Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2017

Planning Today for Tomorrow

Employees' Retirement System of the City of Norfolk

A Pension Trust Fund of the City of Norfolk, Virginia

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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, 2017

Prepared by the Employees' Retirement System Staff
810 Union Street, Suite 309
Norfolk, VA 23510
(757) 664-4738
www.norfolk.gov/retirement

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INTRODUCTORY SECTION
(Unaudited)

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Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Employees' Retirement System of the City of Norfolk, Virginia

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

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THE CITY OF NORFOLK
FINANCE

December 18, 2017

Letter of Transmittal

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

It is with great pleasure that I present the Comprehensive Annual Financial Report (CAFR) for the Employees' Retirement System of the City of Norfolk (the System) for fiscal year ended June 30, 2017. 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 of the data, and the completeness and fairness of the presentation, including all disclosures, are the responsibility of the System. All disclosures necessary to enable the reader to gain an understanding of the System's financial activities have been included to present fairly the plan net position and changes therein of the System in accordance with U.S. generally accepted accounting principles (GAAP).

The System is a single-employer contributory defined benefit plan that covers substantially all employees of the City of Norfolk, excluding Constitutional Officers and School Board employees who are covered by the Virginia Retirement System. Although the System presents separate financial statements, it is also included as a Pension Trust Fund, fiduciary fund type in the City of Norfolk's CAFR.

Management's Discussion and Analysis (MD&A) as required by GAAP is included in the financial section of this report. The MD&A provides a narrative overview and analysis of the financial status of the System for the year ended June 30, 2017 (see pages 13 through 16).

System History

The System operates a defined benefit pension plan that was established by Section 37 of the Code of the City of Norfolk, Virginia (Code), 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 set forth. A single fund is used for all participants, and there is no segregation of assets for individual classes of employees or for City and employee contributions.

Benefit Provisions

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

Effective January 8, 2015, all System members pay contributions on a salary reduction of 5% of earnable compensation, with the exception of City Council members hired before October 5, 2010. Upon vesting, member contributions become an asset of the System to be used to pay benefits under the System. In the event of death or departure prior to retirement or vesting, member contributions, including accrued interest, shall be refunded. Interest was accrued at the rate of 0.027% during the fiscal year ended June 30, 2017.

The Retirement Office staff provides counseling to all benefit applicants and to others requesting counseling. All forms and retirement planning information are available in the Employees' Retirement Office, 810 Union Street, Suite 309, Norfolk, Virginia 23510.

Accounting System and Internal Control

Financial statements included in this report are the responsibility of the System staff and have been prepared in accordance with the U.S. generally accepted accounting principles promulgated by the Governmental Accountant Standards Board (GASB). The fiscal year 2017 financial statements have been audited by KPMG LLP in conjunction with the City of Norfolk's annual audit.

The accrual basis of accounting is used to record assets, liabilities, 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 with the concept of reasonable rather than absolute assurance recognizing that the cost of a control should not exceed the benefits likely to be derived and that the calculation of costs and benefits requires estimates and judgments by management. A continuing effort is being made toward improving the controls to provide reasonable assurance of proper recording of financial transactions in all material respects.

Funded Status and Net Pension Liability

The System's funding objective is to meet long-term benefit payments through investment returns on trust fund assets and annual employer and employee 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 annual actuarial valuation of the System provides information for both the actuarially determined contributions as well as the actuarially determined total pension liability. The actuarial valuation used for this report period was completed with payroll data as of June 30, 2017. Information from this report is included in the Actuarial Section.

This fiscal year 2017, the System actuary conducted an actuarial experience study covering the period from July 1, 2011 through June 30, 2016. An experience study is performed to compare actual plan experience against actuarial assumptions. Experience studies are generally performed every 3 to 5 years, and the last System experience study was performed in 2012. Based on the results of the 2017 experience study and the recommendation of the System actuary, the Board of Trustees adopted changes to the funding and demographic assumptions, effective in the fiscal year 2017.

Letter of Transmittal
(Continued)

The City of Norfolk's commitment to provide a financially sound retirement plan for its employees is illustrated within this report. "The Schedule of Employer Net Pension Liability and Related Ratios" found in the Required Supplementary Information of the Financial Section, reports plan fiduciary net position as a percentage of the total pension liability, which provides one indication of the System's funded status. The "Schedule of Employer's Contributions" includes historical trend information about the actuarially determined contributions (ADC) of the employer and the contributions made by the employer in relation to the ADC. As of June 30, 2017, the System's actuarial funded ratio is 78%, a decrease from 84% as of June 30, 2016. This funded ratio does not include any market movements since June 30, 2017. The next planned valuation will reflect market conditions through June 30, 2018.

Investments

The Board of Trustees (the Board) for the Employees' Retirement System formally amended and adopted a written Statement of Investment Policy on February 3, 2016 that includes the guidelines and objectives for the investments of the System. The policy is reviewed annually and changes are made as warranted. During the fiscal year, the System adopted an asset allocation of 55% Global Equities; 30% Fixed Income; 7.5% Real Estate and 7.5% Master Limited Partnerships.

The Board is 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 Trustee's minimum objectives over the longer term are replaced.

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

The System has converted the majority of its portfolio to a passive investment structure. With the exception of the PIMCO fixed income securities and master limited partnerships managed by Harvest Fund Advisors and Tortoise Capital Advisors, all of the System's investments were consolidated into a passive approach with State Street Global Advisors and real estate funds managed by JP Morgan and UBS Trumbull in 2008. It is currently the intent of the Board to maintain this structure for the portfolio.

The investment results of each manager as well as the result for the total fund are monitored by an independent pension investment advisory firm who reports its findings to the Board on a monthly basis. The pension investment consultant interacts with the System staff, prepares recommendations on investment policies, investment management structure, and asset allocation. The consultant also monitors and evaluates the performance of the investment managers and effectiveness of the custodian.

Letter of Transmittal
(Continued)

Current Economic Condition

Global equity markets produced strong returns for the year beginning July 1, 2016 and ending June 30, 2017. Following the Brexit vote in June 2016, the MSCI ACWI IMI grew 5.6% in the third quarter of 2016, supported in part by increased monetary policy accommodation from central banks around the world. Growth continued in the fourth quarter (ACWI IMI +1.3%), driven by strong performance in the US as expectations for future demand and economic activity increased following the US election in November. Global equity returns continued to be positive in the first and second quarter of 2017 (+6.8% and +4.3%, respectively) due to better-than-expected economic data and corporate earnings, as well as continued central bank accommodation globally. In aggregate, the MSCI ACWI IMI grew 19.0% for the trailing year ending June 30, 2017 and produced gains in each quarter.

