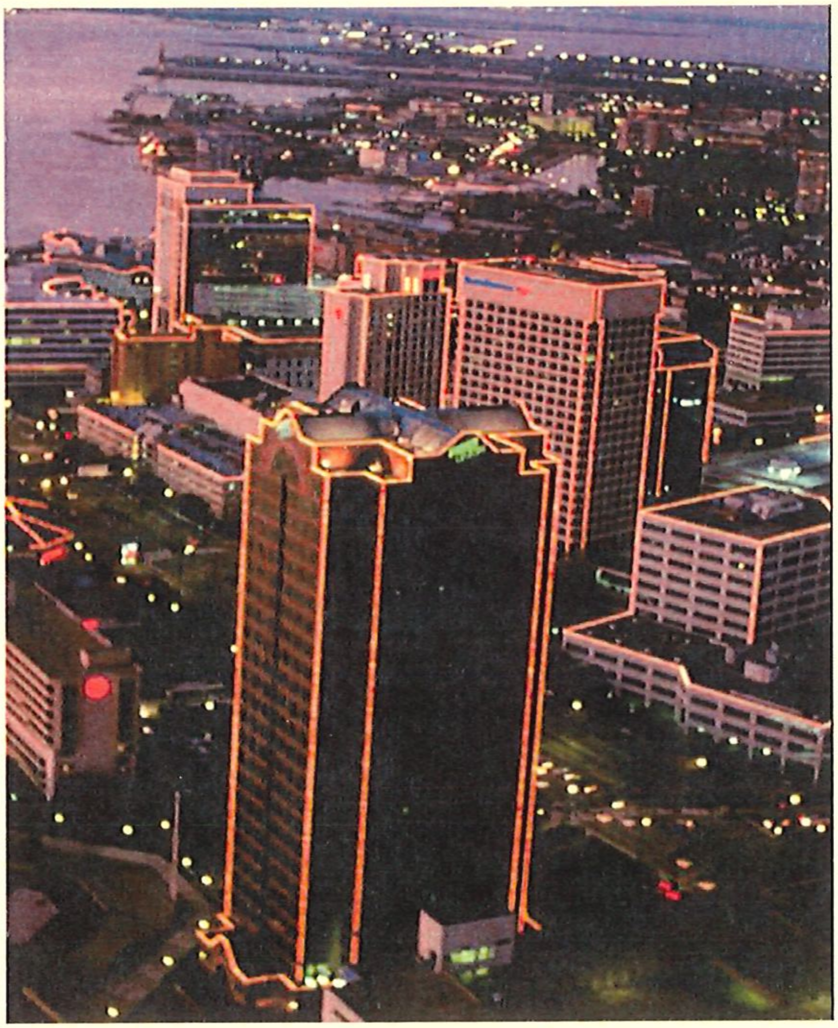
Comprehensive Annual Financial Report

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



For Fiscal Year Ended June 30, 2005

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, 2005

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

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

September 30, 2005

The Comprehensive Annual Financial Report (CAFR) of the Employees' Retirement System (System) for the City of Norfolk for fiscal year ended June 30, 2005 is submitted herewith. The System is a Pension Trust Fund included in the financial statements of the City of Norfolk, Virginia. The System administration is responsible for the accuracy and fairness of information contained in this report. All disclosures necessary to enable the reader to gain an understanding of the System's financial activities have been included.

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

This report consists of five sections:

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

In compliance with GAAP, the financial section has been expanded to include Management's Discussion and Analysis (MD&A). The MD&A is intended to provide narrative overview and analysis of the financial status of the System for the year ended June 30, 2005 (for more information, see pages 10 through 13).

System History

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

Letter of Transmittal

Profile of the City of Norfolk

The City of Norfolk was established as a town in 1682, as a borough in 1736, and incorporated as a city in 1845. The City is the economic, business, educational and cultural center of Southeastern Virginia. There are 66 square miles included in the City's corporate boundary. The City's population is currently approximately 237,835.

The City is organized under a Charter, granted by the General Assembly of Virginia in 1918, which authorizes a council-manager form of government. The City Council exercises all of the governmental powers conferred upon it and consists of seven members elected to office under a ward system, with two members elected from two larger superwards.

The City currently enjoys a favorable economic environment and indicators point to continued stability. The presence and role of the military in Norfolk continues to have a significant impact on the local economy. In the Mayor's 2005 State of the City Message, it was revealed that more than $5 billion dollars has been invested in the City. This is a clear statement by the business community of its confidence in Norfolk.

The City's overall financial condition aided by an improving economy, an expanding housing market and business base remains solid. Norfolk's reputation as a pro-business city was reaffirmed in August 2005 when Trader Publishing announced the location for its national headquarters with a $51 million dollar investment with an anticipated 1600 new jobs. Ford Motor Company will invest another $34 million in improvements to the Norfolk Assembly Plant.

The City of Norfolk's global business reputation continues to grow ranking 8th among the Top 50 U.S. Cities for European Expansion. This reflects success in attracting the North American headquarters of Zim American Israeli shipping lines and the French firm, CMA-CGM, which held its ribbon-cutting ceremony for its $15 million dollar facility now under construction. The local economy also thrives on the Port of Virginia and Norfolk International Airport businesses.

The remarks in this section of the transmittal letter related to the profile of City of Norfolk's thriving economy well-positions its support of the System. The City fully funds each year's annual required contribution to the pension plan as determined by the actuary.

Benefit Provisions

The System provides normal and early service retirement benefits as well as death and disability benefits. All benefits vest after 5 years of creditable service effective after 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.

Change in Actuary

Mellon Human Resources and Investor Solutions was the actuary in service from July 1, 2004 through June 30, 2005. Mellon was hired at the inception of the System. During FY 2005 the System advertised a Request for Proposal for Actuary and Consulting Services. Cheiron was hired effective July 1, 2005 to perform all FY 2005 year end functions.

Letter of Transmittal

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 2005 statements have been audited by McGladrey & Pullen, LLP in conjunction with the City's annual audit.

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

Funded Status

A pension plan is considered adequately funded when sufficient assets are available to meet all expected future obligations to participants. The System's funding objective is to meet long-term benefits through investment returns on trust fund assets and employer contributions. The advantage of a well-funded plan is that participants are confident that sufficient assets are available for the payment of current and future member benefits. An actuarial valuation of the System to determine funding requirements is performed annually. The actuarial valuation used for this report period was completed with payroll data as of June 30, 2005. Information from this report is included in the Actuarial Section.

The City of Norfolk's commitment to provide a financially sound retirement plan for its members is illustrated on two schedules contained in this report. "The Schedule of Funding Progress" found in the Required Supplementary Information of the Financial Section, expresses plan net assets as a percentage of the actuarial accrued liability, providing one indication of the System's funding status. The "Schedule of Employer Contributions" includes historical trend information about the annual required contributions (ARC) of the employer and the contributions made by the employer in relation to the ARC. As of June 30, 2005, the System's funded ratio was 96.6%.

Investments

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

The Board of Trustees has carefully exercised areas of responsibility by diversifying the assets. The Board of Trustees recognizes that the objective of a sound and prudent policy is to produce investment results which will preserve the System's assets and to maximize the earnings of the System consistent with its long-term needs.

Letter of Transmittal

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

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

The net assets of the System as of June 30, 2005 were $850.5 million, an increase of $34.3 million during the fiscal year. Investment return for the year was 7.1%. The System is financially and actuarially sound. The Retirement Fund is sound and well positioned to pay retirement benefits as they are due. A summary of the Fund's asset allocation and historic returns can be found in the Investment Section of this report.

