Comprehensive Annual Financial Report

Employees' Retirement System

A Pension Trust Fund of the City of Norfolk, Virginia

For Fiscal Year Ended June 30, 2007

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, 2007

Prepared by the Employees' Retirement System Staff
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Norfolk, VA 23510
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www.norfolk.gov/Finance/Retirement

TABLE OF CONTENTS

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, 2006

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.

President

Executive Director

EMPLOYEES' RETIREMENT SYSTEM

Letter of Transmittal

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

December 14, 2007

The Comprehensive Annual Financial Report (CAFR) of the Employees' Retirement System (System) for the City of Norfolk for fiscal year ended June 30, 2007 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, the 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 GAAP, 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, 2007 (for more information, see pages 11 through 14).

Letter of Transmittal

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.

Benefit Provisions

The System provides normal and early service retirement benefits as well as death and disability benefits. All benefits vest after 5 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 2007 statements have been audited by McGladrey & Pullen, LLP in conjunction with the City'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 Plan. 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, 2007. Information from this report is included in the Actuarial Section.

Letter of Transmittal

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, 2007, the System's funded ratio was 95.2%.

Investments

The Board of Trustees 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 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 Board 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 concepts of a Satellite Portfolio and a Core Portfolio were introduced during the fiscal year. The Satellite Portfolio is targeted at 10% of the System's assets and should be comprised of unique investment strategies with potential for additional alpha. The Satellite Portfolio was funded with its first investment in early 2007.

During the fiscal year, a couple of new investment strategies were implemented by the Trustees which are designed to better meet the System's long-term risk and return objectives. Two new managers were hired: Vanguard Star Fund (Satellite Portfolio) and Tattersall International Closed-End Fund (Core Portfolio). In conjunction with this change, the Trustees approved the rebalancing of the portfolio. The System also sought to diversify its fixed income portfolio and switched PIMCO from a core fixed income mandate to a core plus fixed income mandate.

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.

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, interest 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.

Letter of Transmittal

The net assets of the System as of June 30, 2007 were $961.8 million, an increase of $97.6 million during the fiscal year. Investment return for the year was 15.63%. 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.

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 McGladrey & Pullen, 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 35 and 36.

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, 2006. This was the second year that the government 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

Board of Trustees

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, 2006 through June 30, 2007, the Board continued its fiduciary duties and responsibilities with three (3) vacancies.

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

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

Tattersall
Richmond, Virginia

Pyramis
Boston, Massachusetts

Sanderson Asset Management
New York, NY

Fixed Income

Tattersall Advisory Group
Richmond, Virginia

Pacific Investment Management Company
Newport Beach, California

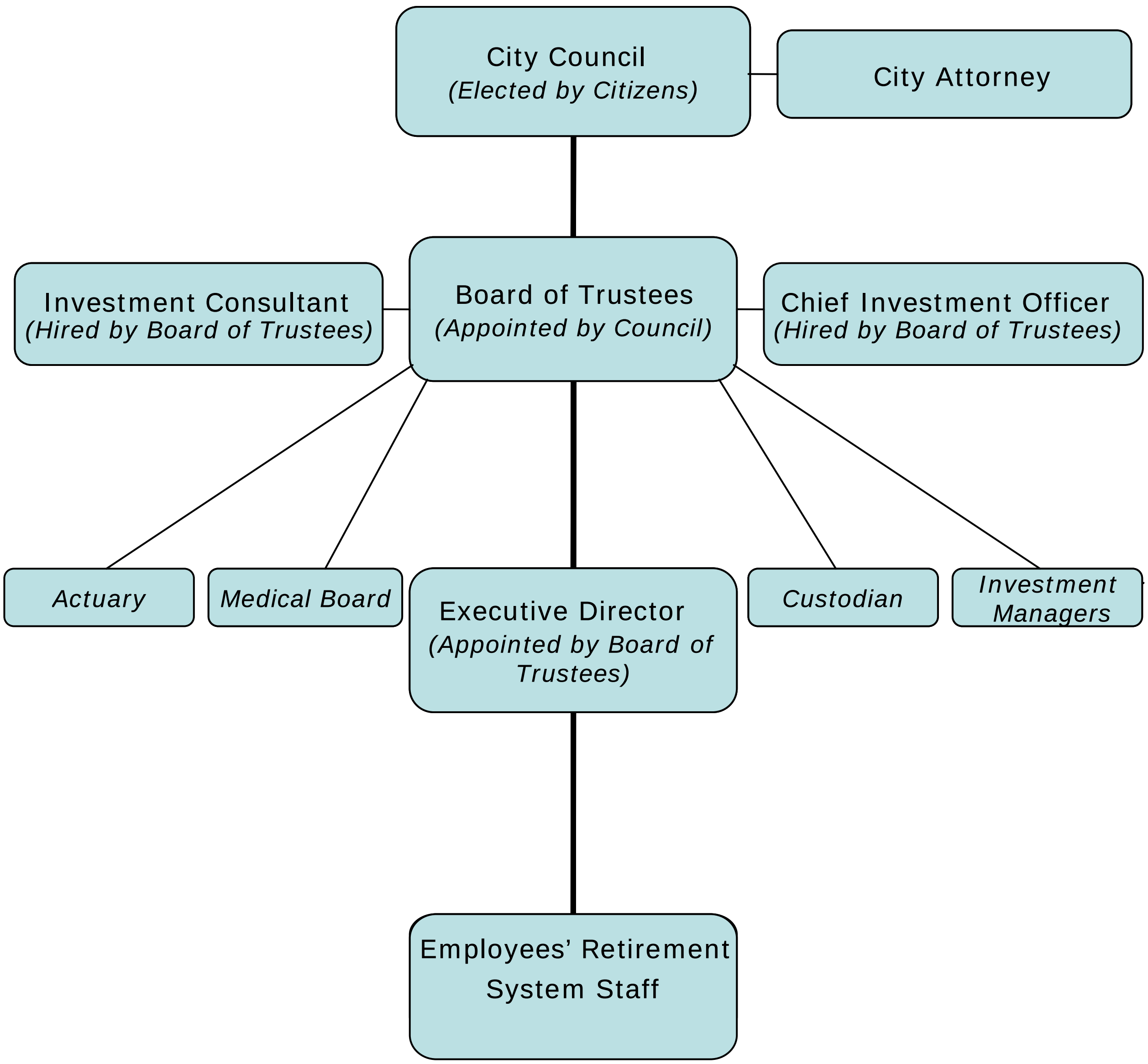
Balanced

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

McGladrey & Pullen
Certified Public Accountants

Independent Auditor's Report

To 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, 2007, 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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.

As discussed in Note 1, the accompanying financial statements present only the System and do not purport to, and do not, present fairly the financial position of the City of Norfolk, Virginia, as of June 30, 2007, and the changes in its financial position on its cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Employees' Retirement System of the City of Norfolk as of June 30, 2007, and the changes in its plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2007 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 financial statements but are supplementary information required by the Governmental Accounting Standard 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's 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 financial statements. The schedules on pages 26 and 27 have been subjected to the auditing procedures applied in the audit of 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.

McGladrey & Pullen, LLP

Greensboro, North Carolina
November 20, 2007

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, 2007 and 2006. Please read it in conjunction with the basic financial statements, which follow this discussion.

FINANCIAL HIGHLIGHTS

- System assets exceeded liabilities at the close of fiscal years 2007 and 2006 by $961.8 million and $864.2 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, 2007 and 2006, the funded ratio was 95.2% and 93.8%, respectively.

- Total additions increased over the prior year from $65.7 million to $153.9 million or about 134%. This increase was mainly due to an increase 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 $52.0 million to $56.3 million or 8.23%. Most of this increase represented vested members transferring their accrued benefits to the Virginia Retirement System.

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 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

FINANCIAL ANALYSIS

Employees' Retirement System of the City of Norfolk
Net Assets
As of June 30, 2007 and 2006

	2007	2006	2007-2006 Total% Change
ASSETS			
Cash	$ 58,493,577	$ 28,435,329	105.7%
Receivables	44,679,772	29,441,330	51.8%
Investments	904,662,471	824,778,253	9.7%
Total Assets	1,007,835,820	882,654,912	14.2%
LIABILITIES			
Accounts Payable and Other Accrued Liabilities	828,215	624,412	32.6%
Investments Purchased	45,158,947	17,792,523	153.8%
Total Liabilities	45,987,162	18,416,935	149.7%
TOTAL NET ASSETS	$ 961,848,658	$864,237,977	11.3%

Total assets as of June 30, 2007 and 2006 were $1,007,835,820 and $882,654,912, respectively, and were comprised of cash, receivables and investments. Total assets increased $125,180,908 or 14.2% for FY 2007, due in part to an increase in investments.