Improving expectations for economic growth and inflation resulted in increased investor demand for risk-seeking assets and reduced sentiment for safer investments such as fixed income. The yield on the 10-year Treasury bond started the fiscal year at 1.5% and had risen to 2.3% on June 30, 2017, which weighed on fixed income returns. The Bloomberg Barclays US Aggregate returned -0.3%, with the rise in yields more than offsetting the coupon payments received during the period.

A hypothetical portfolio of 60% MSCI ACWI IMI and 40% Bloomberg Barclays US Aggregate would have returned 10.9% for the trailing one-year ending June 30, 2017. The System's portfolio was able to benefit from diversification from the traditional 60/40 portfolio. An allocation to core real estate in place of fixed income increased returns as the NCREIF-ODCE grew 6.9% vs. the US Aggregate's return of -0.3%. MLPs also contributed modest positive returns for the System's portfolio, as the Algerian MLP Index gained 0.4% for the year. Passive investment management proved beneficial to the System's portfolio during the fiscal year; the median global equity manager underperformed the MSCI ACWI IMI by 0.22% before subtracting management fees.

Looking forward from June 30, 2017, global growth remains relatively low from a historical perspective, but is currently expanding at its fastest pace in recent years, due partly to accommodative policy from central banks throughout the world. Uncertainty (primarily surrounding geopolitics and monetary policy) remains a key investment theme in today's market environment. Despite heightened uncertainty and generally high valuations across broad asset classes, pockets of attractiveness continue to present attractive opportunities in various sectors and economies globally.

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 8. An independent audit was conducted by KPMG LLP, and a copy of the independent auditors' report on the financial statements is found on pages 10-12.

A certification letter from the actuary, Cheiron, is also included as part of this CAFR on pages 40-42. State Street Bank and Trust is the System's custodian.

Letter of Transmittal
(Continued)

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Employees' Retirement System for the City of Norfolk for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016. This was the eleventh year that the System has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report satisfies both GAAP 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.

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

Sincerely,

Galen J. Gresalfi
Executive Director

The Board of Trustees

Stephanie Adler Calliott, CFP Senior Vice President, Community Relations Children's Hospital of The King's Daughters	Chair	Appointed January 9, 2007
Christopher R. Neikirk Assistant Vice-President - Finance Norfolk Southern Corporation	Vice-Chair	Appointed January 9, 2007
Lawrence A. Bernert III, CFA Principal and Portfolio Manager Wilbanks, Smith and Thomas Asset Management, LLC	Member	Appointed October 30, 2007
Yvonne T. Allmond Senior Vice-President of Private Banking TowneBank	Member	Appointed October 30, 2007
Kenneth W. Crowder Owner/Agent State Farm Insurance Agency	Member	Appointed February 3, 2009
Nicholas E. Nelson (public safety) Fire Captain	Member	Appointed August 28, 2007
Eric G. Tucker (general employee) Assistant Director of General Services	Member	Appointed August 28, 2007
Arthur M. Eason, III Real Estate Team Leader - Retired	Member	Appointed November 25, 2014
Doug Smith City Manager	Ex-officio Trustee	
Christine A. Garczynski Director of Finance	Ex-officio Trustee	

The Trustees of the Board are appointed and serve pursuant to Chapter 37 of the Norfolk City Code, which provides for ten (10) members.

The Ex-Officio Trustees serve by virtue of their position with the City of Norfolk.

Consultants and Professional Services

Legal Advisor
Mary L. G. Nexsen
Deputy City Attorney

Medical Examiners
Dr. David Sack and Dr. Anthony C. Cetrone
Dr. Keith H. Newby

Actuary
Cheiron
McLean, VA

Custodian
State Street Bank and Trust
Kansas City, MO

Consultants
Summit Strategies Group
Trevor Jackson, Senior Consultant
St. Louis, MO

