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, 2009

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

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Introductory Section
(Unaudited)

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Employees' Retirement System of the City of Norfolk, Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2008

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

City of Norfolk
EMPLOYEES' RETIREMENT SYSTEM

December 14, 2009

Letter of Transmittal

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

The Comprehensive Annual Financial Report (CAFR) for the Employees' Retirement System (System) of the City of Norfolk for fiscal year ended June 30, 2009 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. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the plan net assets and changes in plan net assets of the System in accordance with accounting principles generally accepted in the United States of America (GAAP).

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.

Management's Discussion and Analysis (MD&A) as required by GAAP is included in the financial section of this report. The MD&A provides a narrative overview and analysis of the financial status of the System for the year ended June 30, 2009 (for more information, see pages 11 through 14).

System History

The Employees' Retirement System is a defined benefit plan that 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 five years of creditable service effective January 1, 1997. Ad hoc cost-of-living adjustments are provided at the discretion of the City Council. The benefit provisions of the plan are also determined by Section 37 of the code.

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

Letter of Transmittal
(continued)

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 2009 statements have been audited by KPMG LLP in conjunction with the City of Norfolk's annual audit.

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

Funded Status

A pension plan is considered adequately funded when reserves are available to meet all expected future obligations to participants. The System's funding objective is to meet long-term benefit payments through investment returns on trust fund assets and annual 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, 2009. Information from this report is included in the Actuarial Section.

The City of Norfolk's commitment to provide a financially sound retirement plan for its members is illustrated in 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, 2009, the System's funded ratio was 86.0%. This funded ratio does not include any market movements since June 30, 2009. The next valuation will reflect market conditions through June 30, 2010.

Investments

The Board of Trustees (Trustees) for the Employees' Retirement System formally amended and adopted a written Statement of Investment Policy in December 2006 that includes the guidelines and objectives for the investment of the System. The policy is reviewed annually and changes are made as warranted. During the fiscal year, the System adopted an asset allocation of 50% Domestic Equities; 20% International Equities; and 30% Fixed Income. In addition, the Trustees voted to move to a passive investment structure.

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

Letter of Transmittal
(continued)

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

During the fiscal year, the System began the conversion of the portfolio to a passive investment structure. With the exception of the PIMCO assets, all of the System's investments were consolidated into a passive approach with State Street Global Advisors (SSgA). The Board has subsequently voted to retain PIMCO as an active manager within the System's portfolio.

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

The pension investment consultant interacts with the System staff, prepares recommendations on investment policies, investment management structure, and asset allocation. The consultant also monitors and evaluates the performance of the investment managers and effectiveness of the custodian.

The net assets of the System as of June 30, 2009 were $715.5 million, a decrease of $164.7 million from the prior year balance of $880.2 million. Investment return for the year was (15.72)%. The System is financially and actuarially sound. The Retirement Fund is sound and well positioned to pay retirement benefits as they are due. A summary of the Fund's asset allocation and historic returns can be found in the Investment Section of this report.

Current Economic Condition

World financial markets have rebounded since June 30, 2009. The fair market value of the System's investment portfolio has risen approximately 13.0% from June 30, 2009 through September 30, 2009. As a result, the value of the portfolio has risen to $767.0 million.

Year-to-date through September 30, 2009, the US equity market (Russell 3000 Index) is up 21.2%, and international markets (MSCI ACWI ex US Index) are up 30.5%. As a result of the stimulus measures implemented by the United States government, spreads have narrowed within the fixed income market, generating strong results for the System's investment portfolio.

The Investment Management Committee continues to meet monthly to monitor the investment results and portfolio structure of the System and to assess whether any actions need to be taken to minimize losses.

Professional Services

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

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Employees' Retirement System for the City of Norfolk for its comprehensive annual financial report for the fiscal year ended June 30, 2008. This was the fourth year that the System has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report.

Letter of Transmittal
(concluded)

This report satisfies both accounting principles generally accepted in the United States of America and applicable legal requirements.

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

Acknowledgements

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

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

Respectfully submitted,

Theodore O. Wilder, Jr.
Executive Director

The Board of Trustees

The members of the Board are appointed and serve pursuant to Chapter 37 of the Norfolk City Code, which provides for nine (9) members.

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,
Jessica N. Portis, Senior Consultant

Investment Officer
Vacant Position

Investment Managers

Domestic Equity

State Street Global Advisors
Boston, Massachusetts

International

State Street Global Advisors
Boston, Massachusetts

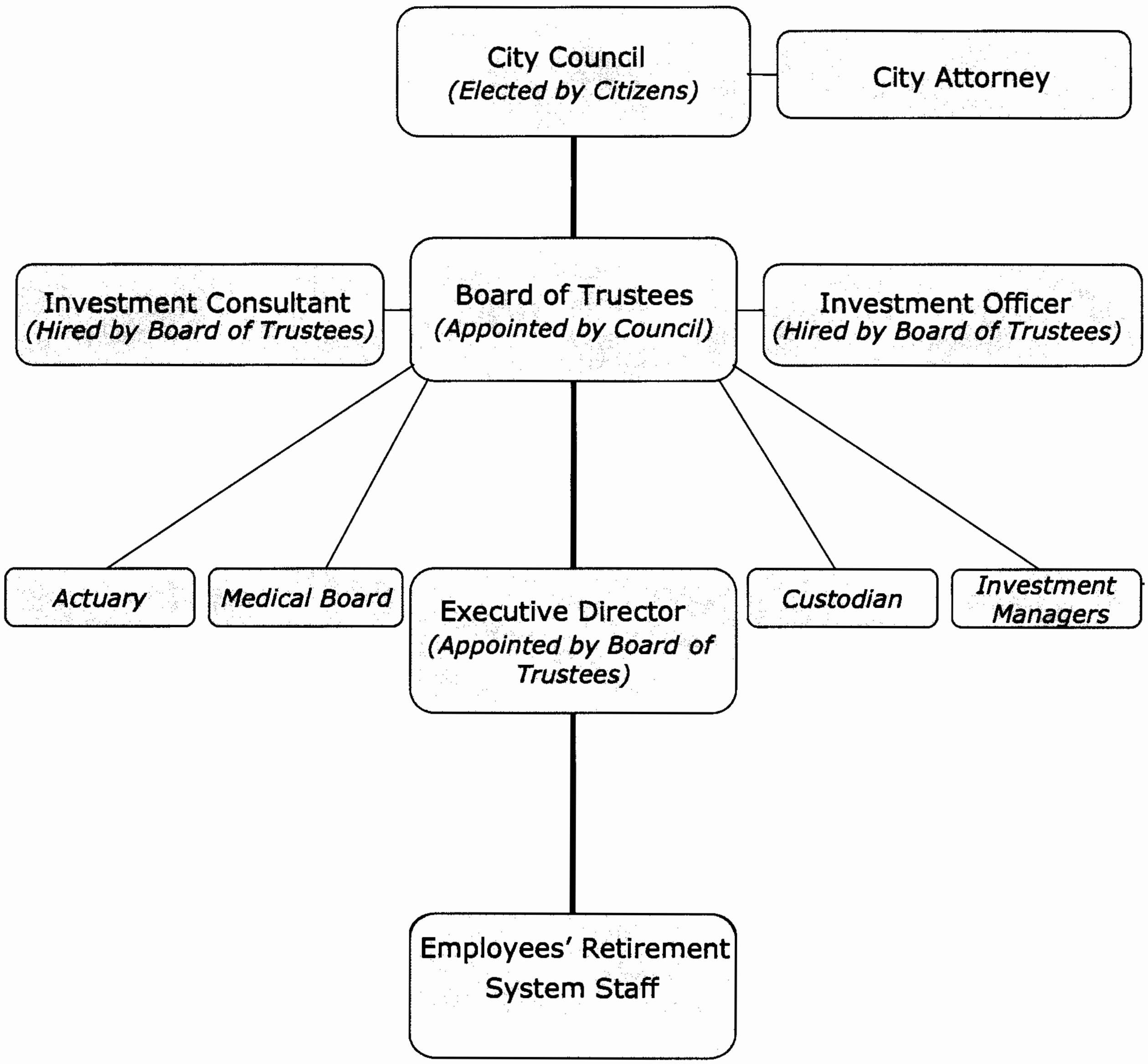
Fixed Income

State Street Global Advisors
Boston, Massachusetts

Pacific Investment Management Company
Newport Beach, California

Investment Manager and Investment Assignments can be found on page 31.