Total liabilities that are due and payable as of June 30, 2007 and 2006 were $45,987,162 and $18,416,935, respectively, and were comprised of payables for investment purchases and administrative costs. For FY 2007 total liabilities increased $27,570,227 or 149.7% from the prior year primarily due to an increase in obligations for investments purchased.

System assets exceeded its due and payable liabilities at the close of fiscal year 2007 and 2006 by $961,848,658 and $864,237,977 respectively. In fiscal year 2007, total net assets held in trust for pension benefits increased $97,610,681 or 11.3% from the previous year primarily due to favorable market conditions.

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, 2007 and 2006

	2007	2006	2007-2006 Total% Change
ADDITIONS			
Contributions	$ 25,135,944	$ 25,728,228	(2.3)%
Investment Income	128,724,819	40,030,110	221.6 %
Total Additions	153,860,763	65,758,338	134.0 %
DEDUCTIONS			
Benefits payments	55,491,006	51,227,897	8.3 %
Refund of Contributions	24,794	145,837	(83.0)%
Administrative Expenses	734,282	599,517	22.5 %
Total Deductions	56,250,082	51,973,251	8.2 %
Net Increase	97,610,681	13,785,087	608.1 %
Net Assets Held in Trust for Pension Benefits			
Beginning of Year	864,237,977	850,452,890	1.6 %
End of Year	$961,848,658	$864,237,977	11.3%

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 2007 and 2006 totaled $153,860,763 and $65,758,338 respectively.

Additions increased for FY 2007 by $88,102,425 from that of the prior year, due primarily to higher net appreciation in fair value of System's investments in the most recent period versus the prior period. For FY 2007 total investment income increased from the previous year by $88,694,709. The total portfolio returned 15.63% for fiscal year ended June 30, 2007 versus 7.1% for the prior fiscal year. The current fiscal year return was 8.13 percentage points above our 7.5% target.

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 2007 were $56,250,082, an increase of 8.2% over FY 2006 deductions.

The payment of pension benefits increased by $4,263,109 in FY 2007, 8.3% from the previous year. The increase in pension benefit payments resulted from Post-retirement cost of living (COLA) allowance increases of 2.5% granted to retirees on July 1, 2006 and an increase in number of retirees. The number of additional retirees was 176 and 308 in fiscal year 2007 and 2006 respectively. Administrative expenses increased for FY 2007 by $134,765 or 22.5% from the previous year due to vested members transferring their accrued benefits to the Virginia Retirement System.

RETIREMENT SYSTEM AS A WHOLE

As a result of an increase in the equity markets, combined net assets increased in FY 2007 over FY 2006. The System's funding ratio as determined by the System's actuary was 95.2% at June 30, 2007 and 93.8% at June 30, 2006. The Board, with the assistance of its Chief Investment Officer, pension consultant and actuary, continue 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.

Employees' Retirement System of the City of Norfolk

(A Pension Trust Fund of Norfolk, Virginia)
Statement of Plan Net Assets
June 30, 2007

	2007
Assets:	
Cash and cash equivalents	$ 58,493,577
Receivables:	
Employer contribution	25,135,944
Accrued investment income	2,617,553
Due from broker for securities sold	16,926,275
Total receivables	44,679,772
Investments:	
U. S. agency securities	6,339,173
Corporate bonds and debentures, including obligations of national mortgage associations	278,840,165
Common stocks	187,825,518
Domestic equity funds	236,371,057
International equity funds	195,286,558
Total investments	904,662,471
Total assets	1,007,835,820
Liabilities:	
Accounts payable and accrued expenses	828,215
Due to broker for securities purchased	45,158,947
Total liabilities	45,987,162
Net assets held in trust for pension benefits	$ 961,848,658

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

See Notes to Financial Statements.

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, 2007

	2007
Additions to net assets attributed to:	
Investment income:	
Net appreciation in fair value of investments	$ 111,007,648
Interest	16,034,982
Dividends	4,389,716
Other	443,853
	131,876,199
Less investment expense	(3,151,380)
Net investment income	128,724,819
Contributions	25,135,944
Total additions	153,860,763
Deductions from net assets attributed to:	
Benefits paid directly to participants	52,717,254
Refunds of contributions	24,794
Beneficiary payments	2,773,752
Administrative costs	734,282
Total deductions	56,250,082
Net increase	97,610,681
Net assets held in trust for pension benefits:	
Beginning of year	864,237,977
End of year	$ 961,848,658

See Notes to Financial Statements.

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, 2007

Note 1. Significant Accounting Policies

Reporting entity: Because 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, 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 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 purpose of providing retirement allowances and death benefits as authorized by the provisions of Chapter 37 of the Norfolk City Code, the System falls within the definition of a "Blended Component Unit" provided in applicable accounting standards. Furthermore, the City makes contributions, which are combined with investment earnings of the System, to provide the funding for pension benefits and administrative costs. For these reasons, the System's financial data is incorporated into the Comprehensive Annual Financial Report of the City of Norfolk. Nevertheless, 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 Employees' Retirement System of the City of Norfolk (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 approximates 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 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.

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 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, 2007 consists of the following:

Retirees and beneficiaries receiving benefits:	
General	2,180
Public safety	1,042
Terminated plan members entitled to but not yet receiving benefits:	
General	758
Public safety	151
Active plan members:	
Fully vested:	
General	1,756
Public safety	797
Nonvested:	
General	921
Public safety	409
Total	8,014

The System provides retirement benefits as well as death and disability benefits. All benefits vest after 5 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 percent 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 percent 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 percent of average final compensation times of years of creditable service, with service limited to 35 years. Public safety employees accrue benefits at 2.5 percent 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 Plan 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, 2007 is $46,410,229. 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 $25,135,944 for the year ended June 30, 2007 was based on 11.59 percent of covered payroll for general employees and 22.40 percent 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 percent. 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 $148,784 at June 30, 2007.

Note 4. Investments and Deposits

<u>Deposits</u>: At June 30, 2007, the carrying value of the System's cash deposits with banks and investment companies was $1,702,785, and the bank and investment company balance was $2,626,222. The entire bank balance was covered by federal depository insurance, commercial insurance or collateralized in accordance with the Virginia Security for Public Deposits Act. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC 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 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.

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 than 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's 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, 2007		**Investment Maturities (in years)**			
Investment Type	**Fair Value**	**Less 1 yr**	**1-5 yrs**	**6-10 yrs**	**10 yrs +**
Corporate Debt	$137,512,216	$7,259,886	$ 57,738,864	$ 5,094,089	$ 67,419,377
Floaters	300,506	-	300,506	-	-
Mortgages	141,027,443	1,524,043	9,515,306	4,505,841	125,482,253
U.S. agency	6,339,173	(169,374)	3,132,133	-	3,376,414
Domestic Equity Funds	187,825,518	N/A	N/A	N/A	N/A
Common Stock	236,371,057	N/A	N/A	N/A	N/A
International Equity Funds	195,286,558	N/A	N/A	N/A	N/A
Money Market Investments	56,790,292	N/A	N/A	N/A	N/A

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.

Notes to Financial Statements

Note 4. Investments and Deposits, continued:

Foreign Currency Risk
International Investment Securities at Fair Value
at June 30, 2007

Currency	Short-Term	Fixed Income	Equity	Options	Total
Australian Dollar	$ 55,393	$ 102	$ -	$ -	$ 55,495
Brazilian Real	-	28,072	-	-	28,072
Canadian Dollar	1,235	-	-	-	1,235
Euro	710,590	47,325	-	-	757,915
Pound Sterling	592,833	-	33,094,448	170,830	33,858,111
Japanese Yen	294,279	(38,676)	-	-	255,603
	$ 1,654,330	$ 36,823	$33,094,448	$170,830	$34,956,431

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 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 $76,234,969 and a market value of $74,011,541 were held at June 30, 2007. The System's rated debt investments as of June 30, 2007 were rated by Standard and Poor'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, 2007 Related Debt Investment Value	Fair Quality Ratings	Corporate Debt	Floaters	Mortgages	U.S. Agency	Money Market Investments
	AAA	$ 57,940,491	$ 300,506	$ 141,027,443	$ 6,512,188	$ -
	AA2	-	-	-	-	-
	AA+	3,060,936	-	-	(2,679)	-
	AA	11,556,000	-	-	1,131	-
	AA-	11,882,183	-	-	(18)	-
	A	14,270,605	-	-	-	-
	A+	7,576,691	-	-	(4,136)	-
	A-	3,335,039	-	-	-	-
	BBB	7,878,495	-	-	-	-
	BBB+	3,457,837	-	-	-	-
	BBB-	4,293,651	-	-	-	-
	BB+	226,760	-	-	-	-
	BB	235,687	-	-	-	-
	B	2,216,209	-	-	-	-
	NR	9,581,632	-	-	(167,313)	56,790,792
		$ 137,512,216	$ 300,506	$ 141,027,443	$ 6,339,173	$ 56,790,792

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 Standard and Poor's are not

Notes to Financial Statements

Note 4. Investments and Deposits, conconcluded:

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 FMNA investment pools, SSGA S&P 500 Flagship Fund and LSV International Value Equity Trust. These investments represent 8.5%, 19.6% and 6.4%, 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, 2007 was $472,201.