Independent Auditor
KPMG LLP
Norfolk, VA

Investment Managers

Domestic Equity

State Street Global Advisors
Boston, MA

International

State Street Global Advisors
Boston, MA

Fixed Income

State Street Global Advisors
Boston, MA

Pacific Investment Management Company
Newport Beach, CA

Real Estate

J.P. Morgan Chase Bank
New York, NY

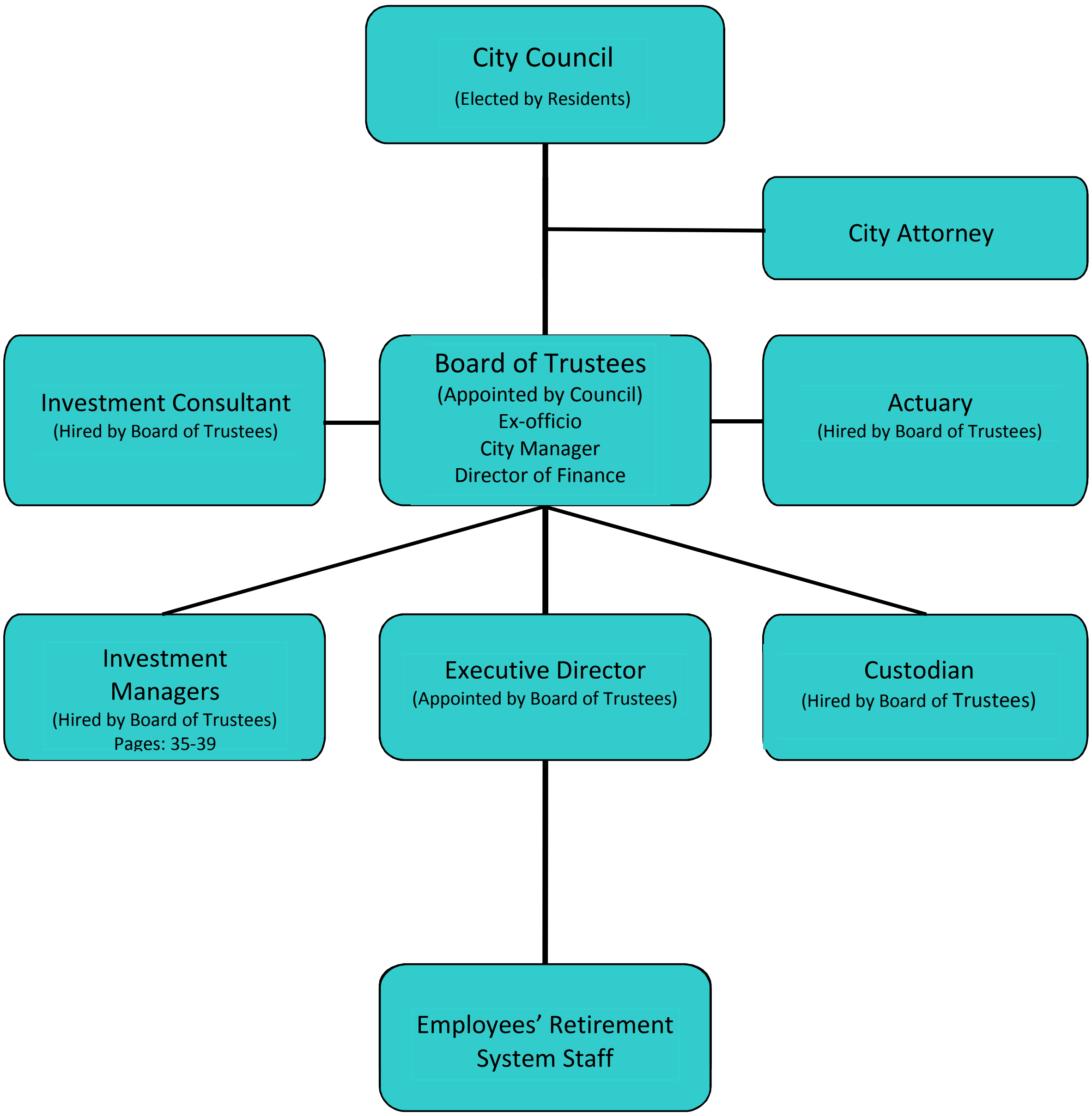
UBS Trumbull
Harford, CT

Master Limited Partnership

Harvest Fund Advisors LLC
Wayne, PA

Tortoise Capital Advisors
Wayne, PA

ORGANIZATIONAL CHART



Financial Section

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KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report

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

We have audited the accompanying financial statements of the Employees' Retirement System of the City of Norfolk, Virginia (the System), a fiduciary fund of the City of Norfolk, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position restricted for pensions of the System as of June 30, 2017, and the respective changes in net position restricted for pensions for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 13 through 16, the schedule of changes in net pension liability and related ratios on page 28, the schedule of employer's net pension liability and related ratios and the schedule of employer's contributions on page 29, the schedule of investment returns on page 30, and the notes to the required supplementary information on page 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the System's financial statements. The schedule of administrative expenses, schedule of investment expenses, introductory section, investment section, actuarial section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of administrative expenses and the schedule of investment expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of administrative expenses and the schedule of investment expenses are fairly stated, in all material respects, in relation to the basic financial statements 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 do not express an opinion or provide any assurance on it.

KPMG

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 18, 2017 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the System's internal control over financial reporting and compliance.

KPMG LLP

Norfolk, Virginia
December 18, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

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, 2017 and 2016. Please read Management's Discussion and Analysis in conjunction with the basic financial statements and the related notes thereto, which follows this discussion.

FINANCIAL HIGHLIGHTS

- System assets exceeded liabilities at the close of fiscal years 2017 and 2016 by $1,044 million and $975 million, respectively (reported as net position restricted for pensions). Total Plan assets are held in trust to meet future benefit obligations.

- The System's funding objective is to meet long-term benefit obligations through contributions and investment income. The net position as a percentage of the total pension liability was 78.7% and 78.2%, respectively.

- Total additions increased over the prior year by $111 million or approximately 258%. This addition was mainly due to an increase in investment income.

- Total deductions increased over the prior year by $2.9 million or approximately 3.5%. This increase was mainly due to an increase in benefit payments.

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

This CAFR consists of two financial statements: The Statement of Plan Fiduciary Net Position and the Statement of Changes in Plan Fiduciary Net Position. These financial statements report information about the System as a whole and about its financial condition. These financial statements include all assets and liabilities that are due and payable using an economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, all additions and deductions are taken into account regardless of when cash is received or paid.

The Statement of Plan Fiduciary Net Position presents all of the System's assets and liabilities, with the difference reported as plan net position restricted for pensions. Over time, increases and decreases in plan net position restricted for pensions measure whether the System's assets available for benefits is improving or deteriorating. The Statement of Changes in Plan Fiduciary Net Position presents how the System's plan net position restricted for pensions, changed during the most recent fiscal year. These two financial statements should be reviewed along with the unaudited required supplementary information and the other supplementary information, to determine financial strength of the System and to understand changes over time in the funded status of the System.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS

Employees' Retirement System of the City of Norfolk
Summary of Plan Fiduciary Net Position
As of June 30, 2017 and 2016

	2017 In '000 $	2016 In '000 $	2017-2016 Percentage Change
Assets			
Cash and cash equivalents	$ 8,974	$ 11,979	-25.1%
Receivables	127,734	$ 91,525	39.6%
Investments	1,118,143	1,025,085	9.1%
Total Assets	$ 1,254,851	$ 1,128,589	11.2%
Liabilities			
Accounts payable and accrued expenses	$ 1,399	$ 1,671	-16.3%
Due to brokers for securities purchased	209,440	152,396	37.4%
Total Liabilities	$ 210,839	$ 154,067	36.8%
Plan Net Position Restricted for Pensions	**$ 1,044,012**	**$ 974,522**	7.1%

Total assets as of June 30, 2017 and 2016 were $1,255 million and $1,129 million respectively and were comprised of cash and cash equivalents, receivables and investments. Total assets increased by $126 million or (11.2%) for the fiscal year 2017, primarily due to an increase in the investment portfolio and receivables due from brokers for securities sold.

Total liabilities as of June 30, 2017 and 2016 were $211 million and $154 million, respectively, and were comprised of payables to brokers for securities purchased, accounts payables and accrued expenses. Total liabilities increased by $57 million or (36.8%) for the fiscal year 2017, primarily due to an increase in payables due to brokers for securities purchased.