Professional Services

The professional consultants who are contracted by the Board of Trustees to perform services that are essential to the effective and efficient operation of the System are listed on page 6. An independent audit was conducted by McGladrey & Pullen, LLP and a copy of that opinion is found on pages 8 and 9. A certification letter from the actuary, Cheiron, is also included as part of this report on pages 34 and 35.

Certificate of Achievement

This is the first year that the System has submitted a Comprehensive Annual Report for the Certificate of Achievement for Excellence in Financial Reporting for the Employees' Retirement System for the City of Norfolk. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficient organized comprehensive annual financial report. This report satisfies both accounting principles accepted in the United States of America and applicable legal requirements.

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.

Theodore O. Wilder, Jr.
Executive Director

Board of Trustees

The members of the Board are appointed and serve pursuant to Chapter 37 of the Norfolk City Code which provides for nine (9) members. On July 1, 2004, the Board operated with one (1) vacant position. Two more vacancies occurred and are referenced in Note 1 and Note 2 below:

Note 1: Mr. Robert J. Keogh deceased as of November 2004. Mr. Keogh provided valuable service as a Trustee from January 10, 1990 until November 20, 2004. Trustee position remained vacant from November 21, 2004 through June 30, 2005.

Note 2: Mr. William O. Carrow, Jr. was employed as a public safety representative and retired from employment with the City of Norfolk on February 1, 2005. Trustee position remained vacant from February 1, 2005 through June 30, 2005.

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
Mellon Human Resources & Investor Solutions (Note 1)

CHEIRON (Note 2)

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

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

Lotus Financial Consulting
Kamal K. Khanna, Chief Investment Officer

Custodian
State Street Bank

Investment Managers

Domestic Equity

J.P. Morgan Chase
New York, New York

State Street Global Advisors (Note 3)
Boston, Massachusetts

Oberweis Asset Management, Inc.
Lisle, Illinois

Wellington Management Company
Boston, Massachusetts

Fixed Income

Mellon Capital Management Corporation
San Francisco, California

State Street Global Advisors (Note 4)
Boston, Massachusetts

Pacific Investment Management Company
Newport Beach, California

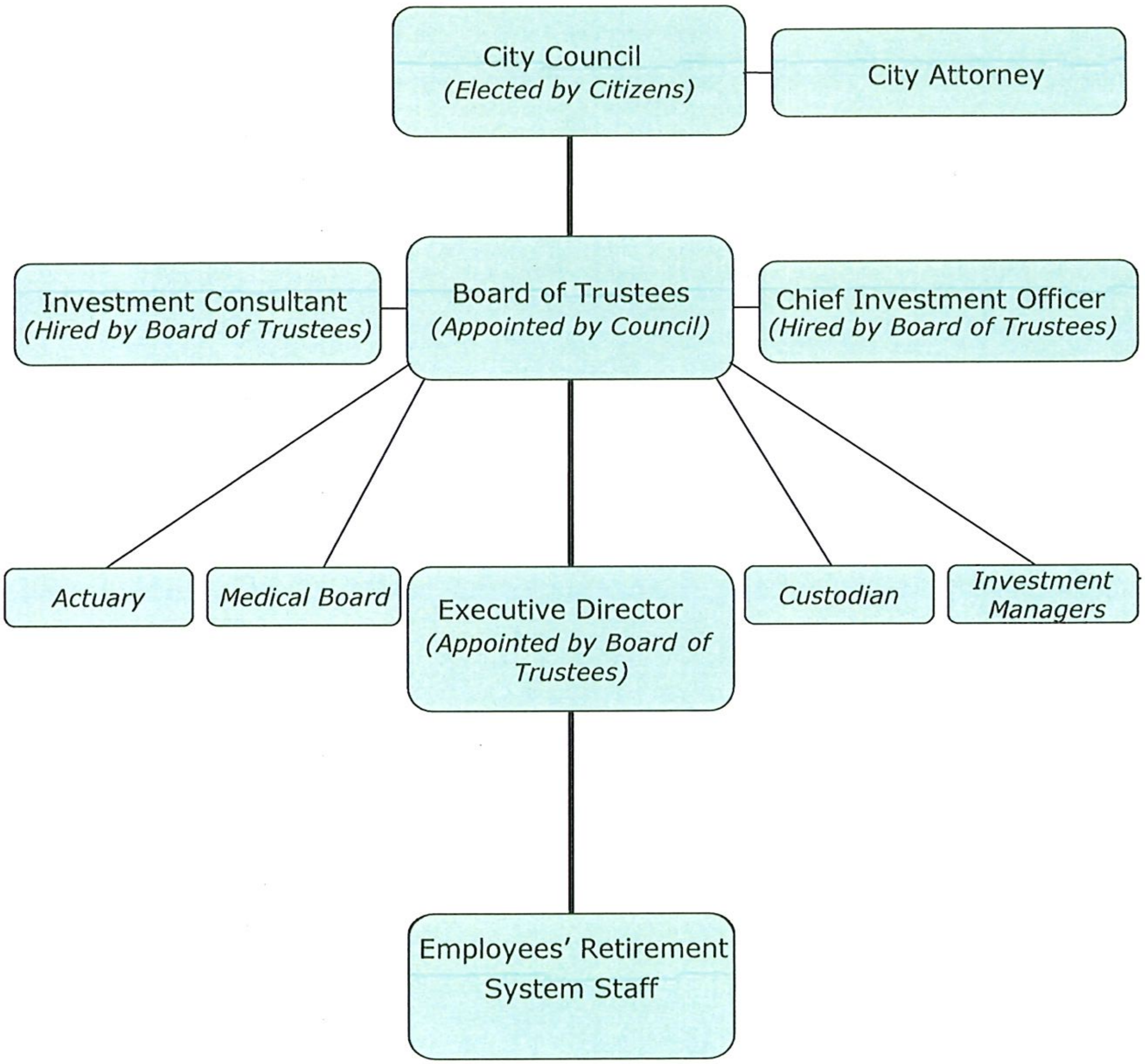
Tattersall Advisory Group
Richmond, Virginia

Note 1 and Note 2: Mellon Human Resources & Investor Solutions was the contracted Actuary from July 1, 2004 through June 30, 2005. Cheiron's contract started July 1, 2005, and was hired to provide all actuarial calculations for fiscal year ended June 30, 2005.

Note 3 and Note 4: State Street Global Advisors have a domestic equity and fixed income account.

Investment Manager and Investment Assignments can be found on page 29.

ORGANIZATIONAL CHART



Financial Section

McGladrey & Pullen
Certified Public Accountants

Independent Auditor's Report

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

We have audited the accompanying statement of plan net assets of the Employees' Retirement System of the City of Norfolk (the "System"), a component unit of the City of Norfolk, Virginia, as of June 30, 2005, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the accompanying financial statements present only the System and do not purport to, and do not, present fairly the financial position of the City of Norfolk, Virginia, and the changes in its financial position and its cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Employees' Retirement System of the City of Norfolk as of June 30, 2005, and the changes in its plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated September 20, 2005 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 10 through 13 and pages 22 through 24 are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standard Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's financial statements. The schedules listed in the table of contents on pages 25 and 26 and the introductory section, investment section, actuarial section, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The schedules on pages 25 and 26 have been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section, investment section, actuarial section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

McGladrey & Pullen, LLP

Greensboro, North Carolina
September 20, 2005

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, 2005 and 2004. Please read it in conjunction with the basic financial statements, which follow this discussion.

FINANCIAL HIGHLIGHTS

- System assets exceeded liabilities at the close of fiscal years 2005 and 2004 by $850.5 million and $816.1 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, 2005 and 2004, the funded ratio was 96.6% and 96.5%, respectively.