ORGANIZATIONAL CHART



Financial Section

KPMG LLP
Suite 2100
999 Waterside Drive
Norfolk, VA 23510

Independent Auditors' Report

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

We have audited the accompanying statement of plan net assets of the Employees' Retirement System of the City of Norfolk (the System), a component unit of the City of Norfolk, Virginia, as of June 30, 2009, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the System as of June 30, 2009, and the changes in its plan net assets for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2009 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 24 through 26 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The schedules listed in the table of contents on pages 27 and 28 and the introductory section, investment section, actuarial section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules on pages 27 and 28 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, investment section, actuarial section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

December 11, 2009

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, 2009 and 2008. Please read Management's Discussion and Analysis in conjunction with the basic financial statements, which follow this discussion.

FINANCIAL HIGHLIGHTS

- System assets exceeded liabilities at the close of fiscal years 2009 and 2008 by $715.5 million and $880.2 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, 2009 and 2008, the funded ratio was 86.0% and 92.9%, respectively.
- Total investment losses net of contributions decreased $80.1 million to a negative $102.9 million or 352.1% from the prior year. This decrease was mainly due to an increase in net depreciation in fair value of the System's investments in the most recent period versus the prior period.
- Total deductions increased over the prior year from $58.9 million to $61.8 million or 4.9%. Most of this increase represented increased retirement benefits paid.

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

FINANCIAL ANALYSIS

Employees' Retirement System of the City of Norfolk
Net Assets
As of June 30, 2009 and 2008

	2009	2008	2009-2008 Total % Change
ASSETS			
Cash and Cash Equivalents	$ 12,085,854	$ 47,950,535	(74.8)
Receivables	60,288,793	56,308,182	7.1
Investments	752,501,869	849,149,456	(11.4)
Total Assets	824,876,516	953,408,173	(13.5)
LIABILITIES			
Accounts Payable and Accrued Expenses	351,055	1,024,195	(65.7)
Due to Brokers for Securities Purchased	108,989,090	72,186,529	51.0
Total Liabilities	109,340,145	73,210,724	49.3
TOTAL NET ASSETS	$715,536,371	$ 880,197,449	(18.7)

Total assets as of June 30, 2009 and 2008 were $824,876,516 and $953,408,173, and were comprised of cash and cash equivalents, receivables, and investments. Total assets decreased $128,531,657 or (13.5)% for FY 2009, primarily due to a decrease in the value of investments.

Total liabilities that are due and payable as of June 30, 2009 and 2008 were $109,340,145 and $73,210,724, respectively, and were comprised of payables to brokers for investment purchases and administrative costs. For FY 2009, total liabilities increased $36,129,421 or 49.3% from the prior year primarily due to the timing of investments purchased.

System assets exceeded its due and payable liabilities at the close of fiscal year 2009 and 2008 by $715,536,371 and $880,197,449, respectively. In fiscal year 2009, total net assets held in trust for pension benefits decreased $164,661,078 or (18.7)% from the previous year primarily due to unfavorable and volatile 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, 2009 and 2008

	2009	2008	2009-2008 Total % Change
Investment Loss	$(131,184,987)	$(48,428,455)	(170.9)%
Contributions	28,278,984	25,667,556	10.2 %
Total	(102,906,003)	(22,760,899)	352.1 %
Benefits Payments	61,024,897	58,264,017	4.7 %
Refund of Contributions	22,394	26,228	(14.6)%
Administrative Expenses	707,784	600,065	18.0 %
Total	61,755,075	58,890,310	4.9 %
Net Increase (Decrease)	(164,661,078)	(81,651,209)	101.7 %
Net Assets Held in Trust for Pension Benefits			
Beginning of Year	880,197,449	961,848,658	(8.5)%
End of Year	$715,536,371	$880,197,449	(18.7)%

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 loss for fiscal years 2009 and 2008 totaled $(102,906,003) and $(22,760,899), respectively.

Investment loss net of contributions decreased for FY 2009 by $(80,145,104) from that of the prior year, primarily due to net depreciation in fair value of System's investments in the most recent period versus the prior period. For FY 2009, total investment income (loss) decreased from the previous year by $82,756,532. The total portfolio returned (15.72)% for fiscal year ended June 30, 2009 versus (5.11)% for the prior fiscal year. The current fiscal year return was 23.22% below our 7.5% target.

MANAGEMENT'S DISCUSSION AND ANALYSIS (concluded)

DEDUCTIONS FROM PLAN NET ASSETS

The deductions of the System include pension payments to members and beneficiaries, refunds of contributions to former members, and the cost of administering the System. Total deductions for FY 2009 were $61,755,075, an increase of 4.9% over FY 2009 deductions.

The pension benefits payments increased by $2,760,880 in FY 2009 or 4.7% from the previous year. The increase in pension benefit payments resulted from post-retirement cost of living (COLA) adjustment increases of 2.0% granted to retirees on July 1, 2008 and an increase in number of retirees. The number of additional retirees was 179 and 145 in fiscal year 2009 and 2008, respectively. Administrative expenses as of June 30, 2009 and 2008 were $707,784 and $600,065, respectively. This was an increase of $107,719 or 18% 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 a decrease in the equity markets, combined net assets decreased in FY 2009 over FY 2008. The System's funding ratio as determined by the System's actuary was 86.0% at June 30, 2009 and 92.9% at June 30, 2008. The Board, with the assistance of its pension consultant and actuary, continues to utilize the concepts of prudent investment management, cost controls, and strategic planning.

CONTACTING SYSTEM FINANCIAL MANAGEMENT

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

Employees' Retirement System of the City of Norfolk

(A Pension Trust Fund of Norfolk, Virginia)

Statement of Plan Net Assets

June 30, 2009

Assets:	
Cash and cash equivalents	$ 12,085,854
Receivables:	
Employer contribution	28,278,984
Accrued investment income	1,364,103
Accounts receivable	55,855
Due from broker for securities sold	30,589,851
Total receivables	60,288,793
Investments:	
United States Government Securities	7,557,780
Fixed Income	249,299,088
Balanced commingled funds	495,645,001
Total investments	752,501,869
Total assets	824,876,516
Liabilities:	
Accounts payable and accrued expenses	351,055
Due to broker for securities purchased	108,989,090
Total liabilities	109,340,145
Net assets held in trust for pension benefits	$ 715,536,371

(A Schedule of Funding Progress is reported on page 24.)

See Accompanying 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, 2009

Changes to net assets attributed to:	
Investment income (loss):	
Net depreciation in fair value of investments	$(159,535,165)
Interest	24,733,841
Dividends	5,413,369
Other	7,703
	(129,380,252)
Less investment expenses	(1,804,735)
Net investment loss	(131,184,987)
Contributions	28,278,984
Total	(102,906,003)
Benefit payments and expenses:	
Benefits paid directly to participants	57,657,236
Beneficiary payments	3,367,661
Refunds of contributions	22,394
Administrative costs	707,784
Total	61,755,075
Net decrease	(164,661,078)
Net assets held in trust for pension benefits:	
Beginning of year	880,197,449
End of year	$ 715,536,371

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, 2009

Note 1. Significant Accounting Policies

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

Basis of accounting: The financial statements of the System are prepared using the accrual basis of accounting. Employer contributions are recognized when earned. 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards to do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance, subject to this same limitation. The System has elected not to follow subsequent private-sector guidance.

Investment valuation method: Investments are reported at fair value. Short-term investments are recorded at cost, which is equivalent to fair value. Securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the System's fiscal year. Investments that do not have an established market are reported at estimated fair value, primarily net asset value (NAV) determined based on the fair value of the underlying securities.

Net appreciation in fair value of investments is reflected in the statement of changes in net assets and includes realized gains and losses on investments purchased and sold and the change in appreciation from one period to the next. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Acquisition costs are included in the cost of

Notes to Financial Statements

Note 1. Significant Accounting Polices, concluded:

investments purchased, and sales are recorded net of selling expenses. 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.