System assets exceeded liabilities at the close of fiscal years 2017 and 2016 by $1,044 million and $975 million respectively. In fiscal year 2017, plan net position restricted for pensions increased by $69 million or 7.1% from the previous fiscal year primarily due to an increase in investment income.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS

Employees' Retirement system of the City of Norfolk
Summary of Changes in Plan Fiduciary Net Position
For the Fiscal Years Ended June 30, 2017 and 2016

	2017 In '000 $	2016 In '000 $	2017-2016 Percentage Change
ADDITIONS			
Investment Income, net	$ 111,228	$ 3,278	3293.2%
Employer Contributions	33,457	30,761	8.8%
Employee Contributions	9,450	9,039	4.5%
Total Additions	$ 154,135	$ 43,078	257.8%
DEDUCTIONS			
Benefit Payments	$ 83,215	$ 80,784	3.0%
Refunds of Contributions	762	304	150.7%
Administrative Expenses	668	672	-0.6%
Total Deductions	$ 84,645	$ 81,760	3.5%
Net Increase/(Decrease)	**$ 69,490**	**$ (38,682)**	279.6%
Plan Net Position Restricted for Pensions			
Beginning of the Year	$ 974,522	$ 1,013,204	3.8%
End of the Year	**$ 1,044,012**	**$ 974,522**	7.1%

ADDITIONS TO PLAN NET POSITION

The funds needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through earnings on investments. Contributions and net investment income for fiscal years 2017 and 2016 totaled $154 million and $43 million respectively. Beginning in fiscal year 2017, gross employee contributions are reported as additions, refunds of contributions are reported as deductions. Fiscal year 2016 has been reclassified to reflect the change.

Additions increased for fiscal year 2017 by $111 million from the prior year, due primarily to an increase in investment income. The total portfolio returned 11.7% for the fiscal year ended June 30, 2017, versus 0.5% for the prior fiscal year. The System's target return is 7.0%.

MANAGEMENT'S DISCUSSION AND ANALYSIS (concluded)

DEDUCTIONS FROM PLAN NET POSITION

The deductions from plan net position restricted for pensions include pension payments to members and beneficiaries, refunds of voluntary contributions to retired members, non-vested members and the cost of administering the System. Total deductions for fiscal year 2017 were $85 million, an increase of 3.5% over fiscal year 2016 deductions.

Pension benefit payments increased by $2.4 million in fiscal year 2017 or 3.0%, from the previous fiscal year. The increase in pension benefits payments is a result of turnover in the retirement population. See Page 50 for details on changes to the beneficiary population. Administrative expenses for the fiscal years ended June 30, 2017 and 2016 were $668 thousand and $672 thousand, respectively.

RETIREMENT SYSTEM AS A WHOLE

Plan fiduciary net position restricted for pensions increased in fiscal year 2017 over fiscal year 2016. The System's plan net position restricted for pensions as a percentage of the total pension liability was 78.7% and 78.2% as of June 30, 2017 and 2016, respectively. The Board, with the assistance of its pension consultant and actuary, continues to utilize the concepts of prudent investments management, cost controls and strategic planning.

CONTACTING SYSTEM FINANCIAL MANAGEMENT

The annual financial report is designed to provide citizens, taxpayers, plan participants, and the marketplace's credit analysts 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, Suite 309, Norfolk, Virginia 23510, or via email to retirement@norfolk.gov. This report, along with previous years' financial reports, can be found at www.norfolk.gov/retirement.

Employees' Retirement System of the City of Norfolk
(A Pension Trust Fund of Norfolk, Virginia)
Statement of Plan Fiduciary Net Position
As of June 30, 2017

Assets	In '000 $
Cash and Cash Equivalents	$ 8,974
Receivables:	
Accrued Investment Income	1,073
Accounts Receivable-Other	32
Due from Brokers for Securities Sold	126,629
Total Receivables	127,734
Investments:	
United States Treasury Securities	86,542
Fixed Income Securities	108,595
Futures/Options/Swaps	1,111
Equity Securities	74,710
Commingled Funds:	
Equity	610,607
Fixed Income	161,136
Real Estate	75,442
Total Commingled Funds	847,185
Total Investments	**1,118,143**
Total Assets	**1,254,851**
Liabilities:	
Accounts Payable and Accrued Expenses	1,399
Due to Brokers for Securities Purchased	209,440
Total Liabilities	210,839
Plan Net Position Restricted for Pensions	**$ 1,044,012**

See accompanying notes to financial statements

Employees' Retirement System of the City of Norfolk
(A Pension Trust Fund of Norfolk, Virginia)
Statement of Changes in Plan Fiduciary Net Position
Year Ended June 30, 2017

	In '000 $
Additions:	
Investment Income:	
Net Appreciation in Fair Value of Investments	$ 101,472
Interest	5,871
Dividends	6,077
	113,420
Less: Investment Expenses	(1,918)
Other	(274)
Net Investment Income	111,228
Employer Contributions	33,457
Employee Contributions	9,450
Total Net Additions	**154,135**
Deductions:	
Benefits Paid Directly to Participants	(79,000)
Beneficiary Payments	(4,215)
Refunds of Contributions	(762)
Administrative Expenses	(668)
Total Deductions	**(84,645)**
Net Decrease	**69,490**
Plan Net Position Restricted for Pensions:	
Beginning of the Year	974,522
End of the Year	**$ 1,044,012**

See accompanying notes to financial statements

Notes to Financial Statements

Employees’ Retirement System of the City of Norfolk

(A Pension Trust Fund of Norfolk, Virginia)

For the Year Ended June 30, 2017

Note 1. Organization and Summary of Significant Accounting Policies

Reporting entity: The Employees’ Retirement System of the City of Norfolk (the System) is the administrator of a single-employer contributory defined benefit plan that covers substantially all employees of the City of Norfolk (the City), excluding School Board and Constitutional Officer employees covered by the Virginia Retirement System, as authorized by Section 143(a) of the City Charter. The System was established and placed under the management of the Board of Trustees for the System for the purpose of providing retirement allowances and death benefits as authorized by the provisions of Chapter 37 of the Norfolk City Code. Effective January 8, 2015, all System members pay contributions on a salary reduction basis in the amount of 5% of earnable compensation, with the exception of City Council members hired before October 5, 2010. City Council members hired before October 5, 2010, do not pay member contributions. Effective December 13, 2011, all employees hired on or after December 13, 2011, are required to meet the employee contributions and vesting requirement of five years in order to be eligible to receive benefits under the System.