- Total additions decreased over the prior year from $105,973,951 to $78,236,701 or about 26.2%. This decrease was mainly due to lower net appreciation in fair value of System's investments in the most recent period versus the prior period.

- Total deductions increased over the prior year from $40,062,545 to $43,904,140 or 9.6%. 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 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, 2005 and 2004

	2005	2004	2005-2004 Total% Change
ASSETS			
Cash	$ 39,495,181	$ 59,553,103	(33.7)%
Receivables	43,238,506	40,514,332	6.7
Investments	808,140,046	739,509,582	9.3
Total Assets	$890,873,733	$839,577,017	6.1
LIABILITIES			
Accounts Payable and Other Accrued Liabilities	276,267	359,403	(23.1)%
Investments Purchased	40,144,576	23,097,285	73.8
Total Liabilities	40,420,843	23,456,688	72.3
TOTAL NET ASSETS	$850,452,890	$816,120,329	4.2%

Total assets as of June 30, 2005 and 2004 were $890,873,733 and $839,577,017, respectively, and were comprised of cash, receivables and investments. Total assets increased $51,296,716 or 6.1% for FY 2005, due in part to an increase in investments.

Total liabilities that are due and payable as of June 30, 2005 and 2004 were $40,420,843 and $23,456,688, respectively, and were comprised of payables for investment purchases and administrative costs. For FY 2005 total liabilities increased $16,964,155 or 72.3% from the prior year primarily due to an increase in obligations for investments purchased.

System assets exceeded its due and payable liabilities at the close of fiscal year 2005 and 2004 by $850,452,890 and $816,120,329 respectively. In fiscal year 2005, total net assets held in trust for pension benefits increased $34,332,561 or 4.2% from the previous year primarily due to favorable market conditions.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Employees' Retirement System of the City of Norfolk
Changes in Plan Net Assets
For the Fiscal Years Ended June 30, 2005 and 2004

	2005	2004	2005-2004 Total% Change
ADDITIONS			
Contributions	$ 23,652,756	$ 23,469,744	0.8%
Investment Income	54,583,945	82,504,207	(33.8)
Total Additions	$ 78,236,701	$105,973,951	(26.2)
DEDUCTIONS			
Benefits payments	43,320,452	39,544,156	9.5
Refund of Contributions	42,918	47,622	(9.9)
Administrative Expenses	540,770	470,767	14.9
Total Deductions	43,904,140	40,062,545	9.6
Net Increase	34,332,561	65,911,406	(47.9)
Net Assets Held in Trust for Pension Benefits			
Beginning of Year	816,120,329	750,208,923	8.8
End of Year	$850,452,890	$816,120,329	4.2%

ADDITIONS TO PLAN ASSETS

The reserves needed to finance retirement benefits are accumulated through the collection of employer contributions and through earnings on investments. Contributions and net investment income for fiscal years 2005 and 2004 totaled $78,236,701 and $105,973,951 respectively.

Additions decreased for FY 2005 by $27,737,250 from that of the prior year, due primarily to lower net appreciation in fair value of System's investments in the most recent period versus the prior period. For FY 2005 total investment income decreased from the previous year by $27,920,262. The total portfolio returned 7.1% for fiscal year ended June 30, 2005 versus 11.4% for the prior fiscal year. The current fiscal year return was just slightly short of our 7.5% target return.

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 2005 were $43,904,140, an increase of 9.6% over FY 2004 deductions.

The payment of pension benefits increased by $3,776,296 in FY 2005, 9.5% from the previous year. The increase in pension benefit payments resulted from Post-retirement cost of living (COLA) allowance increases of 1.5% granted to retirees on July 1, 2004 and an increase in number of retirees. The number

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

of additional retirees was 207 and 176 in fiscal year 2005 and 2004 respectively. Administrative expenses increased for FY 2005 by $70,003 or 14.9% from the previous year due to the hiring of two (2) additional personnel.

RETIREMENT SYSTEM AS A WHOLE

As a result of an increase in the equity markets, combined net assets increased in FY 2005 over FY 2004. The System's funding ratio as determined by the System's actuary was 96.6 % at June 30, 2005 and 96.5% at June 30, 2004. The Board, with the assistance of its Chief Investment Officer, pension consultant and actuary, continue to utilize the concepts of prudent investment management, cost controls and strategic planning.

CONTACTING SYSTEM FINANCIAL MANAGEMENT

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

Employees' Retirement System of the City of Norfolk

(A Pension Trust Fund of Norfolk, Virginia)
Statement of Plan Net Assets
June 30, 2005

Assets	**2005**
Cash and cash equivalents	$ 39,495,181
Receivables:	
Employer contribution	23,652,756
Accrued investment income	1,829,636
Due from broker for securities sold	17,756,114
Total receivables	43,238,506
Investments:	
U. S. Government securities	29,099,032
Corporate bonds and debentures, including obligations of national mortgage associations	184,044,212
Common stocks	111,747,337
Domestic equity funds	418,153,834
Domestic bond funds	65,095,631
Total investments	808,140,046
Total assets	890,873,733
Liabilities and Net Assets	
Accounts payable and accrued expenses	276,267
Due to broker for securities purchased	40,144,576
Total liabilities	40,420,843
Net assets held in trust for pension benefits	$ 850,452,890

(A Schedule of Funding Progress is reported on page 22)

See Notes to Financial Statements.

Employees' Retirement System of the City of Norfolk

(A Pension Trust Fund of Norfolk, Virginia)
Statement of Changes in Plan Net Assets
Year Ended June 30, 2005

	2005
Additions to net assets attributed to:	
Investment income:	
Net appreciation in fair value of investments	$ 42,412,635
Interest	9,442,388
Dividends	4,052,884
Other	236,022
	56,143,929
Less investment expense	(1,559,984)
Net investment income	54,583,945
Contributions	23,652,756
Total additions	78,236,701
Deductions from net assets attributed to:	
Benefits paid directly to participants	40,805,480
Refunds of contributions	42,918
Beneficiary payments	2,514,972
Administrative costs	540,770
Total deductions	43,904,140
Net increase	34,332,561
Net assets held in trust for pension benefits:	
Beginning of year	816,120,329
End of year	$ 850,452,890

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, 2005

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.

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

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

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

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

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, 2005 consists of the following:

	2005
Retirees and beneficiaries receiving benefits:	
General	2,061
Public safety	868
Terminated plan members entitled to but not yet receiving benefits:	
General	721
Public safety	131
Active plan members:	
Fully vested:	
General	1,751
Public safety	930
Nonvested:	
General	885
Public safety	318
Total	7,665

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

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

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

Note 2. Description of Plan, continued:

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

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

Note 3. Contributions Required and Contributions Made

Significant assumptions used to calculate contribution requirements are the same as those used to calculate the actuarial accrued liability. Normal cost is funded on a current basis. Periodic contributions for normal cost are based on the level percentage-of-payroll method. The unfunded actuarial accrued liability as of June 30, 2005 is $29,784,379. 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 $23,652,756 for the year ended June 30, 2005 was based on 11.10 percent of covered payroll for general employees and 20.84 percent of covered payroll for public safety employees.

Voluntary contributions were discontinued in 1979 and have been accumulated thereafter with interest at a rate of 7 percent. Such contributions are refundable to members who terminate before becoming eligible for retirement benefits. At retirement, members' contributions plus accumulated interest are refunded. Such amount totaled $294,622 at June 30, 2005.

Note 4. Investments and Deposits

Deposits: At June 30, 2005, the carrying value of the System's cash deposits with banks and investment companies was $855,003, and the bank and investment company balance was $1,164,199. The entire bank balance was covered by federal depository insurance, commercial insurance or collateralized in accordance with the Virginia Security for Public Deposits Act. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks. The System has no policy regarding the custodial credit risk for deposits.