Note 2. Description of the Plan

The System is the administrator of a single-employer, noncontributory, defined benefit plan that covers substantially all employees of the City of Norfolk, Virginia, excluding School Board and Constitutional Officers employees who are covered by the Virginia Retirement System. Although the System presents separate financial statements, it is also included as a component unit in the City of Norfolk's Comprehensive Annual Financial Report as a pension trust fund. The types of employees covered and current membership as of June 30, 2009 consists of the following:

Retirees and beneficiaries receiving benefits:	
General	2,175
Public safety	1,055
Terminated plan members entitled to but not yet receiving benefits:	
General	764
Public safety	155
Active plan members:	
Fully vested:	
General	1,765
Public safety	821
Nonvested:	
General	990
Public safety	448
Total	8,173

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

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

Retirement (for employees who became members on or after July 1, 1980): Normal retirement is the earlier of age 60 or after completion of 30 years of credited service for general employees, and age 55 or after the completion of 25 years of credited service for public safety employees. The normal service retirement benefit per annum for general employees is equal to 1.75% of average final compensation times

Notes to Financial Statements

Note 2. Description of Plan, concluded:

years of creditable service, with service limited to 35 years. Public safety employees accrue benefits at 2.5% of average final compensation times years of creditable service, not to exceed 65% of average final compensation. Mandatory retirement is age 62 for public safety employees.

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

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

Note 3. Actuarial 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 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 $28,278,984 for the year ended June 30, 2009 was based on 16.16% of covered payroll for general employees and for public safety employees.

Voluntary contributions were discontinued in 1979 and have been accumulated thereafter with interest at a rate of 7%. Such contributions are refundable to members who terminate before becoming eligible for retirement benefits. At retirement, members' contributions plus accumulated interest are refunded. Such amounts totaled $117,797 at June 30, 2009.

As of June 30, 2009, the actuarial value of assets was $885.6 million. The actuarial accrued liability was $1,029.6 million. The funding shortage of $144 million represents 80.2% of covered payroll.

Note 4. Investments and Deposits

Deposits: The System's entire bank balance was covered by federal depository insurance or commercial insurance or collateralized in accordance with the Virginia Security for Public Deposits Act. Under the Virginia Security for Public Deposits Act, bank holding public deposits in excess of the amounts insured by Federal Deposit Insurance Corporation must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Virginia Security for Public Deposits Act and for notifying local governments of compliance by banks. The System's policy is to maintain all accounts collateralized in accordance with the Virginia Security for Public Disclosures Act, Sec 2.2-4400 et. seq. of the Code of Virginia. Cash equivalents amounting to $12,209,294 consisted of $4,909,294 invested in State Street Investment Fund and $7,300,000 in JP Morgan repurchase agreement.

Notes to Financial Statements

Note 4. Investments and Deposits, continued:

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

Securities Lending Program: The System is a participant in the Russell 3000 securities lending index fund offered by State Street Global Assets (SSgA). The index fund is comprised of equity securities that are eligible to be lent to other market participants. SSgA as the lending agent receives collateral from the borrowers of securities out on loan. The collateral is reinvested in the collateral pool, which is comprised of fixed income instruments. Redemptions from the collateral pool coincide with clients requesting redemptions from the Russell 3000 securities lending index fund.

The net asset value (NAV) of the collateral pool fluctuates over time based on the value of securities held. The collateral pool seeks to transact at a $1.00 NAV. During the financial crisis that ensued in 2008, some of the fixed income instruments utilized by the collateral pool traded below $1.00, which caused the actual NAV of the fund to dip below $1.00. To allow participants to transact at $1.00 and to avoid having to sell fixed income instruments at losses, SSgA imposed withdrawal restrictions on the Russell 3000 securities lending index fund. These restrictions seek to protect all remaining participants in the fund and will be lifted when market conditions improve. The current restrictions allow each participant the ability to redeem 4% of the market value of their account on a monthly basis.

SSgA has indicated that, to date, the collateral pool has not had any permanently impaired securities within the fund and there have been no realized losses as a result of any of the holdings. The collateral pool has adequate liquidity to manage normal liquidity requirements and to continue to pay redemptions at $1.00. SSgA believes that all of the securities within the collateral pool will mature at par. The fair market value of the collateral pool as of June 30, 2009 is $95.73 per share.

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

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

Notes to Financial Statements

Note 4. Investments and Deposits, continued:

Segmented Time Distribution:

June 30, 2009		Investment Maturities (in years)				
Investment Type	**Fair Value**	**Less 1 yr**	**1-3 yrs**	**3-6 yrs**	**6-10 yrs**	**10 yrs +**
Corporate Debt	$ 60,113,374	$20,917,669	$22,183,814	$3,803,609	$ 6,934,450	$ 6,273,831
Futures and Swaps	2,829,866	1,449,771	731,837	146,182	2,075	500,000
ABS	12,352,343	N/A	586,071	1,945,847	6,828	9,813,598
Treasury and Agencies	19,761,551	N/A	12,089,314	109,040	3,036,100	4,527,097
Mortgages	152,760,208	N/A	N/A	67,063	170,304	152,522,841
Common Stock	278	N/A	N/A	N/A	N/A	278
Municipal Bonds	9,539,527	N/A	N/A	N/A	N/A	9,539,527
Convertible Preferred	4,249,338	N/A	N/A	N/A	N/A	4,249,338
Fixed Income Funds	64,660,473	N/A	N/A	N/A	N/A	64,660,473
Domestic Equity Funds	291,694,924	N/A	N/A	N/A	N/A	N/A
International Equity Funds	134,539,987	N/A	N/A	N/A	N/A	N/A
Total	$752,501,869	$22,367,440	$35,591,036	$6,071,742	$10,149,757	$252,086,983

Notes:
Corporate Debt: Includes all Corporate Floating Rate Notes. Floating Rate Mortgages are included in the Non-Agency Mortgage Section
Government Related: Includes Municipal Bonds
Net Cash Equivalents: Commercial Paper, Cash, and Short Term Investment Funds netted for Liabilities. All investments are counted in sector categories at Bond Equivalent Market Value. Liabilities include Unsettled Trades and offsets for Swap notional values and Money Market Futures. Liabilities are considered to have less than 1 year maturity and AAA buckets.

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.

June 30, 2009

Currency	Fixed Income
Australian dollar	$ 209,820
Brazilian real	3,776,768
Canadian dollar	251,784
China Yuan Renminbi	2,077,222
Euro	776,336
Japanese Yen	83,928
Mexican Peso	1,237,941
Great Britain Pound	(629,461)
	$7,784,338

Notes to Financial Statements

Note 4. Investments and Deposits, continued:

Credit risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The System's formal policy governing credit risk is that securities rated below investment grade by two of the three primary rating agencies, Moody's, Fitch Ratings, and Standard and Poor's (S&P's) are not permitted. The System invests in certain derivatives including real estate mortgage investment conduits, collateralized mortgage obligations, futures and swaps. Those securities are included in reported investments. Investments in derivatives with a cost of $21,342,022 and a market value of $20,388,837 were held at June 30, 2009. The System's rated debt investments as of June 30, 2009 were rated by S&P's and/or an equivalent national rating organization and the ratings are presented below using the S & P's credit quality rating scale.

June 30,2009

Fair Quality Ratings	Corporate Debt	Futures And Swaps	ABS	Treasury and Agencies	Mortgages	Municipal Bonds	Convertible Preferred	Fixed Income Funds
AAA	$ 9,781,228	$ 205,049	$ 6,828	$19,438,377	$138,317,706	$6,654,659	$ -	$ -
AA+	301,211	(907,084)	-	-	6,327,474	-	-	-
AA	-	196,238	-	-	-	-	-	-
AA-	3,836,826	63,650,171	-	-	2,147,411	-	-	-
A+	3.589,972	(60,609,944)	-	-	752,625	-	-	-
A	2,587,058	698,297	1,216,128	-	322,914	-	-	-
A-	206,817	1,362,737	-	-	-	2,381,919	-	-
BBB+	2,163,753	(397,022)	278,525	-	1,125,662	182,078	-	-
BBB	975,286	(800,000)	-	323,174	-	-	-	-
BBB-	2,790,002	-	-	-	-	-	-	-
BB+	197,263	-	-	-	-	-	-	-
BB-	1,188,347	936,180	-	-	-	-	-	-
B and below	-	(635,334)	139,517	-	1,771,665	-	-	-
NR	32,495,611	(869,422)	10,711,345	-	1,994,751	320,871	4,249,338	64,660,473
Total	$60,113,374	$2,829,866	$12,352,343	$19,671,551	$152,760,208	$9,539,527	$4,249,338	$64,660,473

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

Notes to Financial Statements

Note 4. Investments and Deposits, concluded:

The following table presents the fair value of investments that represent 5% or more of the System's net assets at June 30, 2009:

Investment	
Federal National Mortgage Association TBD 6%	$ 67,402,500
Passive Bond Market Index Non-Lending Fund	43,893,419
Russell 3000 Index Securities Lending Fund	50,502,487
Russell 3000 Index Fund	241,192,438
MSCI All Country World Index Ex-U.S. Non-Lending Fund	134,539,987

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, 2009 was $707,784.