Note 6. Income Tax Status

The Internal Revenue Service has ruled that the Plan 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 Plan administrator and the Plan's tax counsel believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the Internal Revenue Code.

Note 7. Pronouncements Issued, Not Yet Effective

Statement No. 50 – Pension Disclosures – an amendment of GASB Statements No. 25 and 27, more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits ("OPEB") and, in doing so, enhances the information disclosed in notes to financial statements or presented as required supplementary information ("RSI") by pension plans and by employers that provide pension benefits. Statement No. 50 is effective for periods beginning after June 15, 2007.

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 Accrued Liability Projected Unit Credit	(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, 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 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.

** June 30, 2007 the Actuarial Cost Method used was entity age normal cost method; however, the Projected Unit Credit Cost Method was used in prior years.

Required Supplementary Actuarial Information

Schedule of Employer Contributions
(Unaudited)

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2007	**$25,135,944**	**100 %**
2006	25,728,228	100
2005	23,652,756	100
2004	23,469,744	100
2003	21,390,048	100
2002	-	100

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, 2007
Actuarial cost method	Entry age normal cost method
Amortization method	Level dollar open for aggregate gain or loss Level dollar closed for PSREP portion
Remaining amortization period	20 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 5.46%, compounded annually (This reflects an assumption of a range of salary increases from 7.25% for general employees and 12.50% for public safety employees at 0 years of service to 3.50% at 30 years of service for all employees.)
Cost-of-living adjustments	2.50% for retirees and beneficiaries effective June 30, 2006
Separation from active service	Assumed rates of separation from service vary depending on the age of the employee and whether the employee is a general employee or public safety employee. RP-2000 mortality tables with ages rated forward 1 year for members and 2 years for beneficiaries. Special mortality tables are used for disability retirements.
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 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.

**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, 2007

Personal Services:		
Staff salaries	$323,866	
Benefits	97,495	
Total Personal Services		$421,361
Professional Services:		
Actuarial Fees	81,182	
Medical Examinations	3,307	
Total Professional Services		84,489
Communication:		
Printing	-	
Travel & Training	4,472	
Postage & Shipping	17,567	
Total Communication		22,039
Miscellaneous:		
Supplies & Equipment	6,544	
Maintenance & Repairs	214	
Other	199,635	
Total Miscellaneous		206,393
Total Administrative Expenses		$734,282

Employees' Retirement System of the City of Norfolk

(A Pension Trust Fund of Norfolk, Virginia)

Schedule of Investment Expenses

Year Ended June 30, 2007

Investment Manager Fees	$2,616,893	
Total Investment Manager Fees		$2,616,893

Schedule of Payments to Custody and Investment Consultant

Custody Fees	180,989	
Investment Consultant Fees	353,498	
Total Custody and Investment Consultant Fees		534,487
Total Investment Expenses		$3,151,380

Investment Section
(Unaudited)

Investment Performance, Policy, Statistics, and Activity

This section prepared by Summit Strategies Group, investment consultant to the System, and an SEC 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 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 Plan's general investment goals 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.

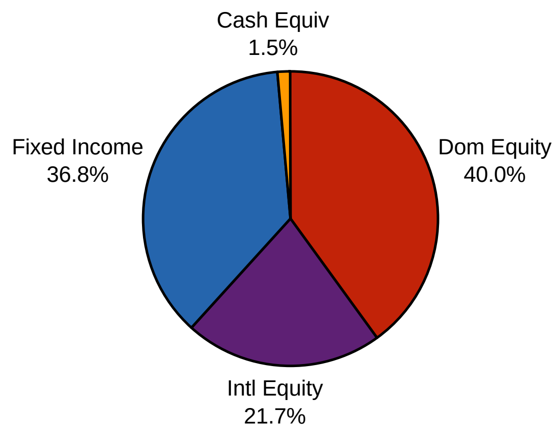
Asset Allocation

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.

Asset Allocation as of June 30, 2007



Domestic Equity	$374,730,893
International Equity	204,034,392
Fixed Income	344,843,471
Cash and Equivalents (Excludes Mgr. Cash)	13,875,956
Total	$937,484,712 *

*** Total Net Assets At Market Value**	**$937,484,712**
Adjustments to Reconcile Statement of Plan Asset Investments Total:	
Net Cash and Cash Equivalent	(58,456,178)
Receivable for Investments Sold	(16,925,751)
Dividends Receivable	(272,846)
Interest Receivable	(2,107,235)
Tax Reclaim Receivable	(10,588)
Other Receivables	(237,471)
Interest Payable – Short Positions	44,936
Payable for Investments Purchased	45,158,947
Other Payables	212,783
Unrealized Appreciation/Depreciation:	
on Foreign Cash Positions	(7,124)
on Receivables	(3,028)
on Payables	1,884
on Forward Contracts	(220,570)
Total Investments Reconciled to the Statement of Plan Net Assets (See page 15)	$904,662,471

Investment Managers and Investment Assignments as of June 30, 2007

	Market Value		% of Portfolio
Wellington Large Cap	$ 49,327,145		5.3%
SSgA S&P Flagship Fund	188,858,252		20.1%
Wellington Small Cap Value	61,521,150		6.6%
Oberweis Small Cap Growth	51,034,427		5.4%
LSV International Value Fund	61,290,116		6.5%
Sanderson International Value Fund	30,131,648		3.2%
Pyramis International Growth Fund	29,097,416		3.1%
New Star International Growth Fund	31,019,619		3.3%
Tattersall International	46,508,979		5.0%
PIMCO Core Plus	225,122,760		24.0%
Tattersall Core Bonds	107,900,656		11.5%
Transition Account	28,021		0.0%
Cash Account	8,031,881		0.9%
Vanguard Star	47,512,809		5.1%
Closed Accounts	99,833		0.0%
Total:	$937,484,712	**	100.0%

Asset Allocation Comparison as of June 30, 2007

	Equity Commitment	Fixed Income Commitment	Total Other *	Percentage Total
Total Fund	61.7%	36.8%	1.5%	100%
Median Total Fund	61.9%	26.6%	11.5%	100%
Median Public Fund	62.0%	26.6%	11.4%	100%

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

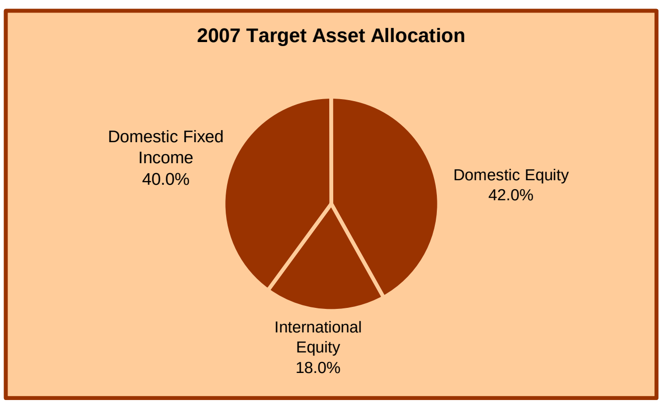
** See reconciliation to Statement of Plan Net Assets on Page 29.

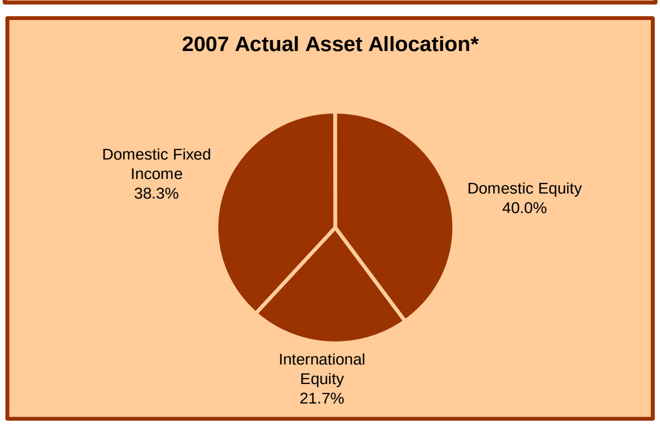
Target Asset Allocation

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 Percent	Maximum Percent	Target Percent
Equities	**55%**	**60%**	**65%**
US Large Cap	18%	24%	30%
US Non-Large Cap	12%	18%	24%
International Equity	12%	18%	24%
Domestic 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.