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

Note 4. Investments and Deposits, continued:

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 (except for bank deposits) are not insured and are registered in the name of the System and held by State Street Bank as custodian. The System has no policy regarding custodial credit risk for investments.

Interest Rate Risk

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

Segmented Time Distribution

June 30, 2005		Investment Maturities (in years)			
Investment Type	**Fair Value**	**Less 1 yr**	**1-5 yrs**	**6-10 yrs**	**10 yrs +**
Bond Mutual Fund – Domestic bond funds	28,778,103	-	-	-	28,778,103
Corporate Debt – Domestic bond funds	36,317,528	2,450,418	11,411,393	2,446,349	20,009,368
Corporate Debt – Corporate bonds and debentures	36,169,452	2,450,418	11,411,393	2,446,349	19,861,292
Floaters – Corporate bonds and debentures	3,529,064	-	-	-	3,529,064
Mortgages – Corporate bonds and debentures	144,345,696	1,797	4,254,484	10,783,194	129,306,221
U.S. Agency	29,099,032	-	7,039,885	3,184,878	18,874,269
Domestic Equity Funds	418,153,834	N/A	N/A	N/A	N/A
Common Stock	111,747,337	N/A	N/A	N/A	N/A
Money Market Investments included in Cash and Cash Equivalents	38,640,178	N/A	N/A	N/A	N/A

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 are not permitted. The System invests in certain derivatives including real estate mortgage investment conduits and collateralized mortgage obligations. Those securities are included in reported investments. Investments in derivatives with a cost of $57,212,538 and a market value of $57,283,638 were held at June 30, 2005. The System's rated debt investments as of June 30, 2005 were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below using the S & P's credit quality rating scale.

June 30, 2005 Related Debt Investment Value	FAIR QUALITY RATINGS	Bond Mutual Fund	Corporate Debt	Floaters	Mortgages	U.S. Agency
	AAA		5,502,582	3,529,064	139,394,909	29,099,032
	AA2		20,970,973			
	AA+		109,277			
	AA	28,778,103	10,395,769		4,950,787	
	AA-		499,096			
	A		8,718,579			
	A+		10,054,836			
	A-		741,256			
	BBB		4,546,116			
	BBB+		6,610,441			
	BBB-		857,197			
	BB+		2,104,780			
	BB		1,376,078			
		28,778,103	72,486,980	3,529,064	144,345,696	29,099,032

The money market investments included in Cash and Cash Equivalents are unrated.

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 about concentration of credit risk are that no more than 20% of each Account's fixed income portfolio, including cash equivalents, shall be invested in bonds rated Baa (1,2,& 3) or BBB (+ or -). Upon written request from the Manager, the Board will consider allowing more than 20% in these ratings and the purchase of bonds rated below Baa3 or BBB-. More than 5% of the System's investments are in FNMA investment pools. This investment is 5.6% of the System's total investments.

Note 5. Transactions With City of Norfolk

Effective January I, 1992, the System began reimbursing the City for all administrative costs related to the System's operations. The cost reimbursed for the year ended June 30, 2005 was $398,752.

Note 6. Income Tax Status

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

Note 7. Pronouncements Issued, Not Yet Effective

The GASB has issued several pronouncements prior to June 30, 2005 that have effective dates that may impact future financial presentations.

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statement of the System.

- GASB Statement Number 46, Net Assets Restricted by Enabling Legislation.
- GASB Statement Number 47, Accounting for Termination Benefits.

Additionally, the GASB issued Statement Number 44, Economic Condition Reporting: The Statistical Section, which amends portions of previous guidance related to the preparation of a statistical section when presented as a required part of a comprehensive annual financial report ("CAFR").

Required Supplementary Actuarial Information

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

Schedule of Funding Progress
Dollar Amounts in Millions
(Unaudited)

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability Projected Unit Credit	(a-b) Funding Excess (Shortage)	(a/b) Funded Ratio	(c) Covered Payroll	((a-b)/c) Funding Excess (Shortage) as a Percentage of Covered Payroll
June 30, 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%
June 30, 2001	838.1	742.6	95.5	112.9%	144.2	66.2%
June 30, 2000	826.4	628.2	198.2	131.6%	129.9	152.6%

* 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
2005	$ 23,652,756	100 %
2004	23,469,744	100
2003	21,390,048	100
2002	-	100
2001	-	100
2000	-	100

Actuarial Assumptions:

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

Valuation date	June 30, 2005
Actuarial cost method	Projected unit credit cost method
Amortization method	Level dollar open
Remaining amortization period	20 years
Asset valuation method*	3-year smoothed market
Actuarial assumptions:	
Assumed inflation rate	3.5%
Investment rate of return	7.5% per annum, compounded annually
Projected salary increases**	Average salary increases of 5.35%, compounded annually (This reflects an assumption of a range of salary increases from 7.6% at age 20 to 4.6% at age 69.)
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 public safety employee. 1995 Mellon mortality tables with ages rated forward 1 year for members and 2 years for beneficiaries. Special mortality tables are used for disability retirements.
Marital status	65% of the general employees and 80% of the public safety employees are assumed to be married, with the males three years older than females.

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

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

**Includes inflation at 3.5%

Employees' Retirement System of the City of Norfolk
(A Pension Trust Fund of Norfolk, Virginia)
Schedule of Administrative Expenses
Year Ended June 30, 2005

Personal Services:		
Staff salaries	$304,758	
Benefits	67,374	
Total Personal Services		$372,132
Professional Services:		
Actuarial Fees	82,851	
Medical Examinations	5,984	
Total Professional Services		88,835
Communication:		
Printing	425	
Travel & Training	15,305	
Postage & Shipping	14.555	
Total Communication		30,285
Miscellaneous:		
Supplies & Equipment	7,245	
Maintenance & Repairs	268	
Other	42,005	
Total Miscellaneous		49,518
Total Administrative Expenses		$540,770

Employees' Retirement System of the City of Norfolk
(A Pension Trust Fund of Norfolk, Virginia)
Schedule of Investment Expenses
Year Ended June 30, 2005

Investment Manager Fees	$1,080,595	
Total Investment Manager Fees		$1,080,595

Schedule of Payments to Custody and Investment Consultant

Custody Fees	128,564	
Investment Consultant Fees	350,825	
Total Custody and Investment Consultant Fees		479,389
Total Investment Expenses		**$1,559,984**

Investment Section

Investment Performance, Policy, Statistics, and Activity

This section prepared by Summit Strategies Group, investment consultant to the System, and an SEC registered investment advisor under the Investment Advisors Act of 1940.

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

Investment Objectives

The Board of Trustees has adopted Investment Policies and Guidelines, which outline the System's investment goals and objectives. The Investment Policy Statement contains a statement of Investment Goals and Objectives, General Investment Principles and Guidelines.

The Plan's general investment goals are broad in nature. The primary objectives are to efficiently allocate and manage the assets, dedicated to the payment of Plan benefits and administrative expenses. The following goals, consistent with the above-described purpose, are adopted:

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

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

  1. The rate of inflation, as measured by the Consumer Price Index, plus 2.5% per year;
  2. The return of a target policy index ("Target Policy");
  3. The 33rd percentile return of a universe of comparably managed balanced funds;
  4. For the aggregate equity and fixed income components of the fund, the return of the S&P 500 and the Lehman Aggregate Bond indices, respectively; and
  5. For the aggregate equity and fixed income components of the fund, the 33rd percentile return of a universe of comparably managed equity and fixed income funds, respectively.
  6. The actuarially assumed investment rate of return.