Note 6. Income Tax Status

The Internal Revenue Service has ruled in the determination letter dated March 22, 1976 that the System qualifies under Section 401-1(b)(3) of the Internal Revenue Code and is, therefore, not subject to tax under present income tax laws. Although the Plan has been amended since receiving the determination letter from the Internal Revenue Service, the System management believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the Internal Revenue Code.

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 eight 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	(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, 2009	885.6	1,029.6	(144.0)	86.0%	179.6	(80.2)%
June 30, 2008	937.8	1,009.1	(71.3)	92.9%	175.4	(40.6)%
June 30, 2007*	925.8	972.2	(46.4)	95.2%	168.1	(27.6)%
June 30, 2006	881.0	939.1	(58.1)	93.8%	159.3	(36.5)%
June 30, 2005	854.1	883.9	(29.8)	96.6%	160.2	(18.6)%
June 30, 2004**	816.1	845.7	(29.6)	96.5%	157.7	(18.8)%
June 30, 2003	760.5	813.2	(52.7)	93.5%	152.1	(34.6)%
June 30, 2002	798.1	784.7	13.4	101.7%	150.7	8.9%

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

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

Required Supplementary Actuarial Information

Schedule of Employer Contributions
(Unaudited)

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2009	**$ 28,278,984**	**100**
2008	25,667,556	100
2007	25,135,944	100
2006	25,728,228	100
2005	23,652,756	100
2004	23,469,744	100
2003	21,390,058	100

Required Supplementary Actuarial Information

Actuarial Assumptions:

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

Valuation date	June 30, 2009
Actuarial cost method*	Entry age normal cost method
Amortization method	Level dollar open, except for Public Safety Retirement Enhancement Program which is amortized over a closed 20-year period commencing July 1, 2005
Remaining amortization period	19.29 years
Asset valuation method	3-year smoothed market
Actuarial assumptions:	
Assumed inflation rate	3.5%
Investment rate of return	7.5% per annum, compounded annually
Projected salary increases**	Average salary increases of 5.24% for general employees and 5.67% for public safety employees. Based on rates that vary by year-of-service and are compounded annually.
Cost-of-living allowance	None
Separation from active service	Assumed rates of separation from service vary depending on the employee's years of service and whether the employee is a general employee or public safety employee. Mortality is based on the RP-2000 mortality tables for healthy and disabled members.
Marital status	65% of the general employees and 80% of the public safety employees are assumed to be married, with the males three years older than females.

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

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

** Includes inflation at 3.5%.

Employees' Retirement System of the City of Norfolk

(A Pension Trust Fund of Norfolk, Virginia)

Schedule of Administrative Expenses

Year Ended June 30, 2009

Personal services:	
Staff salaries	$327,010
Benefits	102,688
Total personal services	429,698
Professional services:	
Actuarial fees	53,208
Medical examinations	2,105
Total professional services	55,313
Communication:	
Travel and training	2,323
Postage and shipping	18,311
Total communication	20,634
Miscellaneous:	
Supplies and equipment	3,844
Maintenance and repairs	187
Vested service transferred to Virginia Retirement System	121,434
Other	76,674
Total miscellaneous	202,139
Total administrative expenses	$707,784

Employees' Retirement System of the City of Norfolk

(A Pension Trust Fund of Norfolk, Virginia)

Schedule of Investment Expenses

Year Ended June 30, 2009

Investment manager fees	$1,455,427	
Total investment manager fees		$1,455,427

Schedule of Payments to Custody and Investment Consultants

Custody fees	$171,791	
Investment consultant fees	177,517	
Total custody and investment consultant fees		$ 349,308
Total investment expenses		$1,804,735

Investment Section
(Unaudited)

Investment Performance, Policy, Statistics, and Activity

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

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

Investment Objectives

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

- The overall goal of the System's investment portfolio is to provide a retirement benefit for the employees of the City of Norfolk, Virginia. This will be accomplished through a carefully planned and executed long-term investment program.

- The total portfolio over the long term will be expected to earn a return that equals or exceeds:

  1. The rate of inflation, as measured by the Consumer Price Index, plus 2.5% per year;
  2. The return of a target policy index ("Target Policy");
  3. For the aggregate domestic equity, international equity, and fixed income components of the fund, the return of the Russell 3000, MSCI ACWI ex US, and the Barclays Capital Aggregate Bond indices, respectively; and
  4. The actuarially assumed investment rate of return.

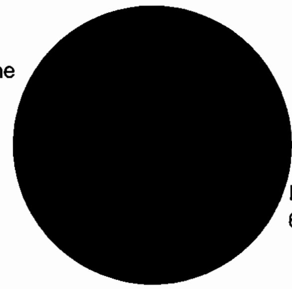
Asset Allocation

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 the 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 by Asset Class as of June 30, 2009



Total Equity	$426,234,912
Fixed Income	256,015,124
Cash and Equivalents (Excludes manager cash)	4,901,808
Total	$687,151,844

Total net assets market value	**$687,151,844**
Adjustments to Reconcile Statement of Plan Asset Investments Total:	
Total Cash and Cash Equivalents	(11,963,407)
Receivable for Investments Sold	(30,589,851)
Interest Receivable	(1,364,103)
Tax Refund Receivable	(14,880)
Interest Payable – Short Positions	23,625
Payable for Investments Purchased	108,989,090
Other Payables	33,360
Unrealized Appreciation (Depreciation):	
on Foreign Cash Positions	3,107
on Receivables	(299)
on Forward Contracts	233,383
Total Investments Reconciled to the Statement of Plan Net Assets (See page 15)	$752,501,869

Investment Managers and Investment Assignments as of June 30, 2009

	Market Value	% of Portfolio
SSgA Russell 3000	$241,192,438	35.1%
SSgA Russell 3000 Lending	50,502,487	7.3%
SSgA MSCI ACWI-ex US Index	134,539,987	19.6%
PIMCO Total Return	212,121,705	30.9%
SSgA Bond Market Index	43,893,419	6.4%
Cash Holding Account	4,901,808	.7%
Total	$687,151,844 *	100.0%

* See reconciliation of Statement of Plan Assets on page 29.

Asset Allocation Comparison as of June 30, 2009

	Equity Commitment	Fixed Income Commitment	Total Other *	Percentage Total
Total Fund	62.0%	37.3%	0.7%	100%
Median All Public Plans	50.8%	37.6%	11.6%	100%

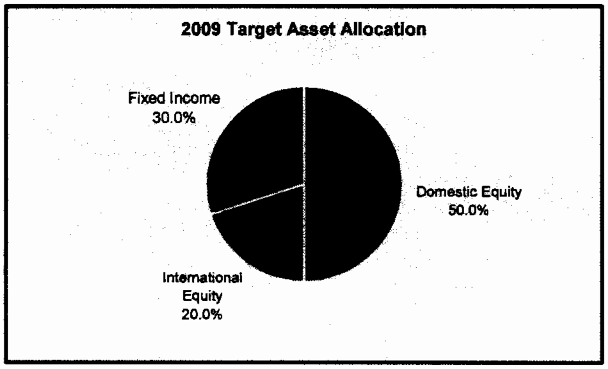
* Includes cash and alternative asset classes such as real estate, private equity, and hedge funds.

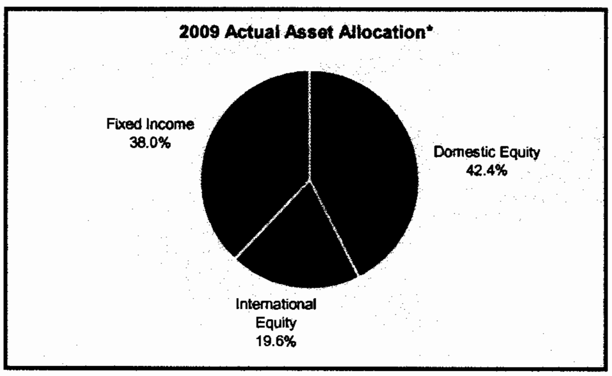
Target Asset Allocation

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

Asset Class	Minimum Percentage	Maximum Percentage	Target Percentage
Equities	**65%**	**75%**	**70%**
US Equity	45%	55%	50%
International Equity	15%	25%	20%
Fixed Income	**25%**	**35%**	**30%**

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.