Investment Performance Summary

For the Periods Ended June 30, 2007

		Annualized			
Account	**Current**	**2 Years**	**3 Years**	**4 Years**	**5 Years**
Equity					
Wellington Management Large Cap	17.0%	13.1%	11.3%	12.8%	11.1%
S&P 500	*20.6%*	*14.5%*	*11.7%*	*13.5%*	*10.7%*
SSgA S&P 500 Flagship	20.6%	14.5%	N/A	N/A	N/A
S&P 500	*20.6%*	*14.5%*	*11.7%*	*13.5%*	*10.7%*
Wellington Management Small Cap	22.8%	N/A	N/A	N/A	N/A
Russell 2000 Value	*16.1%*	*15.3%*	*15.0%*	*19.8%*	*14.6%*
Oberweis Asset Management	13.0%	10.8%	N/A	N/A	N/A
Russell 2000 Growth	*16.8%*	*15.7%*	*11.8%*	*16.4%*	*13.1%*
Total Domestic Equity	**19.3%**	**14.1%**	**11.8%**	**13.7%**	**10.7%**
*Domestic Equity Policy Index**	*20.1%*	*14.2%*	*11.5%*	*13.4%*	*10.6%*
LSV Asset Management	32.5%	N/A	N/A	N/A	N/A
MSCI EAFE	*27.5%*	*27.3%*	*22.7%*	*25.2%*	*18.2%*
Sanderson Asset Management	30.2%	N/A	N/A	N/A	N/A
MSCI EAFE	*27.5%*	*27.3%*	*22.7%*	*25.2%*	*18.2%*
Pyramis International	23.5%	N/A	N/A	N/A	N/A
MSCI EAFE	*27.5%*	*27.3%*	*22.7%*	*25.2%*	*18.2%*
New Star International	26.5%	N/A	N/A	N/A	N/A
MSCI EAFE	*27.5%*	*27.3%*	*22.7%*	*25.2%*	*18.2%*
Tattersall International	N/A	N/A	N/A	N/A	N/A
MSCI EAFE	*27.5%*	*27.3%*	*22.7%*	*25.2%*	*18.2%*
Total International Equity	**28.0%**	**N/A**	**N/A**	**N/A**	**N/A**
MSCI EAFE	*27.5%*	*27.3%*	*22.7%*	*25.2%*	*18.2%*
Total Equity	**22.2%**	**15.4%**	**12.7%**	**14.4%**	**11.2%**
*Total Equity Policy Index***	*22.3%*	*15.3%*	*12.2%*	*13.9%*	*11.0%*
Fixed Income					
PIMCO (Core Plus)	6.1%	2.5%	3.8%	2.9%	4.4%
Lehman Aggregate	*6.1%*	*2.6%*	*4.0%*	*3.1%*	*4.5%*
Tattersall Advisory Group	6.2%	2.8%	4.1%	3.3%	4.8%
Lehman Aggregate	*6.1%*	*2.6%*	*4.0%*	*3.1%*	*4.5%*
Total Fixed Income	**6.0%**	**2.6%**	**3.9%**	**3.1%**	**4.6%**
Lehman Aggregate	*6.1%*	*2.6%*	*4.0%*	*3.1%*	*4.5%*
Total Fund w/o Vanguard Star Fund	**15.6%**	**10.1%**	**9.1%**	**9.7%**	**8.9%**
*Total Fund Policy Index****	*15.6%*	*10.1%*	*8.9%*	*9.5%*	*8.9%*
Vanguard Star Fund (Satellite portfolio)	N/A	N/A	N/A	N/A	N/A
*Vanguard Blended Benchmark*****	N/A	N/A	N/A	N/A	N/A
Total Fund w/ Vanguard Star Fund	**15.6%**	**10.1%**	**9.1%**	**9.7%**	**8.9%**
*Total Fund Policy Index****	*15.6%*	*10.1%*	*8.9%*	*9.5%*	*8.9%*

* 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.

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).

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 2007. A complete schedule of all commissions paid is available from the Retirement Office.

Broker	Number of Shares	Total Commission $	Commission $ Per Share
Bear Stearns	100,166	$22,025	0.21988549
Cazenove	1,201,654	$15,338	0.012764248
Dresdner	1,806,500	$18,302	0.010131171
Instinet	842,809	$14,884	0.017659612
Knight Securities	1,512,555	$30,324	0.020048428
Lehman Brothers, Inc.	239,017	$17,560	0.073467661
Liquidnetinc	593,492	$11,870	0.02
Raymond James & Assoc., Inc.	460,200	$17,272	0.037531508
UBS	907,383	$17,647	0.019447962
Winterfloods	1,712,700	$12,253	0.007154008

List of Largest Assets Directly Held

As of June 30, 2007

Ten Largest Stock Holdings (by fair market value)

Stock	Shares	Fair Value
EXXON MOBIL CORP	101,896	$8,547,036
GENERAL ELECTRIC CO	181,402	6,944,069
BANK OF AMERICA CORP	104,546	5,111,254
AT&T INC	117,582	4,879,653
CITIGROUP INC	92,844	4,761,969
MICROSOFT CORP	133,131	3,923,371
CONOCOPHILLIPS	40,609	3,187,807
AMERICAN INTL GROUP INC CO	44,090	3,087,623
GOOGLE	5,609	2,935,638
ALTRIA GROUP INC	40,072	2,810,650

Ten Largest Bond Holdings (by fair market value)

Bond	Interest Rate	Maturity Date	Par	Fair Value
FNMA TBA JUL 30 SINGLE FAM	5.50%	12/01/2099	$20,000,000	$19,279,688
FNMA POOL - 735227	5.50%	02/01/2035	14,130,434	13,671,747
FNMA TBA JUL 30 SINGLE FAM	6.00%	12/01/2099	11,000,000	10,878,828
FNMA POOL - 815519	5.50%	03/01/2035	10,639,300	10,288,952
UNITED STATES TREAS BONDS	7.25%	08/15/2022	3,875,000	4,691,777
FNMA POOL - 725946	5.50%	11/01/2034	4,148,249	4,013,593
SMALL BUSINESS ADMIN	4.90%	01/01/2025	4,146,224	3,957,073
FNMA POOL - 745336	5.00%	03/01/2036	3,750,183	3,521,655
UNITED STATES TREAS BONDS	6.00%	02/15/2026	3,085,000	3,368,916
UNITED STATES TREAS NTS	4.63%	11/15/2009	3,155,000	3,135,774

A complete list of portfolio holdings is available upon request.

Actuarial Section

(Unaudited)

CHEIRON Classic Values, Innovative Advice

Actuary's Certification Letter

October 15, 2007

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

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, 2007, 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 and the actuarial assumptions as adopted by the Board of Trustees, 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 Statement No. 25 of the Governmental Accounting Standards Board.

Financing Objective and Contribution Appropriation

The financing objective of the 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, 2007 was determined based on the results of the June 30, 2006 valuation. The contribution amount was $25,135,944.

The results of the June 30, 2007 valuation determine the contribution appropriation for the fiscal year ending June 30, 2008, which will be presented in our valuation report subject to your approval.

As of June 30, 2007, the System's accrued liability was 95% funded based on the actuarial value of assets, including the contribution for the fiscal year ended June 30, 2007. The accrued liability was 99% funded based on the market value of assets.

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

8200 Greensboro Drive, Suite 1125, McLean, VA 22102 Tel: 877 CHEIRON (243.4766) Fax: 703.893.2006 www.cheiron.us

Actuary's Certification Letter (continued)

Board of Trustees
October 26, 2006
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, 2001 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 1995 to June 2000. 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) 66-2/3% of the net gain/(loss) during the preceding year, and (2) less 33-1/3% 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

Fiona E. Liston, FSA, EA
Consulting Actuary

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Actuarial Assumptions

Interest Rate: 7-1/2% 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

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (continued)

Disability:

	General*		Firefighters and Police	
Age	**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

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 Fund.

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

65% of the general employees and 80% of the firefighters and police are assumed to be married, with males three years older than females.

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) 66-2/3% of investment gain/(loss) during the preceding year, less (2) 33-1/3% 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 66-2/3% of investment gain/(loss) during the preceding year, less 33-1/3% of investment gain/(loss) during the second preceding year.

