed to be married, with the males three years older than females.

The actuarial assumptions above are based on the presumption that the System will continue indefinitely. Were the System to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial accrued liability.

* The actuarial cost method was changed June 30, 2007 to the Entry Age Normal method. It was previously the Projected Unit Credit cost method.

** Includes inflation at 3.5%.

Employees' Retirement System of the City of Norfolk

(A Pension Trust Fund of Norfolk, Virginia)

Schedule of Administrative Expenses

Year Ended June 30, 2008

Personal services:

Staff salaries	\$315,740
Benefits	<u>97,840</u>
Total personal services	<u>413,580</u>

Professional services:

Actuarial fees	54,022
Medical examinations	<u>3,447</u>
Total professional services	<u>57,469</u>

Communication:

Travel and training	14,834
Postage and shipping	<u>16,142</u>
Total communication	<u>30,976</u>

Miscellaneous:

Supplies and equipment	6,758
Maintenance and repairs	167
Other	<u>91,115</u>
Total miscellaneous	<u>98,040</u>

Total administrative expenses	<u>\$600,065</u>
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FINANCIAL SECTION

Employees' Retirement System of the City of Norfolk

(A Pension Trust Fund of Norfolk, Virginia)

Schedule of Investment Expenses

Year Ended June 30, 2008

Investment manager fees	<u>\$3,525,093</u>	
Total investment manager fees		\$3,525,093

Schedule of Payments to Custody and Investment Consultants

Custody fees	\$ 218,136	
Investment consultant fees	<u>367,090</u>	
Total custody and investment consultant fees		\$ 585,226
Total investment expenses		<u>\$4,110,319</u>

Investment Section (Unaudited)

Investment Performance, Policy, Statistics, and Activity

This section prepared by Summit Strategies Group, investment consultant to the System, and a Securities and Exchange Commission registered investment adviser under the Investment Advisers Act of 1940.

In the investment of public funds, adequate funding of employee retirement benefits at a reasonable and affordable cost is a paramount concern. An appropriate balance must be struck between risks taken and return sought to ensure the long-term health of the System. The System has adopted an investment policy that works to control the extent of the downside risk to which assets are exposed while maximizing the potential for long-term increase in the value of the assets.

Investment Objectives

The Board of Trustees for the Employees' Retirement System has adopted Investment Policies and Guidelines, which outline the System's investment goals and objectives. The Investment Policy Statement contains a statement of Investment Goals and Objectives, General Investment Principles, and Guidelines. The general investment goals of the System are broad in nature. The primary objectives are to efficiently allocate and manage the assets, dedicated to the payment of Plan benefits and administrative expenses. The following goals, consistent with the above-described purpose, are adopted:

- The overall goal of the System's investment portfolio is to provide a retirement benefit for the employees of the City of Norfolk, Virginia. This will be accomplished through a carefully planned and executed long-term investment program.
- The total portfolio over the long term will be expected to earn a return that equals or exceeds:
 1. The rate of inflation, as measured by the Consumer Price Index, plus 2.5% per year;
 2. The return of a target policy index ("Target Policy");
 3. For the aggregate domestic equity, international equity, and fixed income components of the fund, the return of the Russell 3000, MSCI EAFE, and the Lehman Aggregate Bond indices, respectively; and
 4. The actuarially assumed investment rate of return.

Asset Allocation

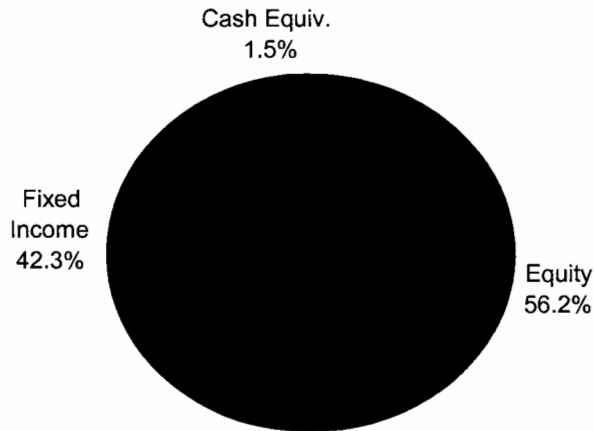
The System adopts and implements an asset allocation policy that is predicated on a number of factors, including:

- Historical and expected long-term capital market risk and return behavior;
- Projected assets, liabilities, benefit payments, and contributions provided by System's actuary;
- An assessment of future economic conditions, including inflation and interest rate levels; and
- The specific investment objectives set forth in the Investment Policy Statement.

The System will be diversified both by asset class (e.g., common stocks, bonds, cash) and within asset classes (e.g., within common stocks by economic sector, industry, quality, and market capitalization). The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the total System.

INVESTMENT SECTION

Asset Allocation by Asset Class as of June 30, 2008 *



Total Equity	\$481,111,785
Fixed Income	361,600,415
Cash and Equivalents (Excludes manager cash)	<u>12,616,935</u>
Total	<u>\$855,329,135</u> *

* The System has invested in a Satellite Portfolio that consists of two commingled balanced fund managers. As a result of these strategies being offered as commingled funds, the System is not able to decompose the Total Equity exposure into Domestic versus International components. The Total Fund excluding the Satellite Portfolio had a market value of \$759,656,752 as of June 30, 2008 and the asset allocation breakdown was as follows:

Domestic Equity	\$254,733,174
International Equity	165,076,466
Fixed Income	332,758,112
Cash and Equivalents (Excludes manager cash)	<u>7,089,000</u>
Total	<u>\$759,656,752</u>

INVESTMENT SECTION

Asset Allocation as of June 30, 2008 (concluded)

Total net assets market value	\$855,329,135
Adjustments to Reconcile Statement of Plan Asset Investments Total:	
Total Cash and Cash Equivalents	(48,619,899)
Receivable for Investments Sold	(28,144,138)
Dividends Receivable	(243,421)
Interest Receivable	(2,238,837)
Tax Refund Receivable	(18,992)
Other Receivables	14,031
Interest Payable – Short Positions	377,018
Payable for Investments Purchased	72,186,529
Other Payables	33,153
Unrealized Appreciation/Depreciation:	
on Foreign Cash Positions	(9,821)
on Receivables	(1,223)
on Payables	(101)
on Forward Contracts	(215,667)
Cash Equivalent Market Value Unrealized G/L	<u>729,751</u>
Total Investments Reconciled to the Statement of Plan Net Assets (See page 15)	<u>\$849,149,456</u>

**Investment Managers and Investment Assignments
as of June 30, 2008**

	Market Value	% of Portfolio
SSgA S&P Flagship Fund	\$172,259,882	20.1%
Wellington Small Cap Value	41,209,174	4.8%
Oberweis Small Cap Growth	41,262,000	4.8%
LSV International Value Fund	39,892,230	4.7%
Sanderson International Value Fund	26,325,908	3.1%
Pyramis International Growth Fund	27,448,336	3.2%
New Star International Growth Fund	28,075,142	3.3%
1607 Partners International Equity	43,334,850	5.1%
PIMCO Core Plus	227,229,530	26.6%
Tattersall Core Bonds	105,528,582	12.3%
Transition Account	2,170	0.0%
Cash Account	7,088,466	0.8%
Vanguard Star Fund (Satellite Portfolio)	44,583,594	5.2%
Wellington Opportunistic Fund (Satellite Portfolio)	<u>51,089,271</u>	<u>6.0%</u>
Total	<u>\$855,329,135</u> *	<u>100.0%</u>

* See reconciliation of Statement of Plan Assets above.

