

**EMPLOYEES' RETIREMENT SYSTEM  
OF THE CITY OF NORFOLK**

**FINANCIAL REPORT**

**JUNE 30, 2000**

# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NORFOLK

## RETIREMENT SYSTEM OFFICIALS

June 30, 2000

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Executive Secretary of the Board of Trustees

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**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying statements 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, 2000 and 1999, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the accompanying financial statements present only the System and are not intended to present fairly the financial position of the City of Norfolk, Virginia, and the results of operations of its fiduciary fund types in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of Employees' Retirement System of the City of Norfolk as of June 30, 2000 and 1999, and the changes in plan net assets for the years then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2000 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information on pages 12 through 16 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The information included for 1995 and 1996 was derived from financial statements audited by other independent accountants and from prior years' actuarial reports. Our procedures were limited to agreeing such information to audited financial statements and prior years' actuarial reports.

*McGladrey & Pullen, LLP*

Greensboro, North Carolina  
October 12, 2000

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NORFOLK**

**STATEMENTS OF PLAN NET ASSETS**  
**June 30, 2000 and 1999**

	2000	1999
<b>Assets:</b>		
Cash and short-term investments	\$ 53,452,871	\$ 73,343,396
<b>Receivables:</b>		
Contributions from the City of Norfolk	-	3,456,936
Accrued investment income	4,237,979	3,899,034
Due from broker for securities sold	2,659,981	24,928,853
<b>Total receivables</b>	<b>6,897,960</b>	<b>32,284,823</b>
<b>Investments, at fair value:</b>		
United States Government securities	48,220,093	73,113,164
Corporate bonds and debentures, including obligations of national mortgage associations	318,543,319	274,175,471
Common stocks	249,000,549	217,249,660
Domestic equity funds	194,781,827	184,786,054
International equity funds	-	30,948,420
Domestic bond fund	51,794,066	41,244,030
<b>Total investments</b>	<b>862,339,854</b>	<b>821,516,799</b>
<b>Total assets</b>	<b>922,690,685</b>	<b>927,145,018</b>
<b>Liabilities:</b>		
Accounts payable	614,770	534,944
Due to broker for securities purchased	45,795,992	91,120,698
<b>Total liabilities</b>	<b>46,410,762</b>	<b>91,655,642</b>
Net assets held in trust for pension benefits (A schedule of funding progress is presented on pages 12 and 13)	<b>\$ 876,279,923</b>	<b>\$ 835,489,376</b>

See Notes to Financial Statements.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NORFOLK**

**STATEMENTS OF CHANGES IN PLAN NET ASSETS**  
**Years Ended June 30, 2000 and 1999**

	2000	1999
<b>Additions:</b>		
Employer contributions	\$ -	\$ 3,456,936
<b>Investment income:</b>		
Net appreciation in fair value of investments	47,968,455	53,587,201
Interest	22,861,069	21,845,156
Dividends	3,457,147	3,144,748
Other	65,545	41,989
	<u>74,352,216</u>	<u>78,619,094</u>
Less investment expense	(1,965,215)	(1,962,432)
<b>Net investment income</b>	<u>72,387,001</u>	<u>76,656,662</u>
<b>Total additions</b>	<u>72,387,001</u>	<u>80,113,598</u>
<b>Deductions:</b>		
Benefits paid directly to participants	28,863,255	27,888,457
Refunds of contributions	62,846	68,455
Beneficiary payments	2,055,261	1,898,586
Administrative fees	615,092	461,070
<b>Total deductions</b>	<u>31,596,454</u>	<u>30,316,568</u>
<b>Net increase</b>	40,790,547	49,797,030
<b>Net assets held in trust for pension benefits:</b>		
Beginning of year	835,489,376	785,692,346
End of year	<u>\$ 876,279,923</u>	<u>\$ 835,489,376</u>

See Notes to Financial Statements.

# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NORFOLK

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Significant Accounting Policies

Basis of accounting: The financial statements of the Employees' Retirement System of the City of Norfolk (the "System") are prepared using the accrual basis of accounting. Employer contributions are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

The System has applied the provisions of Governmental Accounting Standards Board 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 a plan and the progress being made in accumulating sufficient assets to pay benefits when due is generally provided in two required supplementary schedules, a schedule of funding progress and a schedule of employer contributions. GASB 25 also establishes certain parameters for the measurement of all actuarially determined information included in financial reports of defined benefit pension plans.

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

Estimates: The preparation of financial statements in conformity with generally accepted accounting principles 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.

Reclassifications: The System's policy is to reclassify certain amounts reported in prior years' financial statements when necessary for conformity with classifications adopted in the current year. These reclassifications have no effect on plan net assets or changes in plan net assets of prior years.

### Note 2. Description of the Plan

The System is the administrator of a single-employer noncontributory defined benefit plan that covers substantially all employees of the City of Norfolk, Virginia, excluding School Board employees who are covered by the Virginia Retirement System. Although the System presents separate financial statements, it is also included as a component unit in the City of Norfolk's Comprehensive Annual Financial Report as a pension trust fund. The types of employees covered and current membership as of June 30, 2000 and 1999 consist of the following:



**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NORFOLK**

**NOTES TO FINANCIAL STATEMENTS**

**Note 2. Description of the Plan (Continued)**

	2000	1999
Retirees and beneficiaries receiving benefits:		
General	1,858	1,841
Police and fire	724	705
Terminated plan members entitled to but not yet receiving benefits:		
General	674	658
Police and fire	108	95
Active plan members:		
Fully vested:		
General	1,805	1,836
Police and fire	902	889
Nonvested:		
General	742	754
Police and fire	276	298
<b>Total</b>	<b>7,089</b>	<b>7,076</b>

The System provides retirement benefits as well as death and disability benefits. All benefits vest after 5 years of creditable service effective January 1, 1997. Employee eligibility requirements are as follows (see Note 3):

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 police officers, firefighters, and paramedics. The normal service retirement benefit per annum is generally equal to 2.0 percent of average final compensation (average of the three highest years of compensation) multiplied by the number of years of creditable service. There is a cap of 35 years of service for general employees for which benefits may accrue. Existing public safety employees at January 1, 1997 will accrue benefits at 2.2 percent until 65 percent of pay is achieved. Mandatory retirement is age 62 for police officers, firefighters, and paramedics.

## EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NORFOLK

### NOTES TO FINANCIAL STATEMENTS

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#### Note 2. Description of the Plan (Continued)

Retirement (for employees who became members on or after July 1, 1980 but prior to January 1, 1997): Normal retirement is the attainment of age 60 for general employees, and age 55 or after the completion of 25 years of credited service for police officers, firefighters, and paramedics. The normal service retirement benefit per annum for general employees is generally equal to 1.67 percent of average final compensation multiplied by the number of years of creditable service (1.75 percent of average final compensation prospectively from January 1, 1997, with a 35 year service cap for which benefits may accrue). Existing public safety employees at January 1, 1997 will accrue benefits at 2.2 percent until 65 percent of pay is achieved.

Retirement (for employees who became members on or after January 1, 1997): Normal retirement is the attainment of age 60 for general employees, and age 55 or after the completion of 25 years of credited service for police officers, firefighters, and paramedics. The normal service retirement benefit per annum for general employees is generally equal to 1.75 percent of average final compensation multiplied by the number of years of creditable service up to a maximum of 35 years of creditable service for general employees. The normal service retirement benefit per annum for police officers, firefighters, and paramedics is generally equal to 2.2 percent of average final compensation for the first 25 years of creditable service and 2.0 percent of average final compensation for the next 5 years of creditable service capped at 65 percent of pay for police officers, firefighters, and paramedics.