Please note at the end of the fiscal year the System was considering a new asset allocation with a lower equity allocation. As a result, the System did not rebalance fully to the target understanding that a lower equity allocation would ultimately be approved and implemented. The new asset allocation was approved in August 2009 after a formal review. The current asset allocation is as follows: 36% Domestic Equity; 24% International Equity; and 40% Fixed Income.

Investment Performance Summary

For the Periods Ended June 30, 2009

		Annualized			
Account	**Current**	**2 Years**	**3 Years**	**4 Years**	**5 Years**
Equity					
SSgA Russell 3000	N/A	N/A	N/A	N/A	N/A
Russell 3000	*(26.6%)*	*(19.9%)*	*(8.4%)*	*(4.7%)*	*(1.8%)*
SSgA Russell 3000 Lending	N/A	N/A	N/A	N/A	N/A
Russell 3000	*(26.6%)*	*(19.9%)*	*(8.4%)*	*(4.7%)*	*(1.8%)*
Total Domestic Equity	**(27.4%)**	**(21.9%)**	**(10.1%)**	**(5.6%)**	**(3.1%)**
*Domestic Equity Policy Index**	*(26.6%)*	*(19.9%)*	*(8.4%)*	*(4.4%)*	*(2.3%)*
SSgA MSCI ACWI-ex US Index	N/A	N/A	N/A	N/A	N/A
MSCI AC World ex USA (Net)	*(30.9%))*	*(19.7%)*	*(5.8%)*	*1.7%*	*4.5%*
Total International Equity	**(30.0%)**	**(21.0%**	**(7.2%)**	**N/A**	**N/A**
International Equity Policy	*(30.4%)*	*(20.9%)*	*(7.3%)*	*0.3%*	*3.0%*
Total Equity	**(28.5%)**	**(21.4%)**	**(8.9%)**	**(4.7%)**	**(2.3%)**
*Total Equity Policy Index***	*(27.9%)*	*(20.3%)*	*(8.1%)*	*(4.2%)*	*(2.2%)*
Fixed Income					
PIMCO Total Return	7.8%	8.5%	7.7%	5.5%	5.6%
Barclays Capital Aggregate	*6.1%*	*6.6%*	*6.4%*	*4.6%*	*5.0%*
SSgA Bond Market Index	N/A	N/A	N/A	N/A	N/A
Barclays Capital Aggregate	*6.1%*	*6.6%*	*6.4%*	*4.6%*	*5.0%*
Total Fixed Income	**0.5%**	**3.7%**	**4.5%**	**3.1%**	**3.8%**
Barclays Capital Aggregate	*6.1%*	*6.6%*	*6.4%*	*4.6%*	*5.0%*
Total Fund Composite	**(15.9%)**	**(10.8%)**	**(2.7%)**	**(0.9%)**	**0.7%**
*Total Fund Policy Index****	*(15.0%)*	*(9.8%)*	*(2.0%)*	*(0.4%)*	*1.0%*

* Domestic Equity Policy Index as of June 30, 2009 = 100% Russell 3000.

** Total Equity Policy Index as of June 30, 2009 = 70% Russell 3000, and 30% MSCI AC World ex US Index (Net).

*** Total Fund Policy Index as of June 30, 2009 = 42% Russell 3000, 18% MSCI AC World ex US Index (Net), and 40% Barclays Capital Aggregate.

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

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 System staff.

Following is a list of brokers who received commissions of $10,000 or more during fiscal year 2009. A complete schedule of all commissions paid is available from the Retirement Office.

Broker	Number of Shares	Total Commission $	Commission $ Per Share
Greenwich Capital Markets, Inc.	28,286,706	$55,231.06	$0.0020
Instinet	2,208,155	$53,208.94	$0.0241
State Street Global Markets	2,986,360	$24,849.53	$0.0083
Cazenove & Co.	2,479,847	$14,314.94	$0.0058
Jones Trading	2,167,136	$11,542.29	$0.0053
Knight Securities	433,273	$10,480.19	$0.0242

List of Largest Assets Directly Held

As of June 30, 2009

Ten Largest Stock Holdings (by fair market value)

Stock	Shares	Fair Value
Exxon Mobil Corporation	143,624	$10,040,751
Microsoft Corp	226,844	$5,392,077
Johnson & Johnson	81,104	$4,606,722
Proctor & Gamble	85,788	$4,383,770
AT&T Incorporated	175,152	$4,350,770
International Business Machines	38,986	$4,070,928
Chevron	59,003	$3,908,967
JP Morgan Chase & Co	110,643	$3,774,028
Apple Incorporated	26,354	$3,753,630
General Electric Co	311,682	$3,652,909

Ten Largest Bond Holdings (by fair market value)

Bond	Interest Rate	Maturity Date	Par Value	Fair Value
FNMA TBA July 30 Single Fam	6.00%	Dec 1, 2099	$64,500,000	$67,412,562
PIMCO Prv Shortterm-Sect Fd*	3.25%	Feb 1, 2011	$1,000,041	$7,890,323
US Agency Repo	0.09%	July 1, 2009	$7,300,000	$7,300,000
FNMA Pass Thru Mtg #889982	5.50%	Nov 1, 2038	$1,235,692	$6,623,310
PIMCO Priv Develpng Loc Mkt*	2.53%	May 1, 2010	$6,196,587	$6,406,279
FNMA Pass Thru Mtg #257123	5.50%	Mar 1, 2038	$6,077,127	$6,283,117
PIMCO Priv Real Return Bd*	2.71%	Feb 1, 2019	$713,991	$6,140,321
Fed Home Ln Mtg NT	0.39%	May 4, 2011	$4,700,000	$4,712,112
Wells Fargo & Co Conv New Money	7.50%	Dec 31, 2049	$5,400	$4,238,838
FNMA Pass Thru Mtg #929824	5.50%	Aug 1, 2038	$4,000,001	$4,135,361

*These holdings represent investments in PIMCO's sector funds. Holdings for the sector funds are available upon request.

A complete list of portfolio holdings is available upon request.

Actuarial Section
(Unaudited)

CHEIRON Classic Values, Innovative Advice

Actuary's Certification Letter

October 30, 2009

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

The Members of the Board:

Actuarial valuations of the Employees' Retirement System of the City of Norfolk are performed annually. The results of the latest actuarial valuation of the System, which we have prepared as of June 30, 2009, are summarized in this letter.

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

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

Financing Objective and Contribution Appropriation

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

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

The contribution appropriated for the fiscal year ended June 30, 2009 was determined based on the results of the June 30, 2008 valuation. The contribution amount was $28,278,984.

The results of the June 30, 2009 valuation determine the contribution appropriation for the fiscal year ending June 30, 2010, which will be presented in our valuation report subject to your approval.

As of June 30, 2009, the System's accrued liability was 86% funded based on the actuarial value of assets, including the contribution for the fiscal year ended June 30, 2009. The accrued liability was 70% funded based on the market value of assets.

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

1750 Tysons Boulevard, Suite 1100, McLean, VA 22102 Tel: 703.893.1456 Fax: 703.893.2006 www.cheiron.us

Actuary's Certification Letter

The Board of Trustees
October 30, 2009
Page 2

Assets and Participant Data

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

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

Actuarial Assumptions and Methods

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

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

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

The valuation assets are determined as the market value less (1) 66⅔% of the net gain (loss) during the preceding year, and (2) less 33⅓% 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: 7½% per annum, compounded annually (adopted as of June 30, 1990).

Mortality:

Pre-Retirement:	RP-2000 Employee Mortality*
Health Annuitants:	RP-2000 Healthy Annuitant Mortality
Disableds:	RP-2000 Disability Mortality

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

Salary Increase:
Representative values are as follows:

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

Withdrawal:

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

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 Employees' Retirement System.

Loading or Contingency Reserves

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

Marital Status

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

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (concluded)

Methods

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

Asset Valuation Method: The valuation assets are determined as the market value less (1) 66⅔% of investment gain (loss) during the preceding year, less (2) 33⅓% of investment gain (loss) during the second preceding year. For the purpose of this calculation, the gain (loss) is defined as the difference between the actual and the expected return (based on the valuation interest rate) on the market value of assets during the year. The valuation assets on June 30, 2009 reflect the market value on that date less 66⅔% of investment gain (loss) during the preceding year, less 33⅓% of investment gain (loss) during the second preceding year.

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Census and Assets: The valuation was based on members of the System as of June 30, 2009 and does not take into account future members. All census data were supplied by the Executive Secretary of the System and were subject to reasonable consistency checks. Asset data were supplied by the Executive Secretary and the accountants of the System.