INVESTMENT SECTION

Asset Allocation Comparison as of June 30, 2008

	Equity Commitment	Fixed Income Commitment	Total Other *	Percentage Total
Total Fund	56.2%	42.3%	1.5%	100%
Median Total Fund	55.5%	29.4%	15.1%	100%
Median Public Fund	56.3%	29.3%	14.4%	100%

* Includes cash and alternative asset classes such as real estate, private equity, and hedge funds.

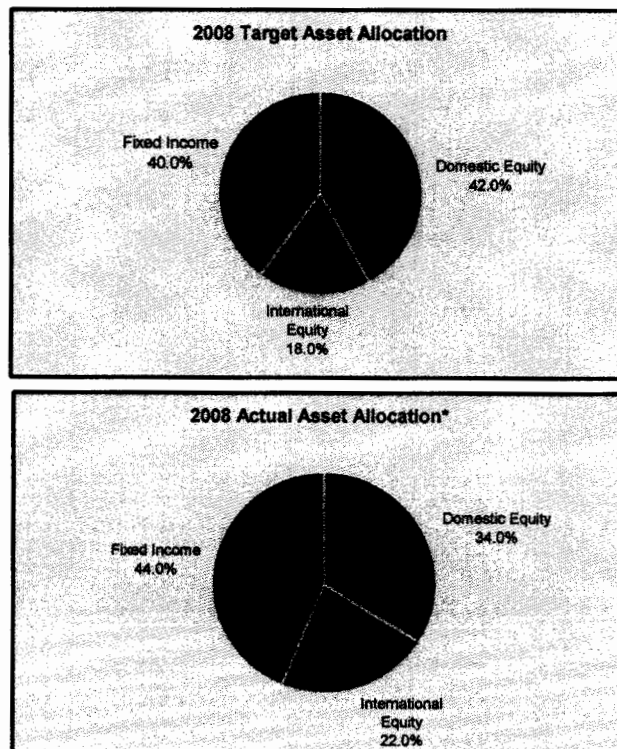
INVESTMENT SECTION

Target Asset Allocation

The target asset allocation for the investment portfolio is determined by the Board of Trustees to facilitate the achievement of the investment program's long-term investment objectives within the established risk parameters. Due to the fact that the allocation of funds between asset classes may be the single most important determinant of the investment performance over the long run, the System's assets shall be divided into the following asset classes:

Asset Class	Minimum Percentage	Maximum Percentage	Target Percentage
Equities	55%	60%	65%
US Large Cap	18%	24%	30%
US Non-Large Cap	12%	18%	24%
International Equity	12%	18%	24%
Fixed Income	35%	40%	45%

Formal asset allocation studies will be conducted at least every five years, with annual evaluations of the validity of the adopted asset allocation based on updated return projections. Any change in capital market assumptions or liabilities will require consideration of revision to the asset allocation policy.



* Fixed income includes cash and cash equivalents. Percentages exclude Satellite Portfolio.

INVESTMENT SECTION

Investment Performance Summary

For the Periods Ended June 30, 2008

Account	Current	2 Years	3 Years	4 Years	5 Years
Equity					
SSgA S&P 500 Flagship	(13.1%)	2.4%	4.4%	N/A	N/A
S&P 500	(13.1%)	2.4%	4.4%	4.9%	7.6%
Wellington Management Small Cap	(15.4%)	1.9%	N/A	N/A	N/A
Russell 2000 Value	(21.6%)	(4.6%)	1.4%	4.5%	10.0%
Oberweis Asset Management	(26.4%)	(8.8%)	(3.3%)	N/A	N/A
Russell 2000 Growth	(10.8%)	2.1%	6.1%	5.6%	10.4%
Total Domestic Equity	(16.0%)	0.1%	3.0%	4.1%	7.0%
Domestic Equity Policy Index*	(12.7%)	2.4%	4.4%	4.9%	7.6%
LSV Asset Management	(17.1%)	4.8%	N/A	N/A	N/A
MSCI EAFE	(10.2%)	7.0%	13.3%	13.5%	17.2%
Sanderson Asset Management	(12.6%)	6.7%	N/A	N/A	N/A
MSCI EAFE	(10.2%)	7.0%	13.3%	13.5%	17.2%
Pyramis International	(5.5%)	8.0%	N/A	N/A	N/A
MSCI EAFE	(10.2%)	7.0%	13.3%	13.5%	17.2%
New Star International	(9.5%)	7.0%	N/A	N/A	N/A
MSCI EAFE	(10.2%)	7.0%	13.3%	13.5%	17.2%
1607 Capital Partners	N/A	N/A	N/A	N/A	N/A
MSCI EAFE	(10.2%)	7.0%	13.3%	13.5%	17.2%
Total International Equity	(10.9%)	6.8%	N/A	N/A	N/A
MSCI EAFE	(10.2%)	7.0%	13.3%	13.5%	17.2%
Total Equity	(14.1%)	2.4%	4.6%	5.3%	8.0%
Total Equity Policy Index**	(11.9%)	3.8%	5.4%	5.6%	8.2%
Fixed Income					
PIMCO (Core Plus)	9.2%	7.6%	4.7%	5.1%	4.1%
Lehman Aggregate	7.1%	6.6%	4.1%	4.8%	3.9%
Tattersall Advisory Group	2.5%	4.3%	2.7%	3.7%	3.1%
Lehman Aggregate	7.1%	6.6%	4.1%	4.8%	3.9%
Total Fixed Income	7.0%	6.5%	4.0%	4.7%	3.8%
Lehman Aggregate	7.1%	6.6%	4.1%	4.8%	3.9%
Total Fund w/o Vanguard Star Fund	(5.8%)	4.3%	4.5%	5.2%	6.4%
Total Fund Policy Index***	(4.4%)	5.1%	5.0%	5.4%	6.6%
Vanguard Star Fund (Satellite portfolio)	(6.2%)	N/A	N/A	N/A	N/A
Vanguard Blended Benchmark****	(5.2%)	4.8%	5.6%	6.2%	7.8%
Wellington Opportunistic (Satellite portfolio)	N/A	N/A	N/A	N/A	N/A
Wellington Blended Benchmark*****	(5.2%)	4.8%	5.6%	6.2%	7.8%
Total Fund w/ Satellite Portfolio	(5.3%)	4.6%	4.7%	5.3%	6.5%
Total Fund Policy Index***	(4.4%)	5.1%	5.0%	5.4%	6.6%

* Domestic Equity Policy Index = 100% Russell 3000.

** Total Equity Policy Index = 70% Russell 3000, and 30% MSCI EAFE.

*** Total Fund Policy Index = 42% Russell 3000, 18% MSCI EAFE, and 40% Lehman Aggregate.

**** Vanguard Blended = 50% MSCI US Broad, 25% Lehman Aggregate, 12.5% Lehman 1-5 Year Credit, and 12.5% MSCI EAFE.

***** Wellington Blended = 65% S&P 500, 35% Lehman Aggregate.

Investment returns are time-weighted returns based on market value and net of investment management fees. The investment returns shown elsewhere in this report are net of all expenses paid by the System (investment management fees, custody and consultant fees, and administrative expenses).

INVESTMENT SECTION

Schedule of Broker Commissions

Broker selection is the responsibility of individual investment managers. Transactions and commission costs are monitored by State Street Bank (the custodian), the investment consultant, and the Chief Investment Officer.

Following is a list of brokers who received commissions of \$10,000 or more during fiscal year 2008. A complete schedule of all commissions paid is available from the Retirement Office.