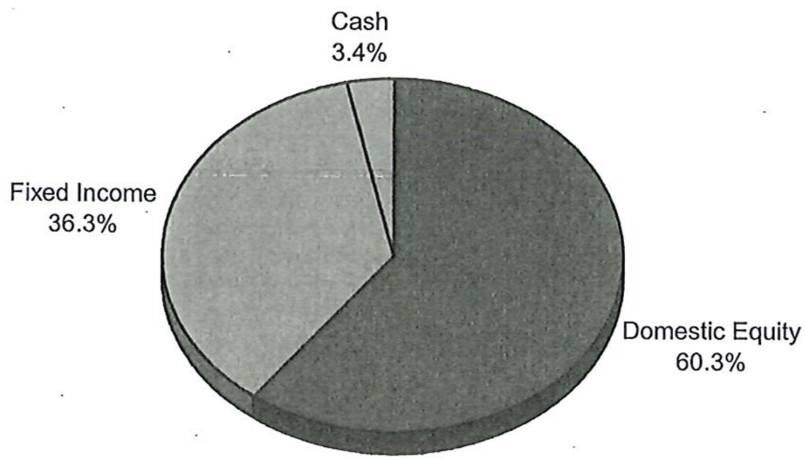
Asset Allocation

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

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

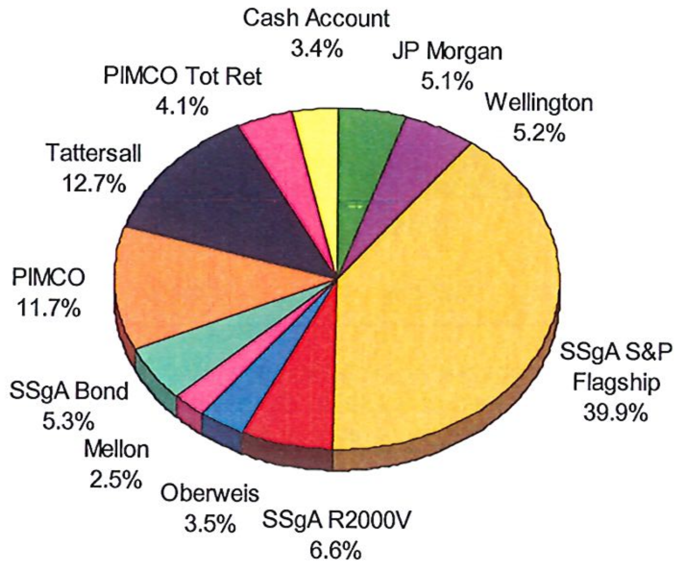
The System will be diversified both by asset class (e.g., common stocks, bonds, cash) and within asset classes (e.g., within common stocks by economic sector, industry, quality and market capitalization). The purpose of diversification is to provide reasonable assurance that no single security or class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

Asset Allocation as of June 30, 2005



Domestic Equity	$498,152,887
Fixed Income	300,010,239
Cash Equivalent	27,937,979
Total	$826,101,105

Investment Managers and Investment Assignments as of June 30, 2005



JP Morgan	$ 42,032,013
Wellington	43,059,336
SSgA S&P 500	329,472,719
SSgA R2000V	54,853,236
Oberweis	28,735,583
Mellon	20,970,974
SSgA Bond	44,120,709
PIMCO	96,302,024
Tattersall	104,722,095
PIMCO Tot Ret	33,894,437
Cash Account	27,937,979
Total	$826,101,105

Asset Allocation Comparison as of June 30, 2005

	Equity Commitment	Fixed Income Commitment	All Other *	Percentage Total
Total Fund	60.3%	39.7%	-0-	100%
Median Total Fund	60.7%	29.3%	10.0%	100%
Median Public Fund	58.5%	30.8%	10.7%	100%

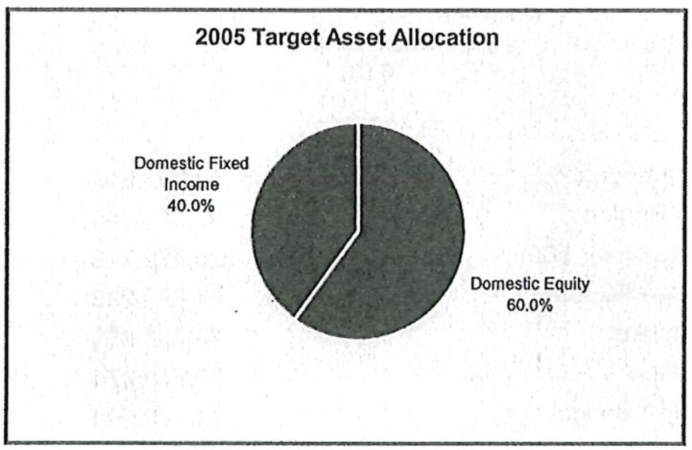
* e.g., real estate, private equity, etc.

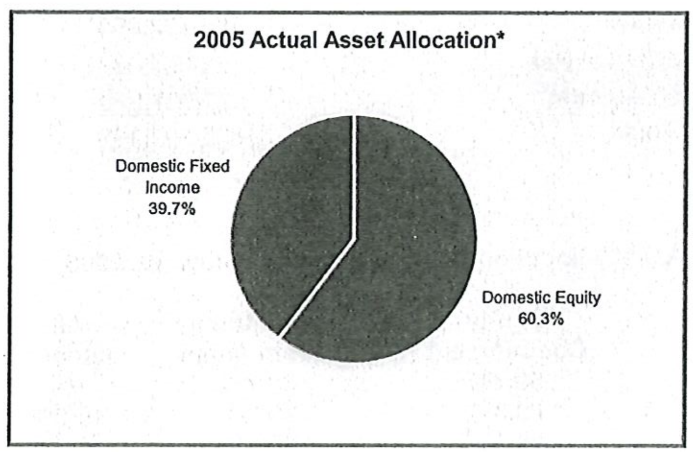
Target Asset Allocation

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

Asset Class	Minimum Percent	Maximum Percent	Target Percent
Domestic Equity	**55.0%**	**62.5%**	**60.0%**
Domestic Fixed Income	**37.5%**	**45.0%**	**40.0%**

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.





* Domestic fixed income includes cash and cash equivalents.