The System has a ten-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 trustees. The System meets the definition of a Fiduciary Fund of the City of Norfolk under applicable accounting standards and as a result, the System’s financial statements are incorporated into the Comprehensive Annual Financial Report (CAFR) of the City of Norfolk. These financial statements are those of the System and not of the City of Norfolk, Virginia as a whole. The City of Norfolk makes contributions which in addition to employee contributions and investment earnings provide funding for pension benefits and administrative costs.

Basis of accounting: The financial statements of the System are prepared using the accrual basis of accounting as required under the provisions of Governmental Accounting Standards Board (“GASB”) No. 67, Financial Reporting for Pension Plans (“GASB 67”). Employer contributions are recognized when received by the Plan. Benefits and refunds are recognized when paid in accordance with the terms of the plan.

Cash and cash equivalents: Cash equivalents consist of short-term investments with maturities of three months or less. Short-term investments are recorded at fair value.

Notes to Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies, concluded:

Investment valuation method: Investments are reported at fair value in accordance with GASB 72, Fair Value Measurement and Application. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Net appreciation or depreciation in fair value of investments is reflected in the Statement of Changes in Plan Fiduciary Net Position and includes realized gains and losses on investments purchased and sold and the change in appreciation or depreciation from one period to the next. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Acquisition costs are included in the cost of investments purchased, and sales are recorded net of selling expenses. Purchases and sales of securities traded, but not yet settled at year end are recorded as due to brokers for securities purchased and due from brokers for securities sold, respectively.

Estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows, deferred inflows, and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of changes in plan net position 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, contributory, defined benefit plan that covers substantially all employees of the City of Norfolk, Virginia, excluding the School Board and the Constitutional Officer employees who are covered by the Virginia Retirement System. Although the System presents separate financial statements, it is also included in the City of Norfolk's CAFR as a pension trust fund. The types of employees covered and current membership as of June 30, 2017, consists of the following:

Retirees and beneficiaries receiving benefits:	
General	2,691
Public Safety	1,222
Vested former members entitled to, but not yet receiving benefits:	
General	945
Public Safety	275
Active plan members:	
Fully vested:	
General	1,640
Public Safety	896
Non-vested:	
General	1,223
Public Safety	355
*Total	**9,247**

* Includes one-hundred and thirty-eight (138) members due a refund of mandatory member contributions. See Note 4 for more details. Includes seventy (70) members currently in the Deferred Retirement Option Program (DROP) and thirty (30) members currently on leave of absence, twenty-three (23) of which are vested.

Notes to Financial Statements

Note 2. Description of the Plan, concluded:

The System provides retirement benefits, as well as death and disability benefits. All benefits vest after five years of creditable service. Creditable service includes membership service and allowable military service. Employee eligibility requirements are as follows:

> Retirement (for employees who became members prior to July 1, 1980): Normal service retirement age 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 for general employees is equal to 2.0% of average final compensation (average of the three highest years of compensation) times years of creditable service, with service limited to 35 years. Public safety employees accrue benefits at 2.5% of average final compensation times years of creditable service, not to exceed 65% of average final compensation. Mandatory retirement is age 65 for public safety employees. There is no mandatory retirement age for general employees.

> Retirement (for employees who became members on or after July 1, 1980): Normal service retirement age is the earlier of age 60 or after completion of 30 years of credited service for general employees, and age 55 or after the completion of 25 years of credited service for public safety employees. The normal service retirement benefit per annum for general employees is equal to 1.75% of average final compensation times years of creditable service, with service limited to 35 years. Public safety employees accrue benefits at 2.5% of average final compensation times years of creditable service, not to exceed 65% of average final compensation. Mandatory retirement is age 65 for public safety employees. There is no mandatory retirement age for general employees.

Effective January 1, 2015, the City Council adopted Ordinance Number 45,566 that established a Deferred Retirement Option Program (DROP) for policemen and firemen eligible for normal service retirement. Eligible members may elect to participate for a maximum of four years, deferring receipt of a reduced retirement benefit of seventy percent (70%) while continuing employment with the City without loss of any other employee benefits.

Upon the member's election to participate in the DROP; the amount of creditable service and the average final compensation becomes frozen for purposes of determining pension benefits. The participant is considered retired for all purposes related to the System and does not accrue additional retirement benefits, except for ad hoc cost-of-living adjustments ("COLAs"), if applicable.

The DROP participant's monthly pension is held in lieu of being paid to the participant. Upon termination of employment, the participant will receive the DROP balance and will begin receiving the monthly pension benefit. The participant's DROP balance is not credited with investment gains and losses.

As of June 30, 2017, the DROP liability is $3.6 million and is not recognized as due and payable in the statement of Plan Fiduciary Net Position since it represents accumulated liabilities of active employees within the program.

Ad hoc COLAs are provided at the discretion of the City Council. Participants should refer to the Plan document for a complete description of these provisions. There was no ad hoc COLA provided in the fiscal year ended June 30, 2017.

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

Notes to Financial Statements

Note 3. Net Pension Liability

The components of the net pension liability of the System at June 30, 2017, were as follows:

	In '000 $
Total Pension Liability	$ 1,326,413
Plan Fiduciary Net Position	$ (1,044,012)
Net Pension Liability	$ 282,401
Plan Fiduciary Net Position as a percentage of the total pension liability	78.7%

Note 4. Actuarial Assumptions and Contributions Made

Significant assumptions used to calculate contribution requirements are the same as those used to calculate the actuarial accrued liability. Normal cost is funded on a current basis. Periodic contributions for normal cost are based on the level percentage-of-payroll method. The funding strategy for normal cost should provide sufficient resources to pay employee pension benefits on a timely basis. Beginning in 2017, City contributions not yet made are not recognized for actuarial funding purposes.

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. City contributions totaling $33.5 million were made from July 1, 2016 to June 30, 2017, in accordance with the actuarially determined contribution requirements stated above.

Voluntary contributions were discontinued in 1979 and have been accumulated thereafter with interest at a rate of 7.0%. Such voluntary contributions are refundable to members at the time of retirement. As of June 30, 2017, no voluntary contributions are due and payable as no members due a refund of voluntary contributions retired during the 2017 fiscal year. At retirement, members' contributions plus accumulated interest are refunded.

Effective January 8, 2015, all System members (with the exception of City Council members hired before October 5, 2010) are required to make mandatory contributions on a salary reduction basis in the amount of 5% of earnable compensation. These contributions accumulate thereafter with interest equivalent to the 12-month commercial deposit (CD) instrument at the beginning of each fiscal year until the member is fully vested in benefits under the Plan. Upon vesting, member contributions become an asset of the System to be used to pay benefits under the System. Such contributions are refundable to members who terminate before becoming vested for retirement benefits. Mandatory employee contributions totaled $9.5 million, for the year ended June 30, 2017. $762 thousand in refundable contributions were paid in the year ended June 30, 2017, and $345 thousand in refundable contributions are payable as of June 30, 2017.