Broker	Number of Shares	Total Commission \$	Commission \$ Per Share
Knight Securities	1,450,299	\$34,807.18	\$0.024
Instinet	1,559,816	\$32,756.14	\$0.021
Lehman Brothers Inc.	71,309	\$14,261.80	\$0.200
Merrill Lynch, Pierce, Fenner + Smith, Inc.	1,099,653	\$10,996.53	\$0.010
Liquidnet Inc.	525,500	\$10,510.00	\$0.020
Bear Stearns Securities Corporation	2,140	\$10,040.88	\$4.692

INVESTMENT SECTION

List of Largest Assets Directly Held

As of June 30, 2008

Ten Largest Stock Holdings (by fair market value)

Stock	Shares	Fair Value
Exxon Mobil Corporation	80,456	\$7,090,622
General Electric Company	151,711	\$4,049,161
Microsoft	122,118	\$3,359,465
Chevron Company	31,493	\$3,121,932
AT&T Incorporated	90,406	\$3,045,768
Proctor & Gamble	46,476	\$2,826,198
Johnson & Johnson	42,911	\$2,760,921
International Business Machines	20,929	\$2,480,761
Apple Incorporated	13,422	\$2,247,352
ConocoPhillips	23,467	\$2,215,063

Ten Largest Bond Holdings (by fair market value)

Bond	Interest Rate	Maturity Date	Par Value	Fair Value
FNMA TBA July 30 Single Fam	5.50%	Dec 1, 2099	\$30,400,000	\$29,953,500
FNMA Pool 735227	5.50%	Feb 1, 2035	\$12,529,018	\$12,403,728
FHLMC TBA July 30 Gold Single	5.50%	Dec 1, 2099	\$11,000,000	\$10,836,718
FHLMC TBA July 30 Gold Single	6.00%	Dec 1, 2099	\$10,600,000	\$10,707,242
FNMA TBA July 30 Single Fam	5.00%	Dec 1, 2099	\$10,100,000	\$9,677,851
FNMA Pool 815519	5.50%	Mar 1, 2035	\$9,527,499	\$9,426,269
FNMA Pppl 933739	5.00%	Apr 1, 2038	\$8,611,057	\$8,260,560
BNP Paribas Fin Inc	2.74%	Sep 18, 2008	\$7,500,000	\$7,448,035
FNMA Pool 889579	6.00%	May 1, 2038	\$6,555,040	\$6,621,103
Small Business Administration	4.86%	Jan 1, 2025	\$3,772,730	\$3,699,652

A complete list of portfolio holdings is available upon request.

Actuarial Section (Unaudited)



Classic Values, Innovative Advice

Actuary's Certification Letter

October 22, 2008

The Board of Trustees
Employees' Retirement System
of the City of Norfolk
Norfolk, Virginia 23510

The Members of the Board:

Actuarial valuations of the Employees' Retirement System of the City of Norfolk are performed annually. The results of the latest actuarial valuation of the System, which we have prepared as of June 30, 2008, are summarized in this letter.

The valuation reflects the benefits in effect on the valuation date and was prepared on the basis of the data submitted by the City of Norfolk and the actuarial assumptions as adopted by the Board of Trustees of the Employees' Retirement System, including a valuation interest rate assumption of 7½% per annum, compounded annually.

The actuarial assumptions and methods used for funding purposes comply with the parameters set forth in Governmental Accounting Standards Board Statement No. 25, *Financial Reporting for Defined Benefit Plans*.

Financing Objective and Contribution Appropriation

The financing objective of the Employees' Retirement System is to:

- a) fully fund the normal cost contribution for the current year determined under the funding method; and
- b) liquidate the unfunded accrued liability based on level dollar contributions payable over an open amortization period of 20 years.

The contribution appropriated for the fiscal year ended June 30, 2008 was determined based on the results of the June 30, 2007 valuation. The contribution amount was \$25,667,556.

The results of the June 30, 2008 valuation determine the contribution appropriation for the fiscal year ending June 30, 2009, which will be presented in our valuation report subject to your approval.

As of June 30, 2008, the System's accrued liability was 93% funded based on the actuarial value of assets, including the contribution for the fiscal year ended June 30, 2008. The accrued liability was 87% funded based on the market value of assets.

Included in the valuation report are contribution and funding progress schedules prepared by the actuary.



Actuary's Certification Letter

The Board of Trustees
October 22, 2008
Page 2

Assets and Participant Data

The City reported the individual data for members of the System as of the valuation date to the actuary. While we did not verify the data at their source, we did perform tests for internal consistency and reasonability in relation to the data submitted for the previous valuation.

The amount of current assets in the trust fund taken into account in the valuation was based on statements prepared for us by the City.

Actuarial Assumptions and Methods

The current actuarial assumptions used for valuation purposes were adopted by the Board of Trustees and were first effective with the June 30, 2007 actuarial valuation. The most recent study of the plan's experience, used in developing the current actuarial assumptions, was based on a period from July 2000 to June 2006. In our opinion, the actuarial assumptions used in the valuation are, in the aggregate, reasonable.

Included in the valuation report is a schedule, which presents an outline of the actuarial assumptions and methods used to prepare the actuarial valuation results.

The actuarial cost method utilized is the entry age normal cost method.

The valuation assets are determined as the market value less (1) 66 $\frac{2}{3}$ % of the net gain (loss) during the preceding year, and (2) less 33 $\frac{1}{3}$ % of the net gain (loss) during the second preceding year.

Schedules of Financial Results and Membership Data

Detailed summaries of the financial results of the valuation and membership data used in preparing the valuation are shown in the valuation report. The actuary prepared supporting schedules and required supplementary information included in the Actuarial, Financial, and Statistical Sections of the Comprehensive Annual Financial Report.

To the best of our knowledge, this report is complete and accurate and has been prepared in accordance with generally accepted actuarial principles and practice.

Respectfully submitted,
Cheiron



Fiona E. Liston, FSA, EA
Consulting Actuary

ACTUARIAL SECTION

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Actuarial Assumptions

Interest Rate: 7½% per annum, compounded annually (adopted as of June 30, 1990).

Mortality:

Pre-Retirement: RP-2000 Employee Mortality*

Health Annuitants: RP-2000 Healthy Annuitant Mortality

Disableds: RP-2000 Disability Mortality

* 1.5% of deaths are assumed to be accidental for general employees;
40% of deaths are assumed to be accidental for firefighters and police.

Salary Increase:

Representative values are as follows:

Annual Rate of Salary Increase		
Service	General	Firefighters and Police
0	7.25 %	12.50 %
1	7.00	10.00
2	6.75	7.50
3	6.50	7.00
4	6.25	6.50
5	6.20	6.45
10	5.88	6.12
15	5.29	5.46
20	4.69	4.81
25	4.10	4.15
30	3.50	3.50

Withdrawal:

Service	General	Firefighters and Police
0	15.00 %	8.25 %
1	13.00	7.75
2	11.00	7.00
3	9.00	6.00
4	7.00	5.00
5	5.00	4.25
10	3.00	2.80
15	2.00	1.00
20	1.70	1.00
25	1.00	1.00
30	1.00	1.00

ACTUARIAL SECTION

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (continued)

Disability:

Age	General*		Firefighters and Police	
	Male	Female	Accidental	Ordinary
20	0.13%	0.09%	0.03%	0.04%
25	0.15	0.11	0.05	0.06
30	0.18	0.12	0.07	0.09
35	0.29	0.20	0.10	0.12
40	0.44	0.30	0.25	0.18
45	0.68	0.47	0.47	0.32
50	1.01	0.69	0.79	0.55
54	1.32	0.90	1.06	0.74
55	1.41	0.96	1.13	0.79
59	2.05	1.40	1.49	1.03

* 7.5% of disabilities are assumed to be accidental.