During the year ended June 30, 1997, the City adopted various amendments to the retirement benefits of active members effective January 1, 1997. The amendments were as follows:

- Capped years of eligible services for general employees

- Capped percent of pay for public safety employees at 65%

- Increased benefit accrual rates for various employee groups

- Changed the age for both the normal service requirement and early service requirement for various employee groups

- Decreased the early service retirement penalty for general employees

- Changed the vesting requirements for all employees from ten years to five years

- Allowed permanent part-time employees to earn prospective retirement benefits

- Allowed employees who return to work after a break-in-service to repurchase creditable service time

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

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

## EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NORFOLK

### NOTES TO FINANCIAL STATEMENTS

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#### **Note 3. Contributions Required and Contributions Made**

Significant assumptions used to calculate contribution requirements are the same as those used to calculate the actuarial accrued liability. Normal cost is funded on a current basis. Periodic contributions for normal cost are based on the level percentage-of-payroll method. There is no unfunded actuarial accrued liability at June 30, 2000 or 1999. 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 to the pension plan were \$-0- and \$3,456,936 for the years ended June 30, 2000 and 1999, respectively. 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 \$-0- for the year ended June 30, 2000 was based on a -3.55 percent of covered payroll for general employees and 5.56 percent of covered payroll for firefighters, police, and paramedics in 2000. The contribution percentage for general employees for 2000 is negative due to the overfunded status of the Plan. This negative percentage resulted in no contribution being required for the year ended June 30, 2000. Contributions made by the City of Norfolk represent -0.76 percent of covered payroll for general employees and 8.98 percent of covered payroll for firefighters, police, and paramedics in 1999.

Voluntary contributions were discontinued in 1979 and have been accumulated thereafter with interest at a rate of 7 percent. Such contributions are refundable to members who terminate before becoming eligible for retirement benefits. At retirement, members' contributions plus accumulated interest are refunded. Such amounts approximated \$533,000 at June 30, 2000 and \$558,000 at June 30, 1999.

# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NORFOLK

## NOTES TO FINANCIAL STATEMENTS

### Note 4. Investments and Deposits

Deposits: At June 30, 2000 and 1999, the carrying amounts of the System's cash deposits with banks and investment companies were \$3,060,969 and \$7,368,315, respectively, and the bank and investment company balances were \$3,797,779 and \$8,452,917, respectively. The entire bank balance was covered by federal depository insurance, commercial insurance or collateralized in accordance with the Virginia Security for Public Deposits Act. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks.

Investments: The Code of Virginia authorizes the System to invest in certificates of deposit with national banks located within the Commonwealth of Virginia, obligations of the United States or its agencies, bankers' acceptances, repurchase agreements, "prime quality" commercial paper, common stock, and certain other qualified investments.

The System's investments at June 30, 2000 are categorized in the following table to give an indication of the level of credit risk assumed by the System at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the System or its safekeeping agent in the System's name. Category 2 includes uninsured or unregistered investments for which the securities are held by the broker's or dealer's trust department or safekeeping agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent but not in the System's name. The System's investments at June 30, 2000 were as follows:

	2000			Total Cost	Carrying Amount
	At Cost Category 1	Category 2	Category 3		
U. S. Government securities	\$ 47,635,273	\$ -	\$ -	\$ 47,635,273	\$ 48,220,093
Corporate bonds and debentures, including commercial paper classified as cash and short-term investments	333,032,681	-	-	333,032,681	328,797,646
Common stocks	202,100,728	-	-	202,100,728	249,000,549
	<u>\$ 582,768,682</u>	<u>\$ -</u>	<u>\$ -</u>	<u>582,768,682</u>	<u>626,018,288</u>
State Street Russell 1000 Growth Fund				43,907,577	65,061,934
State Street Conservative Fund				36,794,586	129,719,893
State Street Global Advisors Bond Market Fund				50,100,452	51,794,066
Money market investments included in cash and short-term investments				40,137,575	40,137,575
Total investments				<u>\$ 753,708,872</u>	<u>\$ 912,731,756</u>

## EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NORFOLK

### NOTES TO FINANCIAL STATEMENTS

#### Note 4. Investments and Deposits (Continued)

The System's investments at June 30, 1999 were categorized as follows:

	1999			Total Cost	Carrying Amount
	Category 1	At Cost Category 2	Category 3		
U. S. Government securities	\$ 75,005,736	\$ -	\$ -	\$ 75,005,736	\$ 73,113,164
Corporate bonds and debentures, including commercial paper classified as cash and short-term investments	295,461,655	-	-	295,461,655	290,820,455
Common stocks	148,895,006	-	-	148,895,006	217,249,660
	<u>\$ 519,362,397</u>	<u>\$ -</u>	<u>\$ -</u>	<u>519,362,397</u>	<u>581,183,279</u>
State Street Global Advisors Emerging Markets Fund				4,354,578	4,259,094
State Street Russell 1000 Growth Fund				59,130,768	70,285,263
Lazard International Equity Mutual Fund				18,404,987	26,689,326
State Street S&P 500 Fund				22,584,849	114,500,791
State Street Global Advisors Bond Market Fund				41,791,829	41,244,030
Money market investments included in cash and short-term investments				49,330,097	49,330,097
Total investments				<u>\$ 714,959,505</u>	<u>\$ 887,491,880</u>

The System's investments, (including investments bought and sold, as well as held throughout the year), appreciated (depreciated) in fair value as determined by quoted market prices as follows during the years ended June 30, 2000 and 1999:

	2000	1999
U. S. Government and governments agency securities	\$ 750,612	\$ (7,299,056)
Corporate bonds and debentures	(4,865,187)	(3,399,311)
Common stocks and equity funds	52,083,030	64,285,568
	<u>\$ 47,968,455</u>	<u>\$ 53,587,201</u>

The System invests in certain derivatives including real estate mortgage investment conduits and collateralized mortgage obligations. Investments in derivatives with a cost of \$46,213,462 and a market value of \$45,515,472 were held at June 30, 2000, and investments in derivatives with a cost of \$46,009,809 and a market value of \$45,615,292 were held at June 30, 1999.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NORFOLK**

**SCHEDULE OF FUNDING PROGRESS**

Dollar Amounts in Millions

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Funding Excess (a-b)
June 30, 1995	\$ 488.3	\$ 448.4	\$ 39.9
June 30, 1996	534.8	469.4	65.4
June 30, 1997	609.2	550.1	59.1
June 30, 1998	694.2	569.9	124.3
June 30, 1999	767.8	601.4	166.4
June 30, 2000	826.4	628.2	198.2

Funded Ratio (a/b)		Covered Payroll (c)	Funding Excess as a Percentage of Covered Payroll ((a-b)/c)
108.9	% \$	115.0	34.7 %
113.9		118.0	55.4
110.7		116.8	50.6
121.8		121.9	102.0
127.7		122.4	135.9
<b>131.6</b>		<b>129.9</b>	<b>152.6</b>

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NORFOLK**

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

<b>Year Ended June 30,</b>	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>
1995	\$ 11,240,988	100 %
1996	9,903,324	100
1997	12,132,036	100
1998	10,158,768	100
1999	3,456,936	100
2000	-	100



## EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NORFOLK

### NOTES TO SUPPLEMENTARY ACTUARIAL INFORMATION

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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, 2000
Actuarial cost method	Projected unit credit cost method
Amortization method	Level dollar closed
Remaining amortization period	Weighted average of 17.5 years
Asset valuation method	3-year moving average market
Actuarial assumptions:	
Investment rate of return*	7.5% per annum, compounded annually
Projected salary increases*	Average salary increases of 5.35%, compounded annually (This reflects an assumption of a range of salary increases from 7.6% at age 20 to 4.6% at age 69.)
* Includes inflation at 3.5%	
Cost-of-living adjustments	None
Separation from active service	Assumed rates of separation from service vary depending on the age of the employee and whether the employee is a general employee or police and firefighter
	1995 George B. Buck mortality tables with ages rated forward 3 years for members and 4 years for beneficiaries. Special mortality tables are used for disability retirements
Marital status	65% of the general employees and 80% of the police and firefighters are assumed to be married, with the males three years older than females

## **EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NORFOLK**

### **NOTES TO SUPPLEMENTARY ACTUARIAL INFORMATION**

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George B. Buck Consulting Actuaries, Inc. computes the actuarial accrued liability. 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 valuation for June 30, 1998 reflects an increase in the actuarial accrued liability of approximately \$3.0 million due to the establishment of a 2 percent permanent cost of living adjustment effective January 1, 1998.