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

A) fully fund the normal cost contribution for the current year determined under the funding method, and
B) liquidate the unfunded accrued liability based on level percent of payroll over a closed amortization period of 20 years.

Notes to Financial Statements

Note 4. Actuarial Assumptions and Contributions Made, continued:

The actuarial assumptions for the June 30, 2017, actuarial valuation, were as follows:

Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent Closed, 20-Year Layers
Amortization Growth Rate	3.0%
Asset Valuation Method	3-Year Smoothed Value
Inflation	3.0%
Salary Increases - General Employees	Average of 5.12% over a 30-year-career; based on rates that vary by year of service and are compounded annually
Salary Increases - Public Safety Employees	Average of 6.19% over a 30-year-career; based on rates that vary by year of service and are compounded annually
Investment Rate of Return	7.0%
Mortality	108% of RP-2014 adjusted back to 2006 using MP-2014 and brought forward to 2016 using MP-2016 and generational improvements of 0.75% per year (ages < 86) thereafter for healthy lives; and 100% of RP-2014 Disability Mortality adjusted back to 2006 using MP-2014 and brought forward to 2016 using MP-2016 and generational improvements of 0.75% per year (ages < 86) thereafter for disabled lives

Rate of return: The annual money-weighted rate of return, net of investment expenses, as of June 30, 2017, was 11.64%. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested.

The long-term expected rate of return on System investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017, are summarized in the following table:

Asset Class	30-Year 2017 Long-Term Expected Real Rate of Return
Private Core Real Estate	4.75%
Master Limited Partnerships	6.50%
Core Fixed Income	1.00%
Core Plus Income	1.50%
Equity (ACWI IMI)	5.15%

Discount rate: The discount rate, as of June 30, 2017, used to measure the total pension liability was 7.07%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contributions rate and that City contributions will be made in accordance with the funding policy assumption adopted by the Board in 2017. That policy includes contributions equal to the employer portion of the Entry Age normal cost for members as of the valuation date plus an amortization payment on the unfunded actuarial liability (UAL). The UAL is based on an actuarial value of the assets that smooths investment gains and losses over three years and a measurement of the actuarial liability. The initial UAL is being amortized over a closed 20-year period. Future annual changes to the UAL due to plan changes, assumption changes, gains and losses will be amortized over their own closed 20-year periods. All rates are developed using a level percent of pay amortization method with a 3% per year increase. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future payments and pay administrative expenses. The GASB 67 depletion schedule was prepared for the next 99 years. Projected benefit payments are discounted at the long-term expected return of 7.07% (net of investment expenses). The single equivalent rate used, for purposes of GASB 67, to determine the Total Pension Liability as of June 30, 2017, was 7.07%.

Notes to Financial Statements

Note 4. Actuarial Assumptions and Contributions Made, concluded:

Sensitivity of the net pension liability to changes in the discount rate: The following presents the net pension liability of the System, calculated using the discount rate of 7.07%, compared to the System's net pension liability if it were calculated using a discount rate that is 1-percentage-point lower (6.07%) or 1-percentage-point higher (8.07%) than the current rate:

	In '000 Dollars		
	1% Decrease (6.07%)	Current Discount Rate (7.07%)	1% Increase (8.07%)
System's Net Pension Liability	$ 428,092	$ 282,401	$ 159,146

The actuarial assumptions above are based on the results of an experience study performed in 2017, which covered the period from July 1, 2011 to June 30, 2016, and 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. Experience studies are typically conducted every five years with the next one scheduled for 2022.

Note 5. Deposits and Investments

Deposits: The carrying amount of the System's deposits with financial institutions was $1.5 million as of June 30, 2017. These bank balances were covered by Federal depository insurance or commercial insurance or collateralized in accordance with the Virginia Security for Public Deposits Act Regulations of the Code of Virginia. Under the Act, banks holding public deposits in excess of the amounts insured by the Federal Deposit Insurance Corporation must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Virginia Security for Public Deposits Act and for notifying local governments of compliance by banks. Cash equivalents amounting to $7.5 million consists of short-term investment funds and certificates of deposit with maturities of three months or less.

Investments: The Board of Trustees of the System has full power to invest and reinvest the trust funds in accordance with Section 51.1-124.30 of the Code of Virginia (1950), as amended. This section requires the Board to discharge its duties solely in the interest of the beneficiaries and to invest the assets with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Board must also diversify such instruments so as to minimize the risk of large losses unless under the circumstances, it is clearly prudent not to do so. The following was the Board's adopted asset allocation policy as of June 30, 2017:

Asset Class	Target Allocation
Fixed Income	30.0%
Equities	55.0%
Real Estate	8.0%
Master Limited Partnerships	8.0%

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

Notes to Financial Statements

Note 5. Deposits and Investments, continued

Interest rate risk: The System has outlined a policy on duration to help manage its interest rate risk. The Investment Policy Statement outlines “duration” as the weighted average effective duration of each Account’s fixed income portfolio, including cash equivalents. The Policy states that the duration of the fixed income portfolio shall be within +/- two years relative to the Barclays Capital Aggregate Bond Index. As of the year ended June 30, 2017 the effective duration of the fixed income portfolio is 5.61 versus the index duration of 5.94.