Retirement:

General:

Age	Early Retirement	Normal Service Retirement
45	7.50%	15.00%
50	7.50	15.00
51	7.50	15.00
52	5.00	15.00
53	5.00	15.00
54	5.00	15.00
55	5.00	15.00
56	5.00	15.00
57	5.00	15.00
58	5.00	15.00
59	5.00	15.00
60		25.00
61		25.00
62		25.00
63		25.00
64		25.00
65		25.00
66		25.00
67		25.00
68		25.00
69		25.00
70		100.00

ACTUARIAL SECTION

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (continued)

Firefighters and Police:

Age	Early Retirement	Normal Service Retirement
35	5.00%	0.00%
40	5.00	20.00
45	5.00	20.00
50	3.00	20.00
51		20.00
52		20.00
53		20.00
54		20.00
55		25.00
56		25.00
57		25.00
58		25.00
59		25.00
60		25.00
61		25.00
62		100.00

NOTE: Rates apply to each member based on eligibility requirements as defined in the Summary of Benefit and Contribution Provisions.

Future Expenses:

The assumed interest rate is net of the anticipated future administrative expenses of the Employees' Retirement System.

Loading or Contingency Reserves

A load of 0.90% for general employees and 1.10% for firefighters and police is applied to retirement benefits for active employees to account for unused sick leave balances at time of retirement.

Marital Status

Sixty-five percent of the general employees and 80% of the firefighters and police are assumed to be married, with males three years older than females.

ACTUARIAL SECTION

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (concluded)

Methods

Actuarial Cost Method: Entry Age Normal Cost Method. The unfunded actuarial liability (UAL) that arose from the offering of the Public Safety Retirement Enhancement Program is being amortized over a closed 20-year period commencing as of July 1, 2005. The remaining UAL is being amortized over an open period of 20 years. Both rates are developed using a level-dollar amortization method.

Asset Valuation Method: The valuation assets are determined as the market value less (1) 66⅔% of investment gain (loss) during the preceding year, less (2) 33⅓% of investment gain (loss) during the second preceding year. For the purpose of this calculation, the gain (loss) is defined as the difference between the actual and the expected return (based on the valuation interest rate) on the market value of assets during the year. The valuation assets on June 30, 2006 reflect the market value on that date less 66⅔% of investment gain (loss) during the preceding year, less 33⅓% of investment gain (loss) during the second preceding year.

ACTUARIAL SECTION

SCHUDULE OF ACTIVE MEMBER VALUATION DATA

Census and Assets: The valuation was based on members of the System as of June 30, 2008 and does not take into account future members. All census data were supplied by the Executive Secretary of the System and were subject to reasonable consistency checks. Asset data were supplied by the Executive Secretary and the accountants of the System.

General Employees:

Valuation as of June 30	Number of Active Members*	Valuation Payroll	Average Salary	Percent Increase in Average
2008	2,731	\$114,324,832	\$41,862	1.7%
2007	2,664	109,648,809	41,159	2.5
2006	2,581	103,670,563	40,167	2.9
2005	2,607	101,743,424	39,027	2.5
2004	2,644	100,685,330	38,081	2.6
2003	2,623	97,400,460	37,133	1.4
2002	2,631	96,381,952	36,633	3.4

* Excludes 18 members on leave of absence.

Firefighters and Police:

Valuation as of June 30	Number of Active Members*	Valuation Payroll	Average Salary	Percent Increase (Decrease) in Average
2008	1,204	\$61,065,532	\$50,719	3.0%
2007	1,188	58,481,530	49,227	5.0
2006	1,186	55,608,188	46,887	(1.3)
2005	1,231	58,480,713	47,507	1.4
2004	1,217	57,029,081	46,860	2.1
2003	1,192	54,710,827	45,898	0.8
2002	1,192	54,292,435	45,547	4.0

* Excludes 19 members on leave of absence.

Total:

Valuation as of June 30	Number of Active Members*	Valuation Payroll	Average Salary	Percent Increase in Average
2008	3,935	\$175,390,364	\$44,572	2.1%
2007	3,852	168,130,339	43,648	3.2
2006	3,767	159,278,750	42,283	1.3
2005	3,838	160,224,137	41,747	2.2
2004	3,861	157,714,411	40,848	2.4
2003	3,815	152,111,287	39,872	1.2
2002	3,823	150,674,387	39,413	3.4

* Excludes 37 members on leave of absence.

ACTUARIAL SECTION

RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

Year Ended June 30	Added to Rolls		Removed from Rolls		On Rolls at Year-End			% Increase Average Allowance
	No.	Annual Allowance	No.	Annual Allowance	No.	Annual Allowance	Average Allowance	
2008	145	3,644,988	88	1,233,612	3,279	59,853,704	18,254	2.4%
2007	176	4,566,162	105	1,431,827	3,222	57,442,328	17,828	3.4%
2006	308	10,207,250	86	992,041	3,151	54,307,994	17,235	12.0%
2005	207	3,994,142	60	571,616	2,929	45,092,784	15,395	2.8%
2004	176		104		2,782	41,670,258	14,979	4.3%
2003	167		103		2,710	38,925,660	14,364	4.3%
2002	145		11		2,646	36,427,435	13,767	5.4%

Note: The dollar amounts of the annual allowances added to and removed from the rolls was not calculated for years prior to June 30, 2005 by the prior actuary. The amount added to the rolls includes additions and deletions due to COLAs, supplements, workers' compensation in addition to the annual allowance for new retirees.

ACTUARIAL SECTION

SOLVENCY TEST

The System's funding objective is to meet long-term benefit obligations through contributions that remain approximately level from year to year as a percentage of the members' payroll. If the contributions to the System are level in concept and soundly executed, the System will pay promised benefits when due, thus providing 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 plan's progress under its funding program. In a short condition test, the System's present assets (cash and investments) are compared with: (1) active member contributions, (2) the liabilities for future benefits to present retired lives, and (3) the employer-provided portion of liabilities for service already rendered by active members. In a plan that has been following the discipline of level percent of payroll financing, the active member contribution balances (Liability (1)), the liabilities for future benefits to present retired members (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 at least partially covered by the remainder of present assets.

The relationship between accrued liabilities and net assets of the System for fiscal years ended June 30, 2002 through June 30, 2008 are presented as follows:

Valuation Date	(1)	(2)	(3)	Reported Assets	Portion of Accrued Liabilities Covered by Reported Assets		
	Active Member Contributions	Retirees, Vested Terms, Beneficiaries	Active Members (Employer Financed Portion)		(1)	(2)	(3)
2008 ⁽¹⁾	\$ 78,685	\$605,567,032	\$403,409,400	\$937,766,796	100.0%	100.0%	82.3%
2007 ⁽²⁾	83,376	585,584,308	386,563,802	925,821,257	100.0%	100.0%	88.0%
2006 ⁽³⁾	84,360	566,232,610	372,779,959	881,035,790	100.0%	100.0%	84.4%
2005 ⁽⁴⁾	198,018	469,436,407	414,295,992	854,146,038	100.0%	100.0%	92.8%
2004 ⁽⁵⁾	215,208	421,470,962	423,984,074	816,120,329	100.0%	100.0%	93.0%
2003 ⁽⁶⁾		397,310,521	415,925,946	760,502,908	100.0%	100.0%	93.5%
2002 ⁽⁷⁾		372,747,805	411,904,507	798,070,877	100.0%	100.0%	100.0%

⁽¹⁾ Retirees and beneficiaries as of May 1, 2007 were granted a permanent 2.0% supplemental benefit increase effective July 2008.