SUMMARY OF DATA

Census and Assets: The valuation was based on members of the System as of June 30, 2007 and does not take into account future members. All census data was supplied by the Executive Secretary of the System and was subject to reasonable consistency checks. Asset data was supplied by the Executive Secretary and the accountants of the System.

Schedule of Active Member Valuation Data:

General Employees:

Valuation as of June 30	Number of Active Members*	Valuation Payroll	Average Salary	Percent Increase (Decrease) in Average
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 13 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
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 18 members on leave of absence

Total:

Valuation as of June 30	Number of Active Members*	Valuation Payroll	Average Salary	Percent Increase (Decrease) in Average
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 31 members on leave of absence

SUMMARY OF DATA (concluded)

Retirees and Beneficiaries Added to and Removed from Rolls:

	Added to Rolls		Removed from Rolls		On Rolls at Year End			
Year Ended June 30	No.	Annual Allowance	No.	Annual Allowance	No.	Annual Allowance	Average Allowance	% Increase Average Allowance
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, etc. in addition to the annual allowance for new retirees.

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 percent 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, 2001 through June 30, 2007 are presented as follows:

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

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

(2) 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.

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

(4) Retirees and beneficiaries as of June 30, 2003 were granted a permanent 1.5% supplemental benefit increase effective July 2004.

(5) Retirees and beneficiaries as of June 30, 2003 were granted a permanent 1% supplemental benefit increase effective July 2003.

SOLVENCY TEST (concluded)

(6) 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	2004	2005	2006	2007
Investment income	$(38,521,813)	$ (1,846,575)	$ (9,599,180)	$ 11,169,481
Combined liability experience	12,992,366	5,806,560	7,185,050	2,559,923
Gain (or loss) during year from financial experience	(25,529,447)	3,959,985	(2,414,130)	13,729,404
Non-recurring items	49,371,898	(3,953,506)	(27,774,121)	(1,450,971)
Composite gain (or loss) during year	$ 23,842,451	$ 6,479	$(30,188,251)	$ 12,278,433

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 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 paramedic employees.

Paramedic employees, 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:
1/50 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:
1.75% of average final compensation for each year of creditable service up to a maximum of 35 years for general employees.

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 1/4 of 1% for each month commencement date precedes the normal retirement date for general employees and 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 his 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:

66-2/3% of average final compensation.

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 hand 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 his earnable compensation during the year immediately preceding his death is payable. If a member dies in service after the earlier of completion of ten years of service or early service retirement eligibility an 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:

50% 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 his designated recipient or estate. If there is not spouse, a lump sum benefit equal to 50% of his earnable compensation during the year immediately preceding his 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 System.

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 he 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 his 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, his contributions, if any, with not less than one-half of the interest credited. The member may elect, prior to the commencement of his retirement allowance, to receive an annuity which is the actuarial equivalent of his 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 will be payable.

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 June 30, 2006 were granted a permanent 2.0% supplemental benefit increase effective July 2007.

Statistical Section
(Unaudited)

ADDITIONS BY SOURCE AND DEDUCTIONS BY TYPE

Schedule of Additions by Source

Fiscal Year Ended June 30	Employee Contributions	Employers' Contributions: Dollars	Employers' Contributions: % of Covered Payroll	Total Net Investment Income	Additions
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)
2001	-	-	0.00	(19,900,000)	(19,900,000)
2000	-	-	0.00	72,300,000	72,300,000
1999	-	3,500,000	2.70	76,600,000	80,100,000
1998	-	10,200,000	8.21	118,400,000	128,600,000

Schedule of Deductions by Type

Fiscal Year Ended June 30	Benefit Payments	Refund of Contributions	Lump Sum Death Benefits	Administrative Expenses	Total Deductions
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
2001	31,800,000	100,000	100,000	300,000	32,300,000
2000	30,700,000	100,000	200,000	500,000	31,500,000
1999	29,600,000	100,000	200,000	400,000	30,300,000
1998	28,600,000	100,000	100,000	300,000	29,100,000

Total Change in Net Assets

Fiscal Year Ended June 30	Total Change in Net Assets
2007	$ 97,600,000
2006	13,800,000
2005	34,400,000
2004	66,100,000
2003	18,400,000
2002	(92,400,000)
2001	(52,200,000)
2000	40,800,000
1999	49,800,000
1998	99,500,000

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

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
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
2002				
2001				
2000				
1999				
1998				

* Allocation not available for years prior to 2003

Firefighters & Police

As of June 30	Service Retired Members	Contingent Annuitants	Disabled Annuitants	Total
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
2002				
2001				
2000				
1999				
1998				

* Allocation not available for years prior to 2003

Total

As of June 30	Service Retired Members	Contingent Annuitants	Disabled Annuitants	Total
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
2001	27,505,000	2,491,000	4,201,000	34,197,000
2000	25,727,000	2,279,000	4,023,000	32,029,000
1999	24,778,000	2,140,000	3,905,000	30,823,000
1998	24,113,000	2,137,000	3,563,000	29,813,000

Schedule of Retired Members by Type of Benefit

As of June 30, 2007

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	758														
$1-$300	355	13	6	1	51	6	140	80	0	55	0	0	3	49	131
$301-$600	445	14	9	1	87	8	166	89	0	58	0	0	13	66	264
$601-$900	285	6	3	2	38	11	140	62	0	22	0	0	1	60	172
$901-$1,200	246	2	3	0	31	11	126	61	0	11	0	0	1	71	145
$1,201-$1,500	201	3	1	0	11	9	122	50	0	4	0	0	1	70	128
$1,501-$1,800	174	1	0	0	18	9	77	69	0	0	0	0	0	72	102
$1,801-$2,100	145	2	1	0	6	4	99	33	0	0	0	0	0	59	85
$2,101-$2,400	102	0	0	0	5	0	71	26	0	0	0	0	0	40	60
$2,401-$2,700	71	1	0	0	0	0	53	17	0	0	0	0	0	25	46
$2,701-$3,000	63	0	0	0	2	0	53	8	0	0	0	0	0	20	43
Over $3,000	93	0	1	0	2	1	81	7	0	1	0	0	0	20	72
Totals	2,938	42	24	4	251	59	1,128	502	0	151	0	0	19	552	1,248

Firefighters & 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	151														
$1-$300	62	2	0	1	9	16	19	2	0	13	0	0	0	5	8
$301-$600	90	4	0	1	11	23	23	5	0	22	0	1	0	6	30
$601-$900	92	4	1	2	17	28	26	8	0	5	0	1	0	7	41
$901-$1,200	59	1	2	1	10	17	19	7	0	1	1	0	0	11	35
$1,201-$1,500	69	0	2	0	2	17	36	11	0	0	0	1	0	11	49
$1,501-$1,800	53	0	0	1	4	17	19	12	0	0	0	0	0	12	38
$1,801-$2,100	90	0	0	0	3	11	66	10	0	0	0	0	0	17	69
$2,101-$2,400	77	0	0	0	2	12	53	9	0	0	1	0	0	21	57
$2,401-$2,700	85	0	0	0	1	9	66	6	0	1	2	0	0	28	56
$2,701-$3,000	91	0	0	0	0	4	84	2	0	0	0	1	0	26	65
Over $3,000	274	1	0	0	1	2	264	1	0	3	1	1	0	79	196
Totals	1,193	12	5	6	60	156	675	73	0	45	5	5	0	223	644

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	909														
$1-$300	417	15	6	2	60	22	159	82	0	68	0	0	3	54	139
$301-$600	535	18	9	2	98	31	189	94	0	80	0	1	13	72	294
$601-$900	377	10	4	4	55	39	166	70	0	27	0	1	1	67	213
$901-$1200	305	3	5	1	41	28	145	68	0	12	1	0	1	82	180
$1201-$1500	270	3	3	0	13	26	158	61	0	4	0	1	1	81	177
$1501-$1800	227	1	0	1	22	26	96	81	0	0	0	0	0	84	140
$1801-$2100	235	2	1	0	9	15	165	43	0	0	0	0	0	76	154
$2101-$2400	179	0	0	0	7	12	124	35	0	0	1	0	0	61	117
$2401-$2700	156	1	0	0	1	9	119	23	0	1	2	0	0	53	102
$2701-$3000	154	0	0	0	2	4	137	10	0	0	0	1	0	46	108
Over $3000	367	1	1	0	3	3	345	8	0	4	1	1	0	99	268
Totals	4,131	54	29	10	311	215	1,803	575	0	196	5	5	19	775	1,892

* Beneficiaries were exlcluded.