General Employees:

Valuation as of June 30	Number of Active Members*	Valuation Payroll	Average Salary	Percent Increase in Average
2009	2,737	$115,782,546	$42,303	1.1%
2008	2,731	114,324,832	41,862	1.7
2007	2,664	109,648,809	41,159	2.5
2006	2,581	103,670,563	40,167	2.9
2005	2,607	101,743,424	39,027	2.5
2004	2,644	100,685,330	38,081	2.6
2003	2,623	97,400,460	37,133	1.4
2002	2,631	96,381,952	36,633	3.4

* Excludes 18 members on leave of absence.

Firefighters and Police:

Valuation as of June 30	Number of Active Members*	Valuation Payroll	Average Salary	Percent Increase (Decrease) in Average
2009	1,249	$63,808,617	$51,088	0.7%
2008	1,204	61,065,532	50,719	3.0
2007	1,188	58,481,530	49,227	5.0
2006	1,186	55,608,188	46,887	(1.3)
2005	1,231	58,480,713	47,507	1.4
2004	1,217	57,029,081	46,860	2.1
2003	1,192	54,710,827	45,898	0.8
2002	1,192	54,292,435	45,547	4.0

* Excludes 20 members on leave of absence.

Total:

Valuation as of June 30	Number of Active Members*	Valuation Payroll	Average Salary	Percent Increase in Average
2009	3,986	$179,591,163	$45,055	1.1%
2008	3,935	175,390,364	44,572	2.1
2007	3,852	168,130,339	43,648	3.2
2006	3,767	159,278,750	42,283	1.3
2005	3,838	160,224,137	41,747	2.2
2004	3,861	157,714,411	40,848	2.4
2003	3,815	152,111,287	39,872	1.2
2002	3,823	150,674,387	39,413	3.4

* Excludes 38 members on leave of absence.

RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

Year Ended June 30	Added to Rolls No.	Added to Rolls Annual Allowance	Removed from Rolls No.	Removed from Rolls Annual Allowance	On Rolls at Year-End No.	On Rolls at Year-End Annual Allowance	Average Allowance	% Increase Average Allowance
2009	179	3,616,692	228	2,298,307	3,230	61,172,089	18,939	3.8%
2008	145	3,644,988	88	1,233,612	3,279	59,853,704	18,254	2.4%
2007	176	4,566,162	105	1,431,827	3,222	57,442,328	17,828	3.4%
2006	308	10,207,250	86	992,041	3,151	54,307,994	17,235	12.0%
2005	207	3,994,142	60	571,616	2,929	45,092,784	15,395	2.8%
2004	176		104		2,782	41,670,258	14,979	4.3%
2003	167		103		2,710	38,925,660	14,364	4.3%
2002	145		11		2,646	36,427,435	13,767	5.4%

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

The number of records removed from the rolls in 2009 includes 127 records which were excluded due to our recognizing that the valuation date was later than the "date beneficiary's benefits ended".

SOLVENCY TEST

The System's funding objective is to meet long-term benefit obligations through contributions that remain approximately level from year to year as a percentage of the members' payroll. If the contributions to the System are level in concept and soundly executed, the System will pay promised benefits when due, thus providing the ultimate test of financial soundness. Testing for level contribution rates is the long-term test.

A short condition test is one means of checking a plan's progress under its funding program. In a short condition test, the System's present assets (cash and investments) are compared with: (1) active member contributions, (2) the liabilities for future benefits to present retired lives, and (3) the employer-provided portion of liabilities for service already rendered by active members. In a plan that has been following the discipline of level percent of payroll financing, the active member contribution balances (Liability (1)), the liabilities for future benefits to present retired members (Liability (2)) will be fully covered by present assets, except in rare circumstances. In addition, the liabilities for service already rendered by active members (Liability (3)) will be at least partially covered by the remainder of present assets.

The relationship between accrued liabilities and net assets of the System for fiscal years ended June 30, 2003 through June 30, 2009 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)
2009	$72,008	$617,813,260	$411,732,258	$885,609,003	100.0%	100.0%	65.0%
2008 (1)	78,685	605,567,032	403,409,400	937,766,796	100.0%	100.0%	82.3%
2007 (2)	83,376	585,584,308	386,563,802	925,821,257	100.0%	100.0%	88.0%
2006 (3)	84,360	566,232,610	372,779,959	881,035,790	100.0%	100.0%	84.4%
2005 (4)	198,018	469,436,407	414,295,992	854,146,038	100.0%	100.0%	92.8%
2004 (5)	215,208	421,470,962	423,984,074	816,120,329	100.0%	100.0%	93.0%
2003 (6)		397,310,521	415,925,946	760,502,908	100.0%	100.0%	93.5%
2002 (7)		372,747,805	411,904,507	798,070,877	100.0%	100.0%	100.0%

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

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

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

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

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

SOLVENCY TEST (concluded)

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

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

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

ANALYSIS OF FINANCIAL EXPERIENCE

Type of Activity	2006	2007	2008	2009
Investment income	$ (9,599,180)	$ 11,169,481	$(22,682,482)	$(87,432,722)
Combined liability experience	7,185,050	2,559,923	8,284,079	14,859,619
Gain (loss) during year from financial experience	(2,414,130)	13,729,404	(14,398,403)	(72,573,103)
Non-recurring items	(27,774,121)	(1,450,971)	(10,545,384)	0
Composite gain (loss) during year	$(30,188,251)	$ 12,278,433	$(24,943,787)	$(72,573,103)

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS

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

Membership

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

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

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

Benefits

Normal Service Retirement Allowance:

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

Employees Hired Before July 1, 1980:
For general employees, the pension earned is 2% of average final compensation for each year of creditable service.

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

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

Employees Hired on or After July 1, 1980:
For general employees, the pension earned is 1.75% of average final compensation for each year of creditable service up to a maximum of 35 years.

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

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

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS (continued)

Early Service Retirement Allowance

Eligibility:
Within five years of eligibility for normal service retirement.

Amount:
Accrued service retirement allowance deferred to normal service retirement age. A member may elect to receive an immediate benefit equal to the accrued service retirement allowance reduced by ¼ of 1% for each month commencement date precedes the normal retirement date for general employees, and ½ of 1% for each month commencement date precedes the normal retirement date for firefighters, police officers, and paramedics.

Vested Allowance

Eligibility:
Five years of creditable service.

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

Ordinary Disability Retirement Allowance

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

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

Accidental Disability Retirement Allowance

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

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

Amount:
The amount payable is 66⅔% 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 had one year of creditable service if he became a member prior to July 1, 1979 and five years of creditable service if he became a member on or after July 1, 1979, an additional lump-sum benefit equal to 50% of their earnable compensation during the year immediately preceding their death is payable. If a member dies in service after the earlier of completion of 10 years of service or early service retirement eligibility and if the designated beneficiary for the lump-sum death benefit is the spouse, the spouse may elect to receive, in lieu of the lump sum death benefit, a monthly pension payable until death or remarriage. If the member was eligible for early or normal service retirement, the spouse's benefit is equal to one-half of the retirement allowance that would have been payable to the member had the member retired and immediately commenced payment. If the member was not eligible for early or normal service retirement, the spouse's benefit is equal to one-half of the normal service retirement allowance, which would have been payable to the member if he or she had been vested, such benefit to commence at the same time as the vested benefit would have been paid to the member. If the spouse dies or remarries before the youngest unmarried child attains age 18, the pension shall continue to the date that all the children have died, married, or attained age 18, whichever occurs first. If the spouse was receiving benefits on or before June 30, 1978, payments shall continue after remarriage with no further payments after death.

Accidental Death Benefit

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

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

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

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS (continued)

Death Benefit After Retirement

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

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

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

Return of Contributions

Eligibility:
Termination of membership prior to death.

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

Normal and Optional Forms of Benefits:

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

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

There have been no changes to the benefit provisions since the 2008 valuation.