⁽²⁾ Retirees and beneficiaries as of June 30, 2006 were granted a permanent 2.0% supplemental benefit increase effective July 2007.

⁽³⁾ Retirees and beneficiaries as of June 30, 2005 were granted a permanent 2.5% supplemental benefit increase effective July 2006.

137 members retired under the Public Safety Retirement Enhancement Program (PSREP) between July 1, 2005 and June 30, 2006.

⁽⁴⁾ Retirees and beneficiaries as of June 1, 2004 were granted a permanent 1.0% supplemental benefit increase effective July 2005.

ACTUARIAL SECTION

SOLVENCY TEST (concluded)

- (5) Retirees and beneficiaries as of June 30, 2003 were granted a permanent 1.5% supplemental benefit increase effective July 2004.
- (6) Retirees and beneficiaries as of June 30, 2003 were granted a permanent 1% supplemental benefit increase effective July 2003.
- (7) City Council Members on or after July 1, 2001 are granted the same benefits as public safety employees. Eligibility for ordinary death benefits was extended to include any member who has less than 10 years of service and is eligible for early retirement. Retirees and beneficiaries as of December 31, 2002 were granted a permanent 2% supplemental benefit increase effective July 2002.

ANALYSIS OF FINANCIAL EXPERIENCE

Type of Activity	2005	2006	2007	2008
Investment income	\$ (1,846,575)	\$ (9,599,180)	\$ 11,169,481	\$(22,682,482)
Combined liability experience	<u>5,806,560</u>	<u>7,185,050</u>	<u>2,559,923</u>	<u>8,284,079</u>
Gain (loss) during year from financial experience	3,959,985	(2,414,130)	13,729,404	(14,398,403)
Non-recurring items	<u>(3,953,506)</u>	<u>(27,774,121)</u>	<u>(1,450,971)</u>	<u>(10,545,384)</u>
Composite gain (loss) during year	\$ 6,479	\$(30,188,251)	\$ 12,278,433	\$(24,943,787)

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS

The following is intended to summarize the key benefits valued in this valuation. Members of the System and other parties should not rely on this summary as a substitute for or interpretation of the laws and ordinances of the Norfolk City Code covering this retirement plan.

Membership

Any permanent regular full-time employee entering the service of the City of Norfolk is required to become a member of the Retirement System. Upon entering the System, members are classified according to their occupational group, either as general employees, firefighters, police officers, or paramedics.

Paramedics formerly members of the General Employees Group, were reclassified as members of firefighters and police effective June 9, 1992. City Council members on or after July 1, 2001 are classified as members of firefighters and police.

For each full calendar year beginning on or after January 1, 1997, any permanent part-time employees shall be members of and entitled to benefits in proportion to which their annual hours bear to that of full-time employees.

Benefits

Normal Service Retirement Allowance:

Eligibility:

The earlier of age 60 or 30 years of creditable service for general employees. The earlier of age 55 or 25 years of creditable service for firefighters, police officers, and paramedics. Mandatory retirement is age 62 for firefighters and police officers.

Employees Hired Before July 1, 1980:

For general employees, the pension earned is 2% of average final compensation for each year of creditable service.

Effective January 1, 1997 for general employees, the maximum number of years of creditable service is the greater of 35 years or the number of years of service as of December 31, 1996.

For firefighters, police officers, and paramedics, the pension earned is 2.5% of average final compensation for each year of creditable service up to a maximum of 65% of average final compensation.

Employees Hired on or After July 1, 1980:

For general employees, the pension earned is 1.75% of average final compensation for each year of creditable service up to a maximum of 35 years.

For firefighters, police officers, and paramedics, the pension earned is 2.5% of average final compensation for each year of creditable service up to a maximum of 65% of average final compensation.

“Average Final Compensation” means the average annual earnable compensation for the three years of creditable service which produces the highest average. Creditable service consists of membership service plus 100% of accumulated unused sick leave for all employees except firefighters. For firefighters, 46% of unused sick leave accumulated prior to July 1, 1985 and 100% of unused sick leave accumulated on and after July 1, 1985 is included.

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS (continued)

Early Service Retirement Allowance

Eligibility:

Within five years of eligibility for normal service retirement.

Amount:

Accrued service retirement allowance deferred to normal service retirement age. A member may elect to receive an immediate benefit equal to the accrued service retirement allowance reduced by $\frac{1}{4}$ of 1% for each month commencement date precedes the normal retirement date for general employees, and $\frac{1}{2}$ of 1% for each month commencement date precedes the normal retirement date for firefighters, police officers, and paramedics.

Vested Allowance

Eligibility:

Five years of creditable service.

Amount:

Accrued service retirement allowance deferred to normal retirement age. If not eligible for retirement, a member may elect to leave their contributions made prior to July 1, 1972 with interest, if any, in the System until normal service retirement date.

Ordinary Disability Retirement Allowance

Eligibility:

Five years of creditable service and total and permanent disability not due to an accident in the performance of duty.

Amount:

Accrued service retirement allowance with a minimum of 25% of average final compensation. The minimum cannot exceed the normal service retirement allowance based on average final compensation and creditable service projected to normal service retirement date.

Accidental Disability Retirement Allowance

Eligibility:

Total and permanent disability as a result of an accident in the performance of duty, regardless of length of service. Applications must be filed within six years from date of accident.

The disability of a firefighter, police officer, sheriff, or deputy sheriff caused by hypertension, heart disease, or respiratory disease is presumed to have been suffered in the line of duty unless the contrary is shown by medical evidence.

Amount:

The amount payable is 66 $\frac{2}{3}$ % of average final compensation.

ACTUARIAL SECTION

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS (continued)

Ordinary Death Benefit

Eligibility:

Death in active service due to causes not the result of an accident in the performance of duty. Benefits are paid to a designated beneficiary or estate.

Amount:

All contributions, if any, made by the member with not less than one-half of the interest credited are paid. In addition, if the member had one year of creditable service if he became a member prior to July 1, 1979 and five years of creditable service if he became a member on or after July 1, 1979, an additional lump-sum benefit equal to 50% of their earnable compensation during the year immediately preceding their death is payable. If a member dies in service after the earlier of completion of 10 years of service or early service retirement eligibility and if the designated beneficiary for the lump-sum death benefit is the spouse, the spouse may elect to receive, in lieu of the lump sum death benefit, a monthly pension payable until death or remarriage. If the member was eligible for early or normal service retirement, the spouse's benefit is equal to one-half of the retirement allowance that would have been payable to the member had the member retired and immediately commenced payment. If the member was not eligible for early or normal service retirement, the spouse's benefit is equal to one-half of the normal service retirement allowance, which would have been payable to the member if he or she had been vested, such benefit to commence at the same time as the vested benefit would have been paid to the member. If the spouse dies or remarries before the youngest unmarried child attains age 18, the pension shall continue to the date that all the children have died, married, or attained age 18, whichever occurs first. If the spouse was receiving benefits on or before June 30, 1978, payments shall continue after remarriage with no further payments after death.

Accidental Death Benefit

Eligibility:

Death in active service resulting from an accident in the performance of duty within six years from the date of the accident. The death of a firefighter, police officer, sheriff, or deputy sheriff caused by hypertension, heart disease, or respiratory disease in the case of firefighters is presumed to have been suffered in the line of duty, unless the contrary is shown by medical evidence.