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 Disab (Heart)
- 11 = Accidental Disab (Lung)
- 12 = Terminated

Option Selected:
- 1 = Straight Life Annuity
- 2 = Joint and 50% Survivior

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

Schedule of Retired Members by Type of Benefit as of June 30, 2007

General

Amount of Monthly Benefit	Number of Retirees	Type of Retirement			Option Selected*	
		Service Retired Members	Contingent Annuitants	Disabled Annuitants	1	2
Deferred	758					
$1-$300	355	166	170	19	49	131
$301-$600	445	270	115	60	66	264
$601-$900	285	189	53	43	60	172
$901-$1,200	246	176	31	39	71	145
$1,201-$1,500	201	176	5	20	70	128
$1,501-$1,800	174	145	2	27	72	102
$1,801-$2,100	145	134	1	10	59	85
$2,101-$2,400	102	95	2	5	40	60
$2,401-$2,700	71	71	0	0	25	46
$2,701-$3,000	63	61	0	2	20	43
Over $3,000	93	89	1	3	20	72
Totals	2,938	1,572	380	228	552	1,248

Firefighters & Police

Amount of Monthly Benefit	Number of Retirees	Type of Retirement			Option Selected*	
		Service Retired Members	Contingent Annuitants	Disabled Annuitants	1	2
Deferred	151					
$1-$300	62	12	47	3	5	8
$301-$600	90	26	54	10	6	30
$601-$900	92	28	44	20	7	41
$901-$1,200	59	22	13	24	11	35
$1,201-$1,500	69	42	9	18	11	49
$1,501-$1,800	53	30	3	20	12	38
$1,801-$2,100	90	72	4	14	17	69
$2,101-$2,400	77	63	0	14	21	57
$2,401-$2,700	85	74	1	10	28	56
$2,701-$3,000	91	87	0	4	26	65
Over $3,000	274	271	0	3	79	196
Totals	1,193	727	175	140	223	644

Total

Amount of Monthly Benefit	Number of Retirees	Type of Retirement			Option Selected*	
		Service Retired Members	Contingent Annuitants	Disabled Annuitants	1	2
Deferred	909					
$1-$300	417	178	217	22	54	139
$301-$600	535	296	169	70	72	294
$601-$900	377	217	97	63	67	213
$901-$1,200	305	198	44	63	82	180
$1,201-$1,500	270	218	14	38	81	177
$1,501-$1,800	227	175	5	47	84	140
$1,801-$2,100	235	206	5	24	76	154
$2,101-$2,400	179	158	2	19	61	117
$2,401-$2,700	156	145	1	10	53	102
$2,701-$3,000	154	148	0	6	46	108
Over $3,000	367	360	1	6	99	268
Totals	4,131	2,299	555	368	775	1,892

* Beneficiaries were exlcluded.

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 Disab (Heart)
11 = Accidental Disab (Lung)
12 = Terminated

Option Selected:

1 = Straight Life Annuity
2 = Joint and 50% Survivior

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

Schedule of Average Benefit Payments
(Excludes Beneficiaries)

General

Retirement Effective Dates	Years of Credited Service					
	0-10	10-15	15-20	20-25	25-30	30+
July 1, 1999 to June 30, 2000						
Average Monthly Benefit	$368	$870	$856	$1,261	$1,801	$2,237
Average - Average Final Compensation	$26,100	$38,838	$30,073	$32,086	$36,866	$37,807
Number of Active Retirees	7	11	14	8	16	16
July 1, 2000 to June 30, 2001						
Average Monthly Benefit	$434	$698	$972	$1,350	$1,873	$2,134
Average - Average Final Compensation	$27,304	$33,932	$30,089	$33,126	$38,626	$36,166
Number of Active Retirees	13	13	8	12	26	17
July 1, 2001 to June 30, 2002						
Average Monthly Benefit	$380	$514	$822	$1,783	$1,794	$2,411
Average - Average Final Compensation	$16,115	$22,083	$28,877	$43,700	$38,963	$41,825
Number of Active Retirees	12	13	9	12	8	20
July 1, 2002 to June 30, 2003						
Average Monthly Benefit	$479	$452	$765	$1,442	$1,648	$2,814
Average - Average Final Compensation	$26,512	$22,364	$26,039	$37,829	$38,540	$47,921
Number of Active Retirees	13	10	20	17	18	15
July 1, 2003 to June 30, 2004						
Average Monthly Benefit	$323	$585	$842	$1,147	$2,060	$2,565
Average - Average Final Compensation	$29,083	$27,882	$32,437	$33,551	$44,052	$45,813
Number of Active Retirees	8	9	14	14	17	32
July 1, 2004 to June 30, 2005						
Average Monthly Benefit	$440	$393	$874	$1,322	$1,808	$2,835
Average - Average Final Compensation	$30,919	$18,282	$33,343	$39,281	$42,375	$51,203
Number of Active Retirees	20	8	14	15	29	45
July 1, 2005 to June 30, 2006						
Average Monthly Benefit	$372	$456	$943	$1,378	$1,893	$2,840
Average - Average Final Compensation	$53,085	$23,496	$35,802	$39,713	$45,567	$51,570
Number of Active Retirees	13	12	16	20	19	37
July 1, 2006 to June 30, 2007						
Average Monthly Benefit	$340	$546	$811	$1,316	$1,817	$2,501
Average - Average Final Compensation	$29,295	$29,072	$32,052	$40,839	$45,321	$45,819
Number of Active Retirees	11	17	15	13	14	38

Schedule of Average Benefit Payments
(Excludes Beneficiaries)

Firefighters & Police

Retirement Effective Dates	Years of Credited Service					
	0-10	10-15	15-20	20-25	25-30	30+
July 1, 1999 to June 30, 2000						
Average Monthly Benefit	$1,788	$582	$1,014	$1,866	$1,902	$2,827
Average - Average Final Compensation	$28,306	$24,835	$36,500	$42,009	$42,409	$48,399
Number of Active Retirees	2	2	1	1	10	5
July 1, 2000 to June 30, 2001						
Average Monthly Benefit	$0	$1,028	$1,659	$1,605	$2,236	$3,095
Average - Average Final Compensation	$0	$27,531	$34,467	$42,195	$47,627	$55,928
Number of Active Retirees	0	6	2	4	7	7
July 1, 2001 to June 30, 2002						
Average Monthly Benefit	$1,469	$479	$681	$1,740	$3,021	$3,087
Average - Average Final Compensation	$29,633	$20,977	$29,807	$44,353	$50,660	$50,426
Number of Active Retirees	2	5	5	3	14	11
July 1, 2002 to June 30, 2003						
Average Monthly Benefit	$1,089	$426	$0	$2,072	$2,785	$3,592
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	$672	$846	$1,705	$2,992	$3,250
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	$695	$0	$2,832	$3,377	$3,107
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	$636	$0	$2,068	$3,407	$3,828
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	$869	$1,987	$2,314	$3,106	$4,413
Average - Average Final Compensation	$0	$29,971	$47,904	$53,838	$57,276	$74,658
Number of Active Retirees	0	6	4	8	13	4

Schedule of Average Benefit Payments
(Excludes Beneficiaries)

Total

Retirement Effective Dates	Years of Credited Service					
	0-10	10-15	15-20	20-25	25-30	30+
July 1, 1999 to June 30, 2000						
Average Monthly Benefit	$684	$825	$866	$1,328	$1,840	$2,378
Average - Average Final Compensation	$26,591	$36,684	$30,501	$33,189	$38,998	$40,329
Number of Active Retirees	9	13	15	9	26	21
July 1, 2000 to June 30, 2001						
Average Monthly Benefit	$434	$802	$1,109	$1,414	$1,950	$2,414
Average - Average Final Compensation	$27,304	$31,911	$30,964	$35,393	$40,536	$41,929
Number of Active Retirees	13	19	10	16	33	24
July 1, 2001 to June 30, 2002						
Average Monthly Benefit	$536	$504	$772	$1,774	$2,575	$2,651
Average - Average Final Compensation	$18,046	$21,776	$29,209	$43,831	$46,407	$44,877
Number of Active Retirees	14	18	14	15	22	31
July 1, 2002 to June 30, 2003						
Average Monthly Benefit	$593	$441	$765	$1,660	$2,125	$3,143
Average - Average Final Compensation	$31,274	$20,808	$26,039	$40,272	$43,683	$53,297
Number of Active Retirees	16	17	20	26	31	26
July 1, 2003 to June 30, 2004						
Average Monthly Benefit	$323	$623	$843	$1,271	$2,526	$2,803
Average - Average Final Compensation	$29,083	$24,854	$32,060	$37,720	$49,716	$49,265
Number of Active Retirees	8	16	15	18	34	49
July 1, 2004 to June 30, 2005						
Average Monthly Benefit	$440	$476	$874	$1,574	$2,429	$2,909
Average - Average Final Compensation	$30,919	$21,229	$33,343	$42,382	$49,069	$52,864
Number of Active Retirees	20	11	14	18	48	62
July 1, 2005 to June 30, 2006						
Average Monthly Benefit	$372	$470	$943	$1,608	$2,971	$3,551
Average - Average Final Compensation	$53,085	$24,061	$35,802	$43,268	$53,194	$57,481
Number of Active Retirees	13	13	16	30	66	132
July 1, 2006 to June 30, 2007						
Average Monthly Benefit	$340	$630	$1,058	$1,696	$2,438	$2,683
Average - Average Final Compensation	$29,295	$29,307	$35,389	$45,791	$51,077	$48,565
Number of Active Retirees	11	23	19	21	27	42