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 (Loss)	Additions
2009	$ -	$ 28,300,000	16.16 %	$(131,200,000)	$(102,900,000)
2008	-	25,700,000	14.90	(48,500,000)	(22,800,000)
2007	-	25,100,000	15.98	128,700,000	153,800,000
2006	-	25,700,000	15.28	40,000,000	65,700,000
2005	-	23,700,000	14.63	54,500,000	78,200,000
2004	-	23,500,000	14.77	82,500,000	106,000,000
2003	-	17,000,000	10.65	39,100,000	56,100,000
2002	-	4,300,000	2.71	(61,100,000)	(56,800,000)

Schedule of Deductions by Type

Fiscal Year Ended June 30	Benefit Payments	Refund of Contributions	Lump-Sum Death Benefits	Administrative Expenses	Total Deductions
2009	$ 60,900,000	$ -	$ 200,000	$ 700,000	$ 61,800,000
2008	58,000,000	-	300,000	600,000	58,900,000
2007	55,500,000	-	100,000	600,000	56,200,000
2006	51,100,000	100,000	100,000	600,000	51,900,000
2005	43,300,000	-	100,000	400,000	43,800,000
2004	39,400,000	-	100,000	400,000	39,900,000
2003	36,700,000	100,000	100,000	800,000	37,700,000
2002	35,000,000	100,000	200,000	300,000	35,600,000

Total Change in Net Assets

Fiscal Year Ended June 30	Total Change in Net Assets
2009	$ (164,700,000)
2008	(81,700,000)
2007	97,600,000
2006	13,800,000
2005	34,400,000
2004	66,100,000
2003	18,400,000
2002	(92,400,000)

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

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
2009	$ 27,437,000	$ 2,252,000	$ 2,718,000	$ 32,407,000
2008	26,435,000	2,509,000	2,704,000	31,648,000
2007	25,534,000	2,279,000	2,683,000	30,496,000
2006	24,224,000	2,022,000	2,575,000	28,821,000
2005	22,142,000	1,805,000	2,468,000	26,415,000
2004	19,854,000	1,692,000	2,436,000	23,982,000
2003	18,763,000	1,566,000	2,245,000	22,574,000

Allocation not available for years prior to 2003.

Firefighters and Police

As of June 30	Service Retired Members	Contingent Annuitants	Disabled Annuitants	Total
2009	$ 24,320,000	$ 1,531,000	$2,914,000	$ 28,765,000
2008	23,682,000	1,594,000	2,929,000	28,205,000
2007	22,927,000	1,470,000	2,549,000	26,946,000
2006	21,824,000	1,374,000	2,288,000	25,486,000
2005	15,118,000	1,262,000	2,297,000	18,677,000
2004	13,826,000	1,229,000	2,632,000	17,687,000
2003	12,763,000	1,119,000	2,469,000	16,351,000

Allocation not available for years prior to 2003.

Total

As of June 30	Service Retired Members	Contingent Annuitants	Disabled Annuitants	Total
2009	$ 51,757,000	$ 3,783,000	$ 5,632,000	$ 61,172,000*
2008	50,117,000	4,103,000	5,633,000	59,853,000
2007	48,461,000	3,749,000	5,232,000	57,442,000
2006	46,048,000	3,396,000	4,863,000	54,307,000
2005	37,260,000	3,067,000	4,765,000	45,092,000
2004	33,680,000	2,921,000	5,068,000	41,669,000
2003	31,526,000	2,685,000	4,714,000	38,925,000
2002	29,345,000	2,575,000	4,506,000	36,426,000

*Reflects monthly benefits in pay status, multiplied by 12. Not intended to agree with actual payouts in the prior year as shown on the previous page.

Schedule of Retired Members by Type of Benefit as of June 30, 2009

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**	764														
$1-$300	282	16	5	0	35	3	99	68	0	47	0	0	9	53	120
$301-$600	448	26	8	1	82	8	152	84	0	70	0	0	17	78	258
$601-$900	275	9	3	2	36	9	123	63	0	27	0	0	3	54	162
$901-$1,200	247	3	3	1	30	10	129	60	0	10	0	0	1	71	135
$1,201-$1,500	216	5	2	0	12	15	116	57	0	7	0	0	2	73	136
$1,501-$1,800	180	1	0	0	18	8	83	70	0	0	0	0	0	79	99
$1,801-$2,100	148	2	0	0	8	4	96	37	0	1	0	0	0	61	87
$2,101-$2,400	106	0	1	0	3	0	74	28	0	0	0	0	0	42	60
$2,401-$2,700	85	1	0	0	3	0	63	18	0	0	0	0	0	26	59
$2,701-$3,000	73	0	0	0	2	0	65	6	0	0	0	0	0	27	45
Over $3,000	115	0	1	0	2	1	101	9	0	1	0	0	0	26	88
Totals	2,939	63	23	4	231	58	1,101	500	0	163	0	0	32	590	1,249

Firefighters and Police

Amount of Monthly Benefit	Number of Retirees	Type of Retirement												Option Selected*	
		1	2	3	4	5	6	7	8	9	10	11	12	1	2
Deferred**	155														
$1-$300	27	2	0	0	5	8	3	0	0	9	0	0	0	5	5
$301-$600	96	8	0	1	13	20	23	5	0	24	1	1	0	12	31
$601-$900	87	6	0	2	17	25	25	7	0	3	0	1	1	9	35
$901-$1,200	66	2	2	1	11	12	24	9	0	4	1	0	0	11	36
$1,201-$1,500	62	0	1	0	2	14	34	10	0	0	0	1	0	9	41
$1,501-$1,800	57	0	1	2	3	15	24	12	0	0	0	0	0	9	39
$1,801-$2,100	85	0	0	0	5	14	57	9	0	0	0	0	0	20	61
$2,101-$2,400	78	0	0	0	2	14	48	13	0	1	0	0	0	21	56
$2,401-$2,700	92	0	0	0	2	9	70	8	0	3	0	0	0	27	65
$2,701-$3,000	91	0	0	0	0	6	82	3	0	0	0	0	0	32	59
Over $3,000	314	1	0	0	2	4	298	3	0	5	1	0	0	90	223
Totals	1,210	19	4	6	62	141	688	79	0	49	3	3	1	245	651

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**	919														
$1-$300	309	18	5	0	40	11	102	68	0	56	0	0	9	58	125
$301-$600	544	34	8	2	95	28	175	89	0	94	1	1	17	90	289
$601-$900	362	15	3	4	53	34	148	70	0	30	0	1	4	63	197
$901-$1200	313	5	5	2	41	22	153	69	0	14	1	0	1	82	171
$1201-$1500	278	5	3	0	14	29	150	67	0	7	0	1	2	82	177
$1501-$1800	237	1	1	2	21	23	107	82	0	0	0	0	0	88	138
$1801-$2100	233	2	0	0	13	18	153	46	0	1	0	0	0	81	148
$2101-$2400	184	0	1	0	5	14	122	41	0	1	0	0	0	63	116
$2401-$2700	177	1	0	0	5	9	133	26	0	3	0	0	0	53	124
$2701-$3000	164	0	0	0	2	6	147	9	0	0	0	0	0	59	104
Over $3000	429	1	1	0	4	5	399	12	0	6	1	0	0	116	311
Totals	4,149	82	27	10	293	199	1,789	579	0	212	3	3	33	835	1,900

* Beneficiaries were excluded.

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

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

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

Schedule of Retired Members by Type of Benefit as of June 30, 2009

General

Amount of Monthly Benefit	Number of Retirees	Type of Retirement			Option Selected*	
		Service Retired Members	Contingent Annuitants	Disabled Annuitants	1	2
Deferred**	764					
$1-$300	282	166	105	11	53	120
$301-$600	448	282	112	54	78	258
$601-$900	275	180	59	36	54	162
$901-$1,200	247	168	41	38	71	135
$1,201-$1,500	216	181	10	25	73	136
$1,501-$1,800	180	151	3	26	79	99
$1,801-$2,100	148	136	0	12	61	87
$2,101-$2,400	106	99	4	3	42	60
$2,401-$2,700	85	82	0	3	26	59
$2,701-$3,000	73	70	1	2	27	45
Over $3,000	115	111	1	3	26	88
Totals	2,939	1,626	336	213	590	1,249

Firefighters and Police

Amount of Monthly Benefit	Number of Retirees	Type of Retirement			Option Selected*	
		Service Retired Members	Contingent Annuitants	Disabled Annuitants	1	2
Deferred**	155					
$1-$300	27	10	15	2	5	5
$301-$600	96	32	54	10	12	31
$601-$900	87	26	43	18	9	35
$901-$1,200	66	30	19	17	11	36
$1,201-$1,500	62	36	12	14	9	41
$1,501-$1,800	57	32	9	16	9	39
$1,801-$2,100	85	62	4	19	20	61
$2,101-$2,400	78	60	1	17	21	56
$2,401-$2,700	92	78	1	13	27	65
$2,701-$3,000	91	85	0	6	32	59
Over $3,000	314	304	1	9	90	223
Totals	1,210	755	159	141	245	651

Total

Amount of Monthly Benefit	Number of Retirees	Type of Retirement			Option Selected*	
		Service Retired Members	Contingent Annuitants	Disabled Annuitants	1	2
Deferred**	919					
$1-$300	309	176	120	13	58	125
$301-$600	544	314	166	64	90	289
$601-$900	362	206	102	54	63	197
$901-$1,200	313	198	60	55	82	171
$1,201-$1,500	278	217	22	39	82	177
$1,501-$1,800	237	183	12	42	88	138
$1,801-$2,100	233	198	4	31	81	148
$2,101-$2,400	184	159	5	20	63	116
$2,401-$2,700	177	160	1	16	53	124
$2,701-$3,000	164	155	1	8	59	104
Over $3,000	429	415	2	12	116	311
Totals	4,149	2,381	495	354	835	1,900

* Beneficiaries were excluded.