Amount:

Fifty percent of average final compensation is payable to spouse until death or remarriage. If there is no spouse or if spouse dies or remarries, benefit is payable to children under age 18 or dependent parents. In addition, all contributions, if any, made by the member with not less than one-half of the interest credited are paid to their designated recipient or estate. If there is no spouse, a lump-sum benefit equal to 50% of their earnable compensation during the year immediately preceding their death is payable.

Offset on Account of Workers' Compensation:

All benefits paid under the provisions of any workers' compensation act or any similar law to any member or beneficiary, or to the dependents of any member or beneficiary on account of any disability or death are in such manner as the Board determines, offset against any benefits provided from City contributions to the Employees' Retirement System.

ACTUARIAL SECTION

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS (continued)

Death Benefit After Retirement

Eligibility:

Death of a retired member receiving retirement allowance payments and who completed five years of creditable service if they became a member after July 1, 1979 or of a spouse receiving an accidental death benefit.

Amount:

Lump sum equal to one-half of the average final compensation on which the retirement allowance of the deceased retired member or spouse was based. The lump sum is payable to the surviving spouse, to unmarried children under age 18, or unmarried children over age 18 who are physically or mentally unable to make a living.

In the case of a retired member who dies and leaves a surviving spouse, the spouse may elect to receive, in lieu of the lump-sum death benefit, a monthly benefit payable until death or remarriage, which is equal to one-half of the retirement allowance, which the deceased member was receiving at the time of their death, provided the member had not made an optional election. If the spouse dies or remarries before the youngest unmarried child attains age 18, the pension will continue to the date that all the children have died, married, or attained age 18, whichever occurs first. If the spouse was receiving payments on or before June 30, 1978, payments shall continue after remarriage with no further payments after death.

Return of Contributions

Eligibility:

Termination of membership prior to death.

Amount:

If not eligible for a retirement allowance, all contributions with not less than one-half of interest credited. If eligible for normal or early service, ordinary disability, accidental disability, or vested retirement allowance, their contributions, if any, with not less than one-half of the interest credited. The member may elect, prior to the commencement of their retirement allowance, to receive an annuity which is the actuarial equivalent of their accumulated contributions.

Normal and Optional Forms of Benefits:

Normal Life	Life Annuity
Option A	A reduced pension with the provision that at death the reduced pension will be continued throughout the life of the designated beneficiary.
Option B	A reduced pension with the provision that at death, one-half of the reduced pension will be continued throughout the life of the designated beneficiary.
Option C	A reduced pension with the provision that at death some other benefit approved by the Board of Trustees will be payable.

ACTUARIAL SECTION

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS (concluded)

Return of Contributions, (concluded)

Contributions

By Members	No contributions required.
By City	Annual contributions actuarially computed to be required to cover the cost of benefits of the System.

Changes in Plan Provisions

Retirees and beneficiaries as of May 1, 2007 were granted a permanent 2.0% supplemental benefit increase effective July 2008.

**Statistical Section
(Unaudited)**

STATISTICAL SECTION

ADDITIONS BY SOURCE AND DEDUCTIONS BY TYPE

Schedule of Additions by Source

Fiscal Year Ended June 30	Employee Contributions	Employers' Contributions		Total Net Investment Income	Additions
		Dollars	% of Covered Payroll		
2008	\$ -	\$ 25,700,000	14.90 %	\$ (48,500,000)	\$ (22,800,000)
2007	-	25,100,000	15.98	128,700,000	153,800,000
2006	-	25,700,000	15.28	40,000,000	65,700,000
2005	-	23,700,000	14.63	54,500,000	78,200,000
2004	-	23,500,000	14.77	82,500,000	106,000,000
2003	-	17,000,000	10.65	39,100,000	56,100,000
2002	-	4,300,000	2.71	(61,100,000)	(56,800,000)

Schedule of Deductions by Type

Fiscal Year Ended June 30	Benefit Payments	Refund of Contributions	Lump-Sum Death Benefits	Administrative Expenses	Total Deductions
2008	\$ 58,000,000	\$ -	\$ 300,000	\$ 600,000	\$ 58,900,000
2007	55,500,000	-	100,000	600,000	56,200,000
2006	51,100,000	100,000	100,000	600,000	51,900,000
2005	43,300,000	-	100,000	400,000	43,800,000
2004	39,400,000	-	100,000	400,000	39,900,000
2003	36,700,000	100,000	100,000	800,000	37,700,000
2002	35,000,000	100,000	200,000	300,000	35,600,000

Total Change in Net Assets

Fiscal Year Ended June 30	Total Change in Net Assets
2008	\$ (81,700,000)
2007	97,600,000
2006	13,800,000
2005	34,400,000
2004	66,100,000
2003	18,400,000
2002	(92,400,000)

Contributions were made in accordance with the actuarially determined contribution requirement.

STATISTICAL SECTION

**Schedule of Benefit Payments by Type
Annual Allowances Scheduled to be Paid in Ensuing Fiscal Year**

General

As of June 30	Service Retired Members	Contingent Annuitants	Disabled Annuitants	Total
2008	\$ 26,435,000	\$ 2,509,000	\$ 2,704,000	\$ 31,648,000
2007	25,534,000	2,279,000	2,683,000	30,496,000
2006	24,224,000	2,022,000	2,575,000	28,821,000
2005	22,142,000	1,805,000	2,468,000	26,415,000
2004	19,854,000	1,692,000	2,436,000	23,982,000
2003	18,763,000	1,566,000	2,245,000	22,574,000

Allocation not available for years prior to 2003.

Firefighters and Police

As of June 30	Service Retired Members	Contingent Annuitants	Disabled Annuitants	Total
2008	\$ 23,682,000	\$ 1,594,000	\$2,929,000	\$ 28,205,000
2007	22,927,000	1,470,000	2,549,000	26,946,000
2006	21,824,000	1,374,000	2,288,000	25,486,000
2005	15,118,000	1,262,000	2,297,000	18,677,000
2004	13,826,000	1,229,000	2,632,000	17,687,000
2003	12,763,000	1,119,000	2,469,000	16,351,000

Allocation not available for years prior to 2003.

Total

As of June 30	Service Retired Members	Contingent Annuitants	Disabled Annuitants	Total
2008	\$ 50,117,000	\$ 4,103,000	\$ 5,633,000	\$59,853,000
2007	48,461,000	3,749,000	5,232,000	57,442,000
2006	46,048,000	3,396,000	4,863,000	54,307,000
2005	37,260,000	3,067,000	4,765,000	45,092,000
2004	33,680,000	2,921,000	5,068,000	41,669,000
2003	31,526,000	2,685,000	4,714,000	38,925,000
2002	29,345,000	2,575,000	4,506,000	36,426,000

STATISTICAL SECTION

Schedule of Retired Members by Type of Benefit as of June 30, 2008

General

Amount of Monthly Benefit	Number of Retirees	Type of Retirement												Option Selected*		
		1	2	3	4	5	6	7	8	9	10	11	12	1	2	
Deferred	772															
\$301-\$600	447	22	9	1	84	8	157	86	0	63	0	0	17	72	261	
\$601-\$900	278	8	3	2	37	9	128	64	0	24	0	0	3	57	165	
\$901-\$1,200	242	1	3	1	32	11	125	59	0	9	0	0	1	71	135	
\$1,201-\$1,500	218	5	2	0	13	14	118	59	0	5	0	0	2	73	136	
\$1,501-\$1,800	177	1	0	0	16	8	83	69	0	0	0	0	0	74	100	
\$1,801-\$2,100	146	2	0	0	7	4	96	36	0	1	0	0	0	61	85	
\$2,101-\$2,400	104	0	1	0	3	0	72	28	0	0	0	0	0	41	59	
\$2,401-\$2,700	82	1	0	0	3	0	59	19	0	0	0	0	0	26	56	
\$2,701-\$3,000	64	0	0	0	2	0	56	6	0	0	0	0	0	24	40	
Over \$3,000	106	0	1	0	2	1	91	10	0	1	0	0	0	24	80	
Totals	2,981	54	25	4	248	58	1,126	511	0	155	0	0	28	573	1,237	