Segmented Time Distribution:

June 30, 2017	In '000 Dollars	Investment Maturity - In '000 Dollars					
Investment Type	Fair Value	Less 1 yr	1 - 3 yrs	3 - 6 yrs	6 - 10 yrs	10 yrs +	N/A
Asset Backed Securities	$ 4,112	$ -	$ -	$ 607	$ 1,064	$ 2,441	$ -
Corporate Bonds	31,887	3,007	1,973	12,521	12,580	1,806	-
Mortgage Backed Securities	64,434	-	69	2,010	1,482	60,873	-
Municipals	3,179	-	-	-	-	3,179	-
Foreign Government Securities	4,983	-	1,168	1,677	1,851	287	-
Futures/Options/Swaps	1,111	(60)	(241)	220	1,114	78	-
U.S. Treasury Securities	86,542	-	9,557	23,314	28,142	25,529	-
Common Stock	6,500	N/A	N/A	N/A	N/A	N/A	6,500
Master Limited Partnerships	66,129	N/A	N/A	N/A	N/A	N/A	66,129
Equity Funds	610,607	N/A	N/A	N/A	N/A	N/A	610,607
Domestic Equity	2,081	N/A	N/A	N/A	N/A	N/A	2,081
Fixed Income Funds	161,136	N/A	N/A	N/A	N/A	N/A	161,136
Real Estate Funds	75,442	N/A	N/A	N/A	N/A	N/A	75,442
Totals	$ 1,118,143	$ 2,947	$ 12,526	$ 40,349	$ 46,233	$ 94,193	$ 921,895

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

June 30, 2017	Market Value
Australian Dollar	$ 147
Canadian Dollar	$ 154
Euro Currency	$ 85
Japanese Yen	$ 1
Pounds Sterling	$ 489
Totals	**$ 876**

All values in '000s (thousands)

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 Investors Service, Inc. (Moody’s), Fitch Ratings (Fitch), and Standard and Poor’s Global Ratings (S&P’s) are not permitted without the written permission of the Board. PIMCO has been given the authority by the Board to invest 20% of its portfolio in below investment grade securities.

Notes to Financial Statements

Note 5. Deposits and Investments, continued

The System invests in certain derivatives including real estate mortgage investment conduits, collateralized mortgage obligations, futures and swaps. Those securities are included in reported investments. Investments in derivatives, other asset backed securities, and collateralized mortgage obligations with a fair value of $9.7 million were held as of June 30, 2017. The System's rated debt investments as of June 30, 2017, were rated by S&P's and/or an equivalent national rating organization and the ratings are presented below using the S&P's credit quality rating scale.

Fair Quality Rating	In '000 Dollars Total	In '000 Dollars Corporate Bonds	Mortgages Backed Securities	Foreign Govt.	Equity Funds	Asset Backed Securities	U.S. Govt. Securities	Municipals	Common Stock	Limited Master Partnerships	Futures/ Options/ Swaps	Fixed Income/Equity Real Estate Funds
AAA	$ 90,506	$ -	$ 2,337	$ -	$ -	$ 1,627	$ 86,542	$ -	-	-	-	-
AA+	64,245	299	61,524	-	-	2,422	-	-	-	-	-	-
AA	901	306	-	-	-	-	-	595	-	-	-	-
AA-	2,390	-	-	996	-	-	-	1,394	-	-	-	-
A+	5,200	1,500	-	3,700	-	-	-	-	-	-	-	-
A	5,224	4,825	12	-	-	-	-	387	-	-	-	-
A-	4,132	4,132	-	-	-	-	-	-	-	-	-	-
BBB+	-	-	-	-	-	-	-	-	-	-	-	-
BBB	5,968	5,954	14	-	-	-	-	-	-	-	-	-
BBB-	6,713	6,713	-	-	-	-	-	-	-	-	-	-
BB+	686	686	-	-	-	-	-	-	-	-	-	-
BB	-	-	-	-	-	-	-	-	-	-	-	-
BB-	212	212	-	-	-	-	-	-	-	-	-	-
B+ and Below	7,454	6,269	540	287	-	49	-	309	-	-	-	-
NR	924,512	991	7	-	610,607	14	-	494	6,500	66,129	1,111	238,659
Totals	**$ 1,118,143**	**$ 31,887**	**$ 64,434**	**$ 4,983**	**$ 610,607**	**$ 4,112**	**$ 86,542**	**$ 3,179**	**$ 6,500**	**$ 66,129**	**$ 1,111**	**$ 238,659**

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

The following table presents the fair value of investments that represent 5% or more of the System's net position at June 30, 2017:

Investment	In '000 Dollars Amount
SSGA MSCI ACWI IMI Index Fund	$ 610,607
SSGA Bond Market Index Fund	$ 133,134

Note 6. Transactions with the City of Norfolk

The System reimburses the City for all administrative costs related to the System's operations. The costs reimbursed for the year-ended June 30, 2017, were $655 thousand.

Note 7. Income Tax Status

The Internal Revenue Service has ruled in a determination letter dated September 29, 2016, that the System qualifies under Section 401-1(b)(3) of the Internal Revenue Code and is, therefore, not subject to tax under present income tax laws. The System operates pursuant to City Code. Instances of non-compliance with City Code are addressed when discovered. As of June 30, 2017, there are no such instances expected to have a material impact to the financial statements

Note 8. GASB 72 Fair Value Measurements and Application

The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The System has the following recurring fair value measurements as of June 30, 2017:

	In '000 Dollars June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1) - In '000 $	Significant Other Observable Inputs (Level 2) - In '000 $
Cash Equivalents:			
Certificate of Deposit	$ 3,005		$ 3,005
Short Term Fund	4,441		4,441
Total Cash Equivalents	$ 7,446		$ 7,446
Fixed income securities			
United States Treasury securities	$ 86,542		$ 86,542
Corporate bonds	31,887		31,887
Futures/Options/Swaps	1,111		1,111
Municipals	3,179		3,179
Asset-backed securities	4,112		4,112
Mortgage-backed securities	64,434		64,434
Foreign government securities	4,983		4,983
Total Fixed income securities	$ 196,248		$ 196,248
Equity securities			
Common stock	$ 6,500	$ 6,500	
Master limited partnerships	$ 66,129	$ 66,129	
Other equity securities	$ 2,081	$ 2,081	
Total equity securities	$ 74,710	$ 74,710	
Comingled Securities			
Fixed Income Fund	$ 28,002		$ 28,002
	$ 28,002		$ 28,002
Investments measured at the net asset value (NAV)			
Equity funds	$ 610,607		
Fixed income funds	133,134		
Real estate funds	75,442		
Total investments measured at the NAV	$ 819,183		
Total investments (excludes cash)	**$ 1,125,589**		

In accordance with the authoritative guidance on fair value measurements and disclosures under U.S. GAAP, the Funds disclose the fair values of their investments in a hierarchy that prioritized the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to valuations based upon unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to valuations based upon unobservable inputs that are significant to the valuation (level 3 measurements). The guidance established three levels of the fair value hierarchy as follows:

Level 1 - Quoted prices in active markets for identical assets. Equity securities are priced using an exchange traded price or a broker quote in an active market.