Investment Performance Summary

For the Periods Ended June 30, 2005

Account	Current	Annualized 2 Year	3 Year	4 Year	5 Year
Equity					
JP Morgan Investments	7.0%	12.9%	8.3%	0.2%	N/A
S&P 500	*6.3%*	*12.5%*	*8.3%*	*1.0%*	*(2.4%)*
Wellington Management Co.	7.8%	12.6%	9.7%	0.6%	N/A
S&P 500	*6.3%*	*12.5%*	*8.3%*	*1.0%*	*(2.4%)*
SSgA S&P 500 Flagship	N/A	N/A	N/A	N/A	N/A
S&P 500	*6.3%*	*12.5%*	*8.3%*	*1.0%*	*(2.4%)*
SSgA Russell 2000 Value Fund	14.1%	N/A	N/A	N/A	N/A
Russell 2000 Value	*14.4%*	*24.3%*	*14.2%*	*12.7%*	*16.1%*
Oberweis Asset Management	N/A	N/A	N/A	N/A	N/A
Russell 2000 Growth	*4.3%*	*17.1%*	*11.4%*	*0.9%*	*(4.5%)*
Total Domestic Equity	**7.5%**	**13.4%**	**8.6%**	**0.2%**	**(2.9%)**
Domestic Equity Policy Index*	6.8%	13.6%	8.9%	1.8%	(1.3%)
S&P 500	*6.3%*	*12.5%*	*8.3%*	*1.0%*	*(2.4%)*
Russell 3000	*8.1%*	*14.1%*	*9.5%*	*2.1%*	*(1.4%)*
Fixed Income					
Mellon Aggregate Bond Fund	6.8%	3.5%	N/A	N/A	N/A
Lehman Aggregate	*6.8%*	*3.5%*	*5.8%*	*6.5%*	*7.4%*
SSgA Bond Index Fund	6.8%	3.4%	5.7%	6.5%	7.4%
Lehman Aggregate	*6.8%*	*3.5%*	*5.8%*	*6.5%*	*7.4%*
PIMCO	6.3%	3.2%	5.6%	6.4%	7.3%
Lehman Aggregate	*6.8%*	*3.5%*	*5.8%*	*6.5%*	*7.4%*
Tattersall Advisory Group	6.9%	3.7%	6.1%	6.8%	7.8%
Lehman Aggregate	*6.8%*	*3.5%*	*5.8%*	*6.5%*	*7.4%*
PIMCO Total Return	7.8%	4.3%	N/A	N/A	N/A
Lehman Aggregate	*6.8%*	*3.5%*	*5.8%*	*6.5%*	*7.4%*
Total Fixed Income	**6.8%**	**3.6%**	**5.9%**	**6.6%**	**7.5%**
Lehman Aggregate	*6.8%*	*3.5%*	*5.8%*	*6.5%*	*7.4%*
Total Fund	**7.1%**	**9.2%**	**8.1%**	**3.9%**	**2.6%**
*Total Fund Policy Index***	*6.6%*	*9.0%*	*8.2%*	*4.7%*	*3.3%*

* Domestic Equity Policy Index = 87.5% S&P 500, 12.5% Russell 2000.
** Total Fund Policy Index = 60% Russell 3000, 40% Lehman Aggregate.

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

Schedule of Broker Commissions

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

Following is a list of brokers who received commissions of $10,000 or more during fiscal year 2005. A complete schedule of all commissions paid is available from the Retirement Office.

Broker	Number of Shares	Total Commission $	Commission $ Per Share
Instinet	1,133,669	$18,523	0.0163
Knight Securities	708,959	$14,129	0.0199

List of Largest Assets Directly Held

As of June 30, 2005

Ten Largest Stock Holdings (by fair market value)

Stock	Shares	Fair Value
GENERAL ELECTRIC CO	403,748	$13,989,878
EXXON MOBIL CORP	234,909	13,500,221
CITIGROUP INC	218,449	10,098,915
MICROSOFT CORP	304,686	7,568,410
PFIZER INC	274,110	7,559,941
BANK OF AMERICA CORP	155,284	7,082,516
JOHNSON & JOHNSON	103,437	6,723,399
INTEL CORP	226,752	5,909,149
ALTRIA GROUP INC	90,554	5,855,231
WAL MART STORES INC	111,671	5,382,537

Ten Largest Bond Holdings (by fair market value)

Bond	Interest Rate	Maturity Date	Par	Fair Value
FNMA POOL – 735227	5.5%	02/01/2035	$19,743,485	$20,035,098
FNMA POOL – 815519	5.5%	03/01/2035	15,526,076	15,750,428
US TREAS BONDS	6.0%	02/15/2026	10,960,000	13,509,955
FNCI	5.0%	12/01/2017	10,000,000	10,100,001
FNMA POOL – 725946	5.5%	11/01/2034	5,901,318	5,990,311
SMALL BUS ADM PART	4.9%	01/01/2025	4,800,000	4,879,489
US TREAS BONDS	5.3%	11/15/2028	4,000,000	4,569,361
US TREAS NTS	3.4%	11/14/2008	4,375,000	4,334,313
FNMA TBA SINGLE FA	5.0%	06/30/2033	3,000,000	3,248,340
US TREAS BONDS	4.8%	05/15/2014	2,905,000	3,083,396

A complete list of portfolio holdings is available upon request.

Actuarial Section

CHEIRON Classic Values, Innovative Advice

Actuary's Certification Letter

October 21, 2005

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

Members of the Board:

Actuarial valuations of the Employees' Retirement System of the City of Norfolk are performed annually. The results of the latest actuarial valuation of the System, which we have prepared as of June 30, 2005, are summarized in this letter.

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

The actuarial assumptions and methods used for funding purposes comply with the parameters set forth in Statement No. 25 of the Governmental Accounting Standards Board.

Financing Objective and Contribution Appropriation

The financing objective of the System is to:

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

The contribution appropriated for the fiscal year ended June 30, 2005 was determined based on the results of the June 30, 2004 valuation. The contribution amount is $23,652,756.

The results of the June 30, 2005 valuation determine the contribution appropriation for the fiscal year ending June 30, 2006, which will be presented in our valuation report subject to your approval.

As of June 30, 2005, the System's accrued liability was 97% funded based on the actuarial value of assets, including the contribution for the fiscal year ended June 30, 2005. The accrued liability was 104% funded based on the market value of assets.

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

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

Actuary's Certification Letter (continued)

Board of Trustees
October 21, 2005
Page 2

Assets and Participant Data

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

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

Actuarial Assumptions and Methods

The current actuarial assumptions used for valuation purposes were adopted by the Board of Trustees and were first effective with the June 30, 2001 actuarial valuation. The most recent study of the plan's experience, used in developing the current actuarial assumptions, was based on a period from July 1995 to June 2000. In our opinion, the actuarial assumptions used in the valuation are, in the aggregate, reasonable.

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

The actuarial cost method utilized is the projected unit credit method.

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

Schedules of Financial Results and Membership Data

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

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

Respectfully submitted,
Cheiron

Fiona E. Liston

Fiona E. Liston, FSA, EA
Consulting Actuary

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Actuarial Assumptions

Interest Rate: 7-1/2% per annum, compounded annually (adopted as of June 30, 1990).

Separation from Active Service: Illustrative rates of assumed separation from services are as follows (adopted as of June 30, 2001).

General Employees:

Age	Withdrawal	Disability* Male	Disability* Female	Death** Male	Death** Female
20	20.35 %	0.13 %	0.09 %	0.09 %	0.03 %
25	17.37	0.15	0.11	0.11	0.03
30	9.27	0.18	0.12	0.10	0.04
35	6.81	0.29	0.20	0.11	0.05
40	5.60	0.44	0.30	0.16	0.07
45	3.91	0.68	0.47	0.24	0.10
50	2.51	1.01	0.69	0.35	0.16
54	1.45	1.32	0.90	0.49	0.26
55		1.41	0.96	0.54	0.29
59		2.05	1.40	0.85	0.48

* 7.5% of disabilities are assumed to be accidental

** 1.5% of deaths are assumed to be accidental

Age	Early Retirement	Normal Service Retirement
40	10.00 %	
45	10.00	25.00 %
50	10.00	30.00
53	5.00	35.00
55	5.00	35.00
56	5.00	35.00
57	5.00	35.00
58	5.00	35.00
59		30.00
60		30.00
61		30.00
62		30.00
63		25.00
64		25.00
65		25.00
66		20.00
67		20.00
68		15.00
69		15.00
70		100.00

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (continued)

Firefighters and Police:

Age	Withdrawal	Disability Accidental	Disability Ordinary	Death* Male	Death* Female
20	11.90 %	0.03 %	0.04 %	0.09 %	0.03 %
25	7.57	0.05	0.06	0.11	0.03
30	3.43	0.07	0.09	0.10	0.04
35	1.76	0.10	0.12	0.11	0.05
40	0.95	0.25	0.18	0.16	0.07
45	0.34	0.47	0.32	0.24	0.10
50		0.79	0.55	0.35	0.16
54		1.06	0.74	0.49	0.26
55		1.13	0.79	0.54	0.29
59		1.49	1.03	0.85	0.48