Firefighters and Police

Amount of Monthly Benefit	Number of Retirees	Type of Retirement												Option Selected*	
		1	2	3	4	5	6	7	8	9	10	11	12	1	2
Deferred	161														
\$301-\$600	93	6	0	1	12	24	22	5	0	22	0	1	0	7	31
\$601-\$900	88	6	1	2	17	25	26	7	0	2	0	1	1	8	38
\$901-\$1,200	67	1	2	1	11	15	23	9	0	3	2	0	0	12	37
\$1,201-\$1,500	68	0	1	0	2	17	35	12	0	0	0	1	0	12	46
\$1,501-\$1,800	56	0	1	2	2	16	22	13	0	0	0	0	0	11	39
\$1,801-\$2,100	86	0	0	0	4	13	60	9	0	0	0	0	0	19	63
\$2,101-\$2,400	75	0	0	0	2	13	49	10	0	1	0	0	0	18	56
\$2,401-\$2,700	94	0	0	0	2	9	72	8	0	3	0	0	0	27	66
\$2,701-\$3,000	87	0	0	0	0	5	80	2	0	0	0	0	0	29	58
Over \$3,000	299	1	0	0	1	6	283	3	0	4	1	0	0	84	215
Totals	1,231	15	5	7	62	158	688	80	0	48	3	3	1	231	655

Total

Amount of Monthly Benefit	Number of Retirees	Type of Retirement												Option Selected*	
		1	2	3	4	5	6	7	8	9	10	11	12	1	2
Deferred	933														
\$301-\$600	540	28	9	2	96	32	179	91	0	85	0	1	17	79	292
\$601-\$900	366	14	4	4	54	34	154	71	0	26	0	1	4	65	203
\$901-\$1,200	309	2	5	2	43	26	148	68	0	12	2	0	1	83	172
\$1,201-\$1,500	286	5	3	0	15	31	153	71	0	5	0	1	2	85	182
\$1,501-\$1,800	233	1	1	2	18	24	105	82	0	0	0	0	0	85	139
\$1,801-\$2,100	232	2	0	0	11	17	156	45	0	1	0	0	0	80	148
\$2,101-\$2,400	179	0	1	0	5	13	121	38	0	1	0	0	0	59	115
\$2,401-\$2,700	176	1	0	0	5	9	131	27	0	3	0	0	0	53	122
\$2,701-\$3,000	151	0	0	0	2	5	136	8	0	0	0	0	0	53	98
Over \$3,000	405	1	1	0	3	7	374	13	0	5	1	0	0	108	295
Totals	4,212	69	30	11	310	216	1,814	591	0	203	3	3	29	804	1,892

* Beneficiaries were excluded.

Type of Retirement:

- 1 = Resigned
- 2 = Ordinary Death
- 3 = Accidental Death
- 4 = Ordinary Disability
- 5 = Accidental Disability
- 6 = Normal Retirement
- 7 = Early Retirement
- 8 = Vested Interest Service
- 9 = Compulsory Service
- 10 = Accidental Disability (Heart)
- 11 = Accidental Disability (Lung)
- 12 = Terminated

Option Selected:

- 1 = Straight Life Annuity
- 2 = Joint and 50% Survivor

Deferred Future Benefits - Terminated employees entitled to benefits but not yet receiving them.

STATISTICAL SECTION

Schedule of Retired Members by Type of Benefit as of June 30, 2008

General

Amount of Monthly Benefit	Number of Retirees	Type of Retirement			Option Selected*	
		Service Retired Members	Contingent Annuitants	Disabled Annuitants	1	2
Deferred	772					
\$1-\$300	345	157	175	13	50	120
\$301-\$600	447	277	114	56	72	261
\$601-\$900	278	184	56	38	57	165
\$901-\$1,200	242	165	36	41	71	135
\$1,201-\$1,500	218	183	9	26	73	136
\$1,501-\$1,800	177	150	3	24	74	100
\$1,801-\$2,100	146	135	0	11	61	85
\$2,101-\$2,400	104	97	4	3	41	59
\$2,401-\$2,700	82	79	0	3	26	56
\$2,701-\$3,000	64	62	0	2	24	40
Over \$3,000	106	101	2	3	24	80
Totals	2,981	1,590	399	220	573	1,237

Firefighters and Police

Amount of Monthly Benefit	Number of Retirees	Type of Retirement			Option Selected*	
		Service Retired Members	Contingent Annuitants	Disabled Annuitants	1	2
Deferred	161					
\$1-\$300	57	10	47	0	4	6
\$301-\$600	93	27	55	11	7	31
\$601-\$900	88	26	42	20	8	38
\$901-\$1,200	67	28	18	21	12	37
\$1,201-\$1,500	68	40	10	18	12	46
\$1,501-\$1,800	56	33	6	17	11	39
\$1,801-\$2,100	86	65	4	17	19	63
\$2,101-\$2,400	75	58	1	16	18	56
\$2,401-\$2,700	94	80	1	13	27	66
\$2,701-\$3,000	87	82	0	5	29	58
Over \$3,000	299	290	0	9	84	215
Totals	1,231	739	184	147	231	655

Total

Amount of Monthly Benefit	Number of Retirees	Type of Retirement			Option Selected*	
		Service Retired Members	Contingent Annuitants	Disabled Annuitants	1	2
Deferred	933					
\$1-\$300	402	167	222	13	54	126
\$301-\$600	540	304	169	67	79	292
\$601-\$900	366	210	98	58	65	203
\$901-\$1,200	309	193	54	62	83	172
\$1,201-\$1,500	286	223	19	44	85	182
\$1,501-\$1,800	233	183	9	41	85	139
\$1,801-\$2,100	232	200	4	28	80	148
\$2,101-\$2,400	179	155	5	19	59	115
\$2,401-\$2,700	176	159	1	16	53	122
\$2,701-\$3,000	151	144	0	7	53	98
Over \$3,000	405	391	2	12	108	295
Totals	4,212	2,329	583	367	804	1,892

* Beneficiaries were excluded.

Type of Retirement:

- 1 = Resigned
- 2 = Ordinary Death
- 3 = Accidental Death
- 4 = Ordinary Disability
- 5 = Accidental Disability
- 6 = Normal Retirement
- 7 = Early Retirement
- 8 = Vested Interest Service
- 9 = Compulsory Service
- 10 = Accidental Disability (Heart)
- 11 = Accidental Disability (Lung)
- 12 = Terminated

Option Selected:

- 1 = Straight Life Annuity
- 2 = Joint and 50% Survivor

Deferred Future Benefits - Terminated employees entitled to benefits but not yet receiving them.