Type of Retirement:

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

Option Selected:

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

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

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, 2002 to June 30, 2003						
Average Monthly Benefit	$509	$451	$778	$1,356	$1,652	$2,856
Average - Average Final Compensation	$25,855	$21,142	$26,078	$36,980	$38,345	$47,356
Number of Active Retirees	14	9	19	15	17	14
July 1, 2003 to June 30, 2004						
Average Monthly Benefit	$340	$610	$905	$1,168	$2,101	$2,646
Average - Average Final Compensation	$28,858	$27,645	$34,073	$33,551	$44,052	$46,389
Number of Active Retirees	5	8	12	14	17	31
July 1, 2004 to June 30, 2005						
Average Monthly Benefit	$449	$389	$926	$1,322	$1,817	$2,891
Average - Average Final Compensation	$30,919	$17,717	$34,633	$39,551	$42,375	$51,203
Number of Active Retirees	20	9	12	15	29	45
July 1, 2005 to June 30, 2006						
Average Monthly Benefit	$376	$505	$987	$1,423	$1,931	$2,897
Average - Average Final Compensation	$51,612	$26,430	$37,022	$40,135	$45,567	$51,570
Number of Active Retirees	14	12	14	18	19	37
July 1, 2006 to June 30, 2007						
Average Monthly Benefit	$347	$538	$801	$1,368	$1,848	$2,561
Average - Average Final Compensation	$29,295	$27,810	$31,171	$40,839	$45,321	$45,958
Number of Active Retirees	11	23	14	13	14	37
July 1, 2007 to June 30, 2008						
Average Monthly Benefit	$426	$464	$815	$1,256	$1,689	$2,560
Average - Average Final Compensation	$44,976	$26,681	$29,838	$38,308	$42,258	$47,676
Number of Active Retirees	5	21	12	11	12	20
July 1, 2008 to June 30, 2009						
Average Monthly Benefit	$323	$449	$1,009	$1,442	$1,635	$2,908
Average - Average Final Compensation	$36,883	$23,601	$38,366	$45,720	$46,594	$52,696
Number of Active Retirees	10	18	8	13	13	33

Schedule of Average Benefit Payments
(Excludes Beneficiaries)

Firefighters and Police

Retirement Effective Dates	Years of Credited Service					
	0-10	10-15	15-20	20-25	25-30	30+
July 1, 2002 to June 30, 2003						
Average Monthly Benefit	$1,111	$434	$0	$2,053	$2,775	$3,664
Average - Average Final Compensation	$51,908	$18,584	$0	$44,312	$50,804	$60,628
Number of Active Retirees	3	7	0	8	13	11
July 1, 2003 to June 30, 2004						
Average Monthly Benefit	$0	$686	$863	$1,771	$3,057	$3,344
Average - Average Final Compensation	$0	$20,961	$26,786	$52,311	$55,380	$56,062
Number of Active Retirees	0	7	1	4	17	16
July 1, 2004 to June 30, 2005						
Average Monthly Benefit	$0	$709	$0	$2,889	$3,444	$3,205
Average - Average Final Compensation	$0	$29,086	$0	$57,888	$59,286	$57,263
Number of Active Retirees	0	3	0	3	19	17
July 1, 2005 to June 30, 2006						
Average Monthly Benefit	$0	$649	$0	$2,109	$3,430	$3,884
Average - Average Final Compensation	$0	$30,842	$0	$50,379	$56,277	$59,352
Number of Active Retirees	0	1	0	10	47	93
July 1, 2006 to June 30, 2007						
Average Monthly Benefit	$0	$784	$1,382	$2,352	$3,164	$4,480
Average - Average Final Compensation	$0	$30,410	$47,904	$53,370	$57,276	$74,658
Number of Active Retirees	0	8	4	9	13	4
July 1, 2007 to June 30, 2008						
Average Monthly Benefit	$785	$989	$1,238	$2,361	$2,965	$3,787
Average - Average Final Compensation	$37,660	$38,885	$41,792	$55,165	$54,778	$73,329
Number of Active Retirees	1	2	3	7	9	6
July 1, 2008 to June 30, 2009						
Average Monthly Benefit	$0	$461	$1,424	$2,770	$3,690	$3,315
Average - Average Final Compensation	$0	$24,457	$42,421	$57,267	$68,073	$62,851
Number of Active Retirees	0	7	4	7	17	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, 2002 to June 30, 2003						
Average Monthly Benefit	$616	$444	$778	$1,598	$2,139	$3,211
Average - Average Final Compensation	$30,452	$20,023	$26,078	$39,530	$43,744	$53,196
Number of Active Retirees	17	16	19	23	30	25
July 1, 2003 to June 30, 2004						
Average Monthly Benefit	$340	$645	$902	$1,302	$2,579	$2,884
Average - Average Final Compensation	$28,858	$24,526	$33,513	$37,720	$49,716	$49,682
Number of Active Retirees	5	15	13	18	34	47
July 1, 2004 to June 30, 2005						
Average Monthly Benefit	$449	$469	$926	$1,583	$2,461	$2,977
Average - Average Final Compensation	$30,919	$20,559	$34,633	$42,607	$49,069	$52,864
Number of Active Retirees	20	12	12	18	48	62
July 1, 2005 to June 30, 2006						
Average Monthly Benefit	$376	$516	$987	$1,668	$2,999	$3,603
Average - Average Final Compensation	$51,612	$26,769	$37,022	$43,794	$53,194	$57,137
Number of Active Retirees	14	13	14	28	66	130
July 1, 2006 to June 30, 2007						
Average Monthly Benefit	$347	$602	$930	$1,770	$2,482	$2,749
Average - Average Final Compensation	$29,295	$28,481	$34,889	$45,965	$51,077	$48,758
Number of Active Retirees	11	31	18	22	27	41
July 1, 2007 to June 30, 2008						
Average Monthly Benefit	$486	$510	$900	$1,685	$2,236	$2,844
Average - Average Final Compensation	$43,757	$27,742	$32,229	$44,864	$47,624	$53,596
Number of Active Retirees	6	23	15	18	21	26
July 1, 2008 to June 30, 2009						
Average Monthly Benefit	$323	$452	$1,147	$1,907	$2,799	$2,952
Average - Average Final Compensation	$36,883	$23,840	$39,718	$49,761	$58,766	$53,794
Number of Active Retirees	10	25	12	20	30	37

Compliance Section

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

KPMG

KPMG LLP
Suite 2100
999 Waterside Drive
Norfolk, VA 23510

December 11, 2009

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

We have audited the financial statements of the Employees' Retirement System of the City of Norfolk (the System), a component unit of the City of Norfolk, Virginia, as of and for the year ended June 30, 2009, and have issued our report thereon dated December 11, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A deficiency in internal control over financial reporting 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency as described below. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Valuation of Non-Exchange Traded Funds

During 2009, the System increased its holdings in non-exchange traded funds. The valuation of these investments is performed by the custodian of the assets and is based on the net asset value of the fund as determined by the fair value of the underlying investments. While certain controls over the valuation performed by the custodian are in place, management has not established a control to obtain and reconcile audited financial statements of the funds. In addition, if the year end of the fund differs from the System's year end, the System should establish a control to obtain and reconcile the net asset value to the amount

The Board of Trustees
Employees' Retirement System of the City of Norfolk
December 11, 2009
Page 2

recorded by the custodian. These controls are important to validating the fair value of investments as reported by the System's custodian.

Compliance and Other Matters

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

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 specific parties.

Very truly yours,

KPMG LLP