* 40% of deaths are assumed to be accidental

Age	Early Retirement	Normal Service Retirement
40	5.00 %	25.00 %
45	5.00	25.00
48	3.00	25.00
50	3.00	25.00
51		25.00
52		25.00
53		20.00
54		20.00
55		20.00
56		20.00
57		20.00
58		20.00
59		20.00
60		20.00
61		20.00
62		100.00

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

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (continued)

Salary Increase: Effective average of 5.35% per annum, compounded annually. The components are 3-1/2% for inflation, 3/4% for national productivity and 1.1% for merit or seniority increases (adopted as of June 30, 1996). Representative values are as follows:

Age	Annual Rate of Salary Increase
20	7.6%
25	7.1
30	6.6
35	6.1
40	5.6
45	5.1
50	4.6
55	4.6
60	4.6
65	4.6
69	4.6

Death After Retirement: The 1995 George B. Buck Mortality tables with ages rated forward one year for members and two years for beneficiaries. Special mortality tables are used for disability retirements. (Adopted as of June 30, 2001.)

Future Expenses: The assumed interest rate is net of the anticipated future administrative expenses of the Fund.

Loading or Contingency Reserves: None

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

Methods

Actuarial Cost Method: Projected unit cost method. Unfunded Actuarial Liability is being amortized over an open period of 20 years.

Asset Valuation Method: The valuation assets are determined as the market value less (1) 66-2/3% of investment gain/(loss) during the preceding year, less (2) 33-1/3% of investment gain/(loss) during the second preceding year. For the purpose of this calculation, the gain/(loss) is defined as the difference between the actual and the expected return (based on the valuation interest rate) on the market value of assets during the year. This method was adopted as of June 30, 2004. To transition into this method, the valuation assets as of June 30, 2004 was set equal to the market value. The valuation assets on June 30, 2005 will reflect the market value on that date less 66-2/3% of investment gain/(loss) during the preceding 12 months. The transition will be complete as of June 30, 2006, when the valuation assets will be the market value on that date less 66-2/3% of investment gain/(loss) during the preceding year, less 33-1/3% of investment gain/(loss) during the second preceding year.

SUMMARY OF DATA

Census and Assets: The valuation was based on members of the System as of June 30, 2005 and does not take into account future members. All census data was supplied by the Executive Secretary of the System and was subject to reasonable consistency checks. Asset data was supplied by the Executive Secretary and the accountants of the System.

Schedule of Active Member Valuation Data:

General Employees:

Valuation as of June 30	Number of Active Members	Valuation Payroll	Average Salary	Percent Increase (Decrease) in Average
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
2001	2,571	91,099,919	35,434	9.1
2000	2,547	82,700,316	32,470	1.2

Firefighters and Police:

Valuation as of June 30	Number of Active Members	Valuation Payroll	Average Salary	Percent Increase (Decrease) in Average
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
2001	1,211	53,055,820	43,812	9.5
2000	1,178	47,149,684	40,025	2.4

Total:

Valuation as of June 30	Number of Active Members	Valuation Payroll	Average Salary	Percent Increase (Decrease) in Average
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
2001	3,782	144,155,739	38,116	9.3
2000	3,725	129,850,000	34,859	1.7

SUMMARY OF DATA (continued)

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	% Increase Allowance	Average Allowance
2005	207	3,994,142	60	571,616	2,929	45,092,784	8.2%	15,395
2004	176		104		2,782	41,670,258	7.1%	14,979
2003	167		103		2,710	38,925,660	6.9%	14,364
2002	145		118		2,646	36,427,435	6.5%	13,767
2001	159		122		2,619	34,197,362	6.8%	13,057
2000	159		122		2,582	32,031,396	3.9%	12,406

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

SOLVENCY TEST

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

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

The relationship between accrued liabilities and net assets of the System for fiscal years ended June 30, 2000 through June 30, 2005 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)
2005 (1)	198,018	469,436,407	414,295,992	854,146,038	100.0%	100.00%	92.8%
2004 (2)	215,208	421,470,962	423,984,074	816,120,329	100.0%	100.0%	93.0%
2003 (3)		397,310,521	415,925,946	760,502,908	100.0%	100.0%	93.5%
2002 (4)		372,747,805	411,904,507	798,070,877	100.0%	100.0%	100.0%
2001 (5)		351,458,128	391,145,346	838,073,790	100.0%	100.0%	100.0%
2000		317,658,619	310,593,786	826,438,858	100.0%	100.0%	100.0%

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

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

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

(4) 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.

SOLVENCY TEST (continued)

(5) Board adopts changes in demographic assumptions per actuarial experience review of the System for the five year period ending June 30, 2000. The following amendments were also adopted:

(a) The benefit formula for general employees who became members after June 30, 1980 was changed to 1.75% of AFC.
(b) The benefit formula for police and firefighters was changed to 2.5% of AFC times years of service not to exceed 65% of AFC.
(c) Eligibility for normal service retirement for general employees who became members after June 30, 1980 was changed to the earlier of age 60 or the age at which the member has at least 30 years of service.
(d) The additional monthly benefit payable to qualified members earning a pension under $500 became permanent and payable by the retirement system.
(e) Retirees and beneficiaries as of December 31, 2000 were granted a permanent 3% supplemental benefit increase.

ANALYSIS OF FINANCIAL EXPERIENCE

Type of Activity	2003	2004	2005
Investment income	$(77,783,002)	$(38,521,813)	$ (1,846,575)
Combined liability experience	16,893,154	12,992,366	5,806,560
Gain (or loss) during year from financial experience	(60,889,848)	(25,529,447)	3,959,985
Non-recurring items	(3,165,844)	49,371,898	(3,953,506)
Composite gain (or loss) during year	$(64,055,692)	$ 23,842,451	$ 6,479

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS

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

Membership

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

Paramedic employees, formerly members of the General Employees Group, were reclassified as members of Firefighters and Police effective June 9, 1992. City Council members on or after July 1, 2001 are classified as members of Firefighters and Police.

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

Benefits

Normal Service Retirement Allowance:

Eligibility:

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

Employees Hired Before July 1, 1980:

1/50 of average final compensation for each year of creditable service.

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

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

Employees Hired on or After July 1, 1980:

1.75% of average final compensation for each year of creditable service up to a maximum of 35 years for general employees.

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

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

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS (continued)

Early Service Retirement Allowance

Eligibility:

Within five years of eligibility for normal service retirement.

Amount:

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

Vested Allowance

Eligibility:

Five years of creditable service.

Amount:

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

Ordinary Disability Retirement Allowance

Eligibility:

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

Amount:

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

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS (continued)

Accidental Disability Retirement Allowance

Eligibility:

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

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

Amount:

66-2/3% of average final compensation.

Ordinary Death Benefit

Eligibility:

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

Amount:

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

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS (continued)

Accidental Death Benefit

Eligibility:

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

Amount:

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

Offset on Account of Workers' Compensation:

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

Death Benefit After Retirement

Eligibility:

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

Amount:

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

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

Statistical Section

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS (continued)

Return of Contributions

Eligibility

Termination of membership prior to death.