Statistical Section
(Unaudited)

ADDITIONS BY SOURCE AND DEDUCTIONS BY TYPE

Schedule of Additions by Source

Fiscal Year Ended June 30	Employee Contributions	Employers' Contributions Dollars	Employers' Contributions % of Covered Payroll	Total Net Investment Income	Additions
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)
2001	-	-	0.00	(19,900,000)	(19,900,000)
2000	-	-	0.00	72,300,000	72,300,000
1999	-	3,500,000	2.70	76,600,000	80,100,000
1998	-	10,200,000	8.21	118,400,000	128,600,000

Schedule of Deductions by Type

Fiscal Year Ended June 30	Benefit Payments	Refund of Contributions	Lump Sum Death Benefits	Administrative Expenses	Total Deductions
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
2001	31,800,000	100,000	100,000	300,000	32,300,000
2000	30,700,000	100,000	200,000	500,000	31,500,000
1999	29,600,000	100,000	200,000	400,000	30,300,000
1998	28,600,000	100,000	100,000	300,000	29,100,000

Total Change in Net Assets

Fiscal Year Ended June 30	Total Change in Net Assets
2007	$ 97,600,000
2006	13,800,000
2005	34,400,000
2004	66,100,000
2003	18,400,000
2002	(92,400,000)
2001	(52,200,000)
2000	40,800,000
1999	49,800,000
1998	99,500,000

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

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
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
2002				
2001				
2000				
1999				
1998				

* Allocation not available for years prior to 2003

Firefighters & Police

As of June 30	Service Retired Members	Contingent Annuitants	Disabled Annuitants	Total
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
2002				
2001				
2000				
1999				
1998				

* Allocation not available for years prior to 2003

Total

As of June 30	Service Retired Members	Contingent Annuitants	Disabled Annuitants	Total
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
2001	27,505,000	2,491,000	4,201,000	34,197,000
2000	25,727,000	2,279,000	4,023,000	32,029,000
1999	24,778,000	2,140,000	3,905,000	30,823,000
1998	24,113,000	2,137,000	3,563,000	29,813,000

Schedule of Retired Members by Type of Benefit

As of June 30, 2007

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	758														
$1-$300	355	13	6	1	51	6	140	80	0	55	0	0	3	49	131
$301-$600	445	14	9	1	87	8	166	89	0	58	0	0	13	66	264
$601-$900	285	6	3	2	38	11	140	62	0	22	0	0	1	60	172
$901-$1,200	246	2	3	0	31	11	126	61	0	11	0	0	1	71	145
$1,201-$1,500	201	3	1	0	11	9	122	50	0	4	0	0	1	70	128
$1,501-$1,800	174	1	0	0	18	9	77	69	0	0	0	0	0	72	102
$1,801-$2,100	145	2	1	0	6	4	99	33	0	0	0	0	0	59	85
$2,101-$2,400	102	0	0	0	5	0	71	26	0	0	0	0	0	40	60
$2,401-$2,700	71	1	0	0	0	0	53	17	0	0	0	0	0	25	46
$2,701-$3,000	63	0	0	0	2	0	53	8	0	0	0	0	0	20	43
Over $3,000	93	0	1	0	2	1	81	7	0	1	0	0	0	20	72
Totals	2,938	42	24	4	251	59	1,128	502	0	151	0	0	19	552	1,248

Firefighters & 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	151														
$1-$300	62	2	0	1	9	16	19	2	0	13	0	0	0	5	8
$301-$600	90	4	0	1	11	23	23	5	0	22	0	1	0	6	30
$601-$900	92	4	1	2	17	28	26	8	0	5	0	1	0	7	41
$901-$1,200	59	1	2	1	10	17	19	7	0	1	1	0	0	11	35
$1,201-$1,500	69	0	2	0	2	17	36	11	0	0	0	1	0	11	49
$1,501-$1,800	53	0	0	1	4	17	19	12	0	0	0	0	0	12	38
$1,801-$2,100	90	0	0	0	3	11	66	10	0	0	0	0	0	17	69
$2,101-$2,400	77	0	0	0	2	12	53	9	0	0	1	0	0	21	57
$2,401-$2,700	85	0	0	0	1	9	66	6	0	1	2	0	0	28	56
$2,701-$3,000	91	0	0	0	0	4	84	2	0	0	0	1	0	26	65
Over $3,000	274	1	0	0	1	2	264	1	0	3	1	1	0	79	196
Totals	1,193	12	5	6	60	156	675	73	0	45	5	5	0	223	644

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	909														
$1-$300	417	15	6	2	60	22	159	82	0	68	0	0	3	54	139
$301-$600	535	18	9	2	98	31	189	94	0	80	0	1	13	72	294
$601-$900	377	10	4	4	55	39	166	70	0	27	0	1	1	67	213
$901-$1200	305	3	5	1	41	28	145	68	0	12	1	0	1	82	180
$1201-$1500	270	3	3	0	13	26	158	61	0	4	0	1	1	81	177
$1501-$1800	227	1	0	1	22	26	96	81	0	0	0	0	0	84	140
$1801-$2100	235	2	1	0	9	15	165	43	0	0	0	0	0	76	154
$2101-$2400	179	0	0	0	7	12	124	35	0	0	1	0	0	61	117
$2401-$2700	156	1	0	0	1	9	119	23	0	1	2	0	0	53	102
$2701-$3000	154	0	0	0	2	4	137	10	0	0	0	1	0	46	108
Over $3000	367	1	1	0	3	3	345	8	0	4	1	1	0	99	268
Totals	4,131	54	29	10	311	215	1,803	575	0	196	5	5	19	775	1,892

* Beneficiaries were exlcluded.

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 Disab (Heart)
11 = Accidental Disab (Lung)
12 = Terminated

Option Selected:

1 = Straight Life Annuity
2 = Joint and 50% Survivior

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

Schedule of Retired Members by Type of Benefit as of June 30, 2007

General

Amount of Monthly Benefit	Number of Retirees	Type of Retirement			Option Selected*	
		Service Retired Members	Contingent Annuitants	Disabled Annuitants	1	2
Deferred	758					
$1-$300	355	166	170	19	49	131
$301-$600	445	270	115	60	66	264
$601-$900	285	189	53	43	60	172
$901-$1,200	246	176	31	39	71	145
$1,201-$1,500	201	176	5	20	70	128
$1,501-$1,800	174	145	2	27	72	102
$1,801-$2,100	145	134	1	10	59	85
$2,101-$2,400	102	95	2	5	40	60
$2,401-$2,700	71	71	0	0	25	46
$2,701-$3,000	63	61	0	2	20	43
Over $3,000	93	89	1	3	20	72
Totals	2,938	1,572	380	228	552	1,248

Firefighters & Police

Amount of Monthly Benefit	Number of Retirees	Type of Retirement			Option Selected*	
		Service Retired Members	Contingent Annuitants	Disabled Annuitants	1	2
Deferred	151					
$1-$300	62	12	47	3	5	8
$301-$600	90	26	54	10	6	30
$601-$900	92	28	44	20	7	41
$901-$1,200	59	22	13	24	11	35
$1,201-$1,500	69	42	9	18	11	49
$1,501-$1,800	53	30	3	20	12	38
$1,801-$2,100	90	72	4	14	17	69
$2,101-$2,400	77	63	0	14	21	57
$2,401-$2,700	85	74	1	10	28	56
$2,701-$3,000	91	87	0	4	26	65
Over $3,000	274	271	0	3	79	196
Totals	1,193	727	175	140	223	644

Total

Amount of Monthly Benefit	Number of Retirees	Type of Retirement			Option Selected*	
		Service Retired Members	Contingent Annuitants	Disabled Annuitants	1	2
Deferred	909					
$1-$300	417	178	217	22	54	139
$301-$600	535	296	169	70	72	294
$601-$900	377	217	97	63	67	213
$901-$1,200	305	198	44	63	82	180
$1,201-$1,500	270	218	14	38	81	177
$1,501-$1,800	227	175	5	47	84	140
$1,801-$2,100	235	206	5	24	76	154
$2,101-$2,400	179	158	2	19	61	117
$2,401-$2,700	156	145	1	10	53	102
$2,701-$3,000	154	148	0	6	46	108
Over $3,000	367	360	1	6	99	268
Totals	4,131	2,299	555	368	775	1,892

* Beneficiaries were exlcluded.