Level 2 - Inputs other than quoted prices that are observable for the asset, including quoted prices for similar investments based on interest rates, credit risk and alike factors. The United States treasury and fixed income securities are priced using pricing models based on a compilation of primarily observable market information or a broker quote in a non-active market for an identical or similar security. The certificate of deposit is valued based on discounted cash flows using current interest rates at the stated maturity. The short term investment fund trades daily without restriction at $100 per unit. The fixed income fund can be redeemed within 3-7 days with 1-day notice.

Level 3 - Unobservable inputs for the assets, including the Fund's own assumptions for determining fair value. There are no Level 3 investments as of June 30, 2017.

Portfolio investments are assigned a level based upon the observability of the inputs which are significant to the overall valuation. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The remaining commingled funds are reported at net asset value (NAV), as a practical expedient for fair value, based on the fair market values of the underlying securities in the respective fund.

1. Equity Funds. This type includes an investment in an equity fund with an investment objective to track the performance of the MSCI ACWI IMI index over the long-term. These investments can be redeemed semi-monthly with semi-monthly notice.
2. Fixed Income Funds. This type includes an investment in a fund with an investment objective to track the performance of the Barclay's U.S. Aggregate Bond Index over the long term. This investment can be redeemed within 1-15 days, depending on trade size with 1-day notice.
3. Real estate funds. This type includes 2 investments in real estate funds that invest in U.S. real estate. These funds compare themselves to the NCREIF Fund Index - Open-End Diversifies Core Equity (NFI-ODCE) benchmark. These investments can be redeemed quarterly with 45-60 days, notice.

Required Supplemental Information (Unaudited)

Schedule of Changes in
Net Pension Liability and Related Ratios
Last 10 Fiscal Years

	In '000 Dollars			
	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Total Pension Liability				
Service Cost	$ 26,310	$ 25,919	$ 25,467	$ 24,579
Interest	86,974	84,711	82,839	80,203
Change In Benefits	590	568	353	20,689
Change In Assumptions	53,197	(6,509)	-	-
Differences between Expected and Actual Experience	(2,543)	(2,666)	(2,471)	(10,654)
Benefit Payments, Including Refunds of Member Contributions	(83,977)	(80,784)	(79,031)	(77,065)
Net Change in total Pension Liability	**$ 80,551**	**$ 21,239**	**$ 27,157**	**$ 37,752**
Total Pension Liability - Beginning	**$ 1,245,862**	**$ 1,224,623**	**$ 1,197,466**	**$ 1,159,714**
Total Pension Liability - Ending (a)	**$ 1,326,413**	**$ 1,245,862**	**$ 1,224,623**	**$ 1,197,466**
Plan Fiduciary Net Position				
Contributions - Employer	$ 33,457	$ 30,761	$ 34,932	$ 42,330
Contributions - Employee	9,450	8,735	4,915	1,672
Net Investment Income	111,228	3,278	16,597	157,292
Benefit Payments, Including Refunds of Member Contributions	(83,977)	(80,784)	(79,032)	(77,065)
Administrative Expenses	(668)	(672)	(387)	(413)
Net Change in Plan Fiduciary Net Position	**$ 69,490**	**$ (38,682)**	**$ (22,975)**	**$ 123,816**
Plan Fiduciary Net Position - Beginning	**$ 974,522**	**$ 1,013,204**	**$ 1,036,179**	**$ 912,363**
Plan Fiduciary Net Position - Ending (b)	**$ 1,044,012**	**$ 974,522**	**$ 1,013,204**	**$ 1,036,179**
Plan Net Pension Liability - Ending (a) - (b)	**$ 282,401**	**$ 271,340**	**$ 211,419**	**$ 161,287**
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	**78.7%**	**78.2%**	**82.7%**	**86.5%**
Covered-Employee Payroll	**$ 188,066**	**$ 175,679**	**$ 178,468**	**$ 177,561**

The schedule is intended to show information for 10 years. Since 2014 was the first fiscal year for presentation, no other data are available. However, additional years will be included as they become available.

See accompanying independent auditor's report

Required Supplement Information (Unaudited)

Schedule of Employer's Net Pension Liability and Related Ratios
Last 10 Fiscal Years

	In '000 Dollars					
Fiscal Year	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Plan Fiduciary Net Position as a Percentage of Total Pension Liability	Covered Employee Payroll	Plan Net Pension Liability as a Percentage of Covered-Employee Payroll
2017	$ 1,326,413	$ 1,044,012	$ 282,401	78.7%	$ 188,066	150.2%
2016	1,245,862	974,522	271,340	78.2%	175,679	154.5%
2015	1,224,623	1,013,204	211,419	82.7%	178,468	118.5%
2014	1,197,466	1,036,179	161,287	86.5%	177,561	90.8%
2013	N/A	N/A	N/A	N/A	N/A	N/A
2012	N/A	N/A	N/A	N/A	N/A	N/A
2011	N/A	N/A	N/A	N/A	N/A	N/A
2010	N/A	N/A	N/A	N/A	N/A	N/A
2009	N/A	N/A	N/A	N/A	N/A	N/A
2008	N/A	N/A	N/A	N/A	N/A	N/A

N/A - Information for fiscal years prior to the adoption of GASB 67 is not available in this format.

Schedule of Employer's Contributions
Last 10 Fiscal Years

	In '000 Dollars				
Fiscal Year	Contribution (ADC)*	Contribution *	Contribution Deficiency (Excess)	Covered Employee Payroll **	Contribution as a Percentage of Covered-Employee Payroll
2017	$ 33,457	$ 33,457	-	$ 188,066	17.8%
2016	30,761	30,761	-	175,679	17.5%
2015	38,264	34,932	$3,331	178,468	19.6%
2014	42,330	42,330	-	177,561	23.8%
2013	41,466	41,466	-	184,062	22.5%
2012	42,828	42,828	-	167,593	25.6%
2011	35,515	35,515	-	170,922	20.8%
2010	28,279	28,279	-	175,179	16.1%
2009	25,668	25,668	-	179,591	14.3%
2008	25,136	25,136	-	175,390	14.3%

* The actuarially determined contribution and the employer contributions were adjusted for years prior to 2014 to retrospectively to apply the timing of recognition under GASB 34.

** The actuarially determination of the ADC is based on a projection of covered payroll for the period for which the ADC will apply. The covered-employee payroll was provided by the actuary.

See accompanying independent auditors report

Required Supplementary Information (Unaudited)

Schedule of Investment Returns

Fiscal Year	Money-Weighted Rate of Return