Amount

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

Normal and Optional Forms of Benefits

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

Contributions

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

Changes in Plan Provisions

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

Active Employee Membership in Retirement System as of June 30, 2005

Group	Total Membership
General Employees	2,607
Police Officers	730
Firefighters	456
Paramedics	38
City Council Members	7
Leave of Absence	46
Totals	**3,884**

History of Active Employee Membership in Retirement System Year Ended June 30

Group	2000	2001	2002	2003	2004	2005
General Employees	2,547	2,571	2,631	2,623	2,644	2,607
Police Officers	710	735	710	713	730	730
Firefighters	410	419	421	424	437	456
Paramedics	58	57	55	49	43	38
City Council Members	0	0	6	6	7	7
Leave of Absence	23	25	42	51	28	46
Totals	**3,748**	**3,807**	**3,865**	**3,866**	**3,889**	**3,884**

Retirement Granted During Fiscal Year 2005

Chapter 37	Service Retirements	Deferred Retirements	Disability	2005
General Employees and Lake Taylor Employees	126	17	16	159
Police Officers, Firefighters and Paramedics	44	2	2	48
Totals	**170**	**19**	**18**	**207**

History of Retirements Granted Year Ended June 30

Chapter 37	2000	2001	2002	2003	2004	2005
Service Retirements	127	123	104	111	125	170
Deferred Retirements	16	19	23	32	20	19
Disability	16	17	18	24	31	18
Totals	**159**	**159**	**145**	**167**	**176**	**207**

Summary of Annual Retirement Allowances (Inactive Participants) As of June 30, 2005

Chapter 37	Service Retired Members		Contingent Annuitants		Disabled Annuitants		Terminated Vested	Total
	Counts	Amount	Counts	Amount	Counts	Amount	Counts	Counts
General Employees and Lake Taylor Employees	1,493	22,142,323	337	1,804,941	231	2,468,610	721	2,782
Police Officers, Firefighters and Paramedics *	561	15,118,079	166	1,262,082	141	2,296,749	131	999
Totals	**2,054**	**$37,260,402**	**503**	**$3,067,023**	**372**	**$4,765,359**	**852**	**3,781**

* Council Members Included

History of Annual Retirement Allowances
(In thousands of dollars)
As of Year End June 30

Service Type	2000		2001		2002		2003		2004		2005	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Service Retired Members	1,770	$25,727	1,796	$27,505	1,822	$29,345	1,885	$31,526	1,936	$33,680	2,054	$37,260
Contingent Annuitants	453	2,279	467	2,491	469	2,575	463	2,685	477	2,921	503	3,067
Disabled Annuitants	359	4,023	356	4,201	355	4,506	362	4,714	369	5,068	372	4,765
Totals	2,582	$32,029	2,619	$34,197	2,646	$36,426	2,710	$38,925	2,782	$41,669	2,929	$45,092

Income and Expenditures
(In million dollars)
Year Ended June 30

INCOME	2000	2001	2002	2003	2004	2005
Contribution Payment	3.5	0.0	0.0	4.3	17.0	23.5
Interest and Dividend Income	26.5	27.9	21.2	17.1	15.0	13.5
Appreciation/(Depreciation)	47.9	-44.9	-79.3	24.2	69.9	42.6
Profit on sale of securities	63.4	86.4	33.3	35.3	80.7	114.5
Loss on sale of securities	-2.0	-59.2	-63.5	-55.2	-23.2	-12.7
Unrealized Appreciation/(Depreciation)	-13.5	-72.1	-49.1	44.1	12.4	-59.2
TOTAL INCOME	**77.9**	**-17.0**	**-58.1**	**45.6**	**101.9**	**79.6**
EXPENDITURES						
Benefit Payments	31.0	32.0	35.3	36.9	39.5	43.4
Recurring Monthly Benefits from Pension Accum Acct	30.7	31.8	35.0	36.7	39.4	43.3
Refunds or Cashouts from Annuity Savings Acct	0.1	0.1	0.1	0.1	0.0	0.0
Lump Sum Death Benefits from Pension Accum Acct	0.2	0.1	0.2	0.1	0.1	0.1
Expenses	2.6	3.2	3.3	3.0	2.9	2.1
Investment (or "Professional")	2.1	2.9	3.0	2.2	2.5	1.7
Administrative	0.5	0.3	0.3	0.8	0.4	0.4
TOTAL EXPENDITURES	**33.6**	**35.2**	**38.6**	**39.9**	**42.4**	**45.5**

Plan Net Assets
(In million dollars)
Year Ended June 30

	2000	2001	2002	2003	2004	2005
Fund Balance, BOY (At Market)*	**832.0**	**876.3**	**824.1**	**727.4**	**733.2**	**792.7**
Income	77.9	(17.0)	(58.1)	45.6	101.9	79.6
Expenses	33.6	35.2	38.6	39.9	42.4	45.5
Net Income	44.3	(52.2)	(96.7)	5.7	59.5	34.1
Fund Balance, EOY *	**876.3**	**824.1**	**727.4**	**733.1**	**792.7**	**826.8**

*Excludes receivable contributions

Payment Receivable	0.0	0.0	4.3	17.0	23.5	23.7

Participant and Investment Data and Ratio
Year Ended June 30

	2000	2001	2002	2003	2004	2005
Participant Data:						
Active Employees (EOY) *	3,725	3,782	3,823	3,815	3,861	3,838
Retirees and Beneficiaries (EOY)	2,582	2,619	2,646	2,710	2,782	2,929
Retirees as a % of Actives	69.3%	69.2%	69.2%	71.0%	72.1%	76.3%
Retirement Benefits Paid ($ in Millions)	32.0	34.2	36.4	38.9	41.7	45.1
Average Benefit Payment ($/Month)	$1,034	$1,088	$1,147	$1,197	$1,248	$1,283
Investment Data:						
Fund Balance (Market Value)	$876.3	$824.1	$727.4	$733.1	$792.7	$826.8
Ratio: Fund Balance / Benefits Paid	27.4	24.1	20.0	18.8	19.0	18.3

* Layoffs not included

Contribution Analysis
(In million dollars)
Year Ended June 30

	2000	2001	2002	2003	2004	2005
Estimated Covered Payroll	129.9	144.2	150.7	152.1	157.7	160.2
Contribution Rate						
Normal Cost Rate	13.07%	13.09%	13.06%	13.03%	12.79%	12.53%
Amortization Rate	-15.96%	-7.58%	-2.41%	1.74%	1.84%	1.76%
Total	-2.89%	5.51%	10.65%	14.77%	14.63%	14.29%
Accrued Liabilities	628.3	742.6	784.7	813.2	845.7	883.9
Market Value of Assets with receivable	876.3	824.1	731.7	750.1	816.1	850.5
Funded Ratio	139.5%	111.0%	93.2%	92.2%	96.5%	96.2%
Actuarial Value of Assets	826.4	838.1	798.1	760.5	816.1	854.1
Funded Ratio	131.5%	112.9%	101.7%	93.5%	96.5%	96.6%

The information presented above was determined as part of the actuarial valuation as of one year prior to the dates indicated (i.e. the contribution determined by the valuation completed as of June 30, 2004 was accrued and payable for the fiscal year ending June 30, 2005).

Compliance Section

McGladrey & Pullen
Certified Public Accountants

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

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

We have audited the financial statements of the Employees' Retirement System of the City of Norfolk as of and for the year ended June 30, 2005, and have issued our report thereon dated September 20, 2005. 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 Employees' Retirement System of the City of Norfolk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

Management's Discussion and Analysis and the required supplementary actuarial information on pages 10 through 13 and pages 22 through 24 are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standard Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's financial statements. The schedules listed in the table of contents on pages 25 and 26 and the introductory section, investment section, actuarial section, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The schedules on pages 25 and 26 have been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section, investment section, actuarial section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

McGladrey & Pullen, LLP

Greensboro, North Carolina
September 20, 2005