STATISTICAL SECTION

Schedule of Average Benefit Payments (Excludes Beneficiaries)

<u>Retirement Effective Dates</u>	General					
	<u>Years of Credited Service</u>					
	<u>0-10</u>	<u>10-15</u>	<u>15-20</u>	<u>20-25</u>	<u>25-30</u>	<u>30+</u>
July 1, 2001 to June 30, 2002						
Average Monthly Benefit	\$388	\$524	\$839	\$1,913	\$1,830	\$2,500
Average - Average Final Compensation	\$16,115	\$22,083	\$28,877	\$45,605	\$38,963	\$42,461
Number of Active Retirees	12	13	9	11	8	19
July 1, 2002 to June 30, 2003						
Average Monthly Benefit	\$517	\$451	\$780	\$1,496	\$1,652	\$2,870
Average - Average Final Compensation	\$26,512	\$21,142	\$26,039	\$38,449	\$38,345	\$47,921
Number of Active Retirees	13	9	20	16	17	15
July 1, 2003 to June 30, 2004						
Average Monthly Benefit	\$340	\$610	\$873	\$1,168	\$2,101	\$2,617
Average - Average Final Compensation	\$28,858	\$27,645	\$33,012	\$33,551	\$44,052	\$45,813
Number of Active Retirees	5	8	13	14	17	32
July 1, 2004 to June 30, 2005						
Average Monthly Benefit	\$449	\$401	\$909	\$1,291	\$1,816	\$2,891
Average - Average Final Compensation	\$30,919	\$18,282	\$33,887	\$39,281	\$42,375	\$51,203
Number of Active Retirees	20	9	13	16	29	45
July 1, 2005 to June 30, 2006						
Average Monthly Benefit	\$379	\$465	\$962	\$1,402	\$1,931	\$2,897
Average - Average Final Compensation	\$53,085	\$23,496	\$35,802	\$39,545	\$45,567	\$51,570
Number of Active Retirees	13	13	16	19	19	37
July 1, 2006 to June 30, 2007						
Average Monthly Benefit	\$340	\$526	\$811	\$1,316	\$1,817	\$2,513
Average - Average Final Compensation	\$29,295	\$28,081	\$32,052	\$40,839	\$45,321	\$45,958
Number of Active Retirees	11	21	15	13	14	37
July 1, 2007 to June 30, 2008						
Average Monthly Benefit	\$652	\$440	\$815	\$1,256	\$1,689	\$2,694
Average - Average Final Compensation	\$55,139	\$24,420	\$29,838	\$38,308	\$42,258	\$49,490
Number of Active Retirees	5	19	12	11	12	20

STATISTICAL SECTION

**Schedule of Average Benefit Payments
(Excludes Beneficiaries)**

<u>Retirement Effective Dates</u>	Firefighters and Police					
	<u>Years of Credited Service</u>					
	<u>0-10</u>	<u>10-15</u>	<u>15-20</u>	<u>20-25</u>	<u>25-30</u>	<u>30+</u>
July 1, 2001 to June 30, 2002						
Average Monthly Benefit	\$1,640	\$488	\$759	\$1,781	\$3,081	\$3,149
Average - Average Final Compensation	\$29,633	\$20,977	\$31,411	\$44,353	\$50,660	\$50,426
Number of Active Retirees	2	5	4	3	14	11
July 1, 2002 to June 30, 2003						
Average Monthly Benefit	\$1,111	\$434	\$0	\$2,113	\$2,831	\$3,664
Average - Average Final Compensation	\$51,908	\$18,584	\$0	\$44,887	\$50,804	\$60,628
Number of Active Retirees	3	7	0	9	13	11
July 1, 2003 to June 30, 2004						
Average Monthly Benefit	\$0	\$686	\$863	\$1,755	\$3,055	\$3,262
Average - Average Final Compensation	\$0	\$20,961	\$26,786	\$52,311	\$55,380	\$55,763
Number of Active Retirees	0	7	1	4	17	17
July 1, 2004 to June 30, 2005						
Average Monthly Benefit	\$0	\$709	\$0	\$2,889	\$3,444	\$3,202
Average - Average Final Compensation	\$0	\$29,086	\$0	\$57,888	\$59,286	\$57,263
Number of Active Retirees	0	3	0	3	19	17
July 1, 2005 to June 30, 2006						
Average Monthly Benefit	\$0	\$649	\$0	\$2,109	\$3,430	\$3,905
Average - Average Final Compensation	\$0	\$30,842	\$0	\$50,379	\$56,277	\$59,783
Number of Active Retirees	0	1	0	10	47	95
July 1, 2006 to June 30, 2007						
Average Monthly Benefit	\$0	\$808	\$2,027	\$2,360	\$3,164	\$4,480
Average - Average Final Compensation	\$0	\$30,410	\$47,904	\$53,838	\$57,276	\$74,658
Number of Active Retirees	0	8	4	8	13	4
July 1, 2007 to June 30, 2008						
Average Monthly Benefit	\$785	\$989	\$1,238	\$2,470	\$2,965	\$3,787
Average - Average Final Compensation	\$37,660	\$38,885	\$41,792	\$55,165	\$54,778	\$73,329
Number of Active Retirees	1	2	3	7	9	6

STATISTICAL SECTION

Schedule of Average Benefit Payments (Excludes Beneficiaries)

<u>Retirement Effective Dates</u>	<u>Total</u>					
	<u>Years of Credited Service</u>					
	<u>0-10</u>	<u>10-15</u>	<u>15-20</u>	<u>20-25</u>	<u>25-30</u>	<u>30+</u>
July 1, 2001 to June 30, 2002						
Average Monthly Benefit	\$567	\$514	\$814	\$1,885	\$2,626	\$2,738
Average - Average Final Compensation	\$18,046	\$21,776	\$29,657	\$45,337	\$46,407	\$45,381
Number of Active Retirees	14	18	13	14	22	30
July 1, 2002 to June 30, 2003						
Average Monthly Benefit	\$629	\$444	\$780	\$1,718	\$2,163	\$3,206
Average - Average Final Compensation	\$31,274	\$20,023	\$26,039	\$40,766	\$43,744	\$53,297
Number of Active Retirees	16	16	20	25	30	26
July 1, 2003 to June 30, 2004						
Average Monthly Benefit	\$340	\$645	\$873	\$1,299	\$2,578	\$2,841
Average - Average Final Compensation	\$28,858	\$24,526	\$32,567	\$37,720	\$49,716	\$49,265
Number of Active Retirees	5	15	14	18	34	49
July 1, 2004 to June 30, 2005						
Average Monthly Benefit	\$449	\$469	\$909	\$1,540	\$2,460	\$2,977
Average - Average Final Compensation	\$30,919	\$20,559	\$33,887	\$41,721	\$49,069	\$52,864
Number of Active Retirees	20	12	13	19	48	62
July 1, 2005 to June 30, 2006						
Average Monthly Benefit	\$379	\$502	\$962	\$1,646	\$2,998	\$3,622
Average - Average Final Compensation	\$53,085	\$25,749	\$35,802	\$43,281	\$53,194	\$57,481
Number of Active Retirees	13	14	16	29	66	132
July 1, 2006 to June 30, 2007						
Average Monthly Benefit	\$347	\$596	\$1,080	\$1,728	\$2,482	\$2,749
Average - Average Final Compensation	\$29,295	\$27,801	\$35,389	\$45,791	\$51,077	\$48,758
Number of Active Retirees	11	29	19	21	27	41
July 1, 2007 to June 30, 2008						
Average Monthly Benefit	\$674	\$492	\$900	\$1,728	\$2,236	\$2,946
Average - Average Final Compensation	\$52,226	\$25,797	\$32,229	\$44,864	\$47,624	\$54,991
Number of Active Retirees	6	21	15	18	21	26

Compliance Section

Compliance Section

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards



KPMG LLP
Suite 2100
999 Waterside Drive
Norfolk, VA 23510

December 18, 2008

The Board of Trustees
Employees' Retirement System of the City of Norfolk
Norfolk, Virginia

We have audited the financial statements of the Employees' Retirement System of the City of Norfolk (the System) as of and for the year ended June 30, 2008, and have issued our report thereon dated December 18, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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