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 Disab (Heart)
11 = Accidental Disab (Lung)
12 = Terminated

Option Selected:

1 = Straight Life Annuity
2 = Joint and 50% Survivior

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

Schedule of Average Benefit Payments
(Excludes Beneficiaries)

General

Retirement Effective Dates	Years of Credited Service					
	0-10	10-15	15-20	20-25	25-30	30+
July 1, 1999 to June 30, 2000						
Average Monthly Benefit	$368	$870	$856	$1,261	$1,801	$2,237
Average - Average Final Compensation	$26,100	$38,838	$30,073	$32,086	$36,866	$37,807
Number of Active Retirees	7	11	14	8	16	16
July 1, 2000 to June 30, 2001						
Average Monthly Benefit	$434	$698	$972	$1,350	$1,873	$2,134
Average - Average Final Compensation	$27,304	$33,932	$30,089	$33,126	$38,626	$36,166
Number of Active Retirees	13	13	8	12	26	17
July 1, 2001 to June 30, 2002						
Average Monthly Benefit	$380	$514	$822	$1,783	$1,794	$2,411
Average - Average Final Compensation	$16,115	$22,083	$28,877	$43,700	$38,963	$41,825
Number of Active Retirees	12	13	9	12	8	20
July 1, 2002 to June 30, 2003						
Average Monthly Benefit	$479	$452	$765	$1,442	$1,648	$2,814
Average - Average Final Compensation	$26,512	$22,364	$26,039	$37,829	$38,540	$47,921
Number of Active Retirees	13	10	20	17	18	15
July 1, 2003 to June 30, 2004						
Average Monthly Benefit	$323	$585	$842	$1,147	$2,060	$2,565
Average - Average Final Compensation	$29,083	$27,882	$32,437	$33,551	$44,052	$45,813
Number of Active Retirees	8	9	14	14	17	32
July 1, 2004 to June 30, 2005						
Average Monthly Benefit	$440	$393	$874	$1,322	$1,808	$2,835
Average - Average Final Compensation	$30,919	$18,282	$33,343	$39,281	$42,375	$51,203
Number of Active Retirees	20	8	14	15	29	45
July 1, 2005 to June 30, 2006						
Average Monthly Benefit	$372	$456	$943	$1,378	$1,893	$2,840
Average - Average Final Compensation	$53,085	$23,496	$35,802	$39,713	$45,567	$51,570
Number of Active Retirees	13	12	16	20	19	37
July 1, 2006 to June 30, 2007						
Average Monthly Benefit	$340	$546	$811	$1,316	$1,817	$2,501
Average - Average Final Compensation	$29,295	$29,072	$32,052	$40,839	$45,321	$45,819
Number of Active Retirees	11	17	15	13	14	38

Schedule of Average Benefit Payments
(Excludes Beneficiaries)

Firefighters & Police

Retirement Effective Dates	Years of Credited Service					
	0-10	10-15	15-20	20-25	25-30	30+
July 1, 1999 to June 30, 2000						
Average Monthly Benefit	$1,788	$582	$1,014	$1,866	$1,902	$2,827
Average - Average Final Compensation	$28,306	$24,835	$36,500	$42,009	$42,409	$48,399
Number of Active Retirees	2	2	1	1	10	5
July 1, 2000 to June 30, 2001						
Average Monthly Benefit	$0	$1,028	$1,659	$1,605	$2,236	$3,095
Average - Average Final Compensation	$0	$27,531	$34,467	$42,195	$47,627	$55,928
Number of Active Retirees	0	6	2	4	7	7
July 1, 2001 to June 30, 2002						
Average Monthly Benefit	$1,469	$479	$681	$1,740	$3,021	$3,087
Average - Average Final Compensation	$29,633	$20,977	$29,807	$44,353	$50,660	$50,426
Number of Active Retirees	2	5	5	3	14	11
July 1, 2002 to June 30, 2003						
Average Monthly Benefit	$1,089	$426	$0	$2,072	$2,785	$3,592
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	$672	$846	$1,705	$2,992	$3,250
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	$695	$0	$2,832	$3,377	$3,107
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	$636	$0	$2,068	$3,407	$3,828
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	$869	$1,987	$2,314	$3,106	$4,413
Average - Average Final Compensation	$0	$29,971	$47,904	$53,838	$57,276	$74,658
Number of Active Retirees	0	6	4	8	13	4

Schedule of Average Benefit Payments
(Excludes Beneficiaries)

Total

Retirement Effective Dates	Years of Credited Service					
	0-10	10-15	15-20	20-25	25-30	30+
July 1, 1999 to June 30, 2000						
Average Monthly Benefit	$684	$825	$866	$1,328	$1,840	$2,378
Average - Average Final Compensation	$26,591	$36,684	$30,501	$33,189	$38,998	$40,329
Number of Active Retirees	9	13	15	9	26	21
July 1, 2000 to June 30, 2001						
Average Monthly Benefit	$434	$802	$1,109	$1,414	$1,950	$2,414
Average - Average Final Compensation	$27,304	$31,911	$30,964	$35,393	$40,536	$41,929
Number of Active Retirees	13	19	10	16	33	24
July 1, 2001 to June 30, 2002						
Average Monthly Benefit	$536	$504	$772	$1,774	$2,575	$2,651
Average - Average Final Compensation	$18,046	$21,776	$29,209	$43,831	$46,407	$44,877
Number of Active Retirees	14	18	14	15	22	31
July 1, 2002 to June 30, 2003						
Average Monthly Benefit	$593	$441	$765	$1,660	$2,125	$3,143
Average - Average Final Compensation	$31,274	$20,808	$26,039	$40,272	$43,683	$53,297
Number of Active Retirees	16	17	20	26	31	26
July 1, 2003 to June 30, 2004						
Average Monthly Benefit	$323	$623	$843	$1,271	$2,526	$2,803
Average - Average Final Compensation	$29,083	$24,854	$32,060	$37,720	$49,716	$49,265
Number of Active Retirees	8	16	15	18	34	49
July 1, 2004 to June 30, 2005						
Average Monthly Benefit	$440	$476	$874	$1,574	$2,429	$2,909
Average - Average Final Compensation	$30,919	$21,229	$33,343	$42,382	$49,069	$52,864
Number of Active Retirees	20	11	14	18	48	62
July 1, 2005 to June 30, 2006						
Average Monthly Benefit	$372	$470	$943	$1,608	$2,971	$3,551
Average - Average Final Compensation	$53,085	$24,061	$35,802	$43,268	$53,194	$57,481
Number of Active Retirees	13	13	16	30	66	132
July 1, 2006 to June 30, 2007						
Average Monthly Benefit	$340	$630	$1,058	$1,696	$2,438	$2,683
Average - Average Final Compensation	$29,295	$29,307	$35,389	$45,791	$51,077	$48,565
Number of Active Retirees	11	23	19	21	27	42

Compliance Section

McGladrey & Pullen
Certified Public Accountants

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

To 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 as of and for the year ended June 30, 2007, and have issued our report thereon dated November 20, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 over financial reporting. We consider the following deficiency to be a significant deficiency in internal control over financial reporting.

The entity's revenue recognition policy, in accordance with generally accepted accounting principles, is to record income revenue when earned. We noted that not all the receivables related to investments that were reported to Employees' Retirement System of the City of Norfolk from their custodian were recorded by the entity. As a result, accrued investment income was understated. The control deficiency resulted from the lack of oversight and review in the recording of the entity's investment earnings. We recommend that the entity design and implement procedures to ensure all receivables are properly recorded.

Views of responsible officials and planned corrective actions:

The recoding of the accrued investment income is the responsibility of staff based on the information provided by the System's custodian on data CDs. Going forward, the System has revised its procedures to require a second level review of all accounting entries before they are posted.

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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Employees' Retirement System of the City of Norfolk'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.

The entity's response to the findings identified in our audit are described above. We did not audit the entity's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Trustees and management and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Greensboro, North Carolina
November 20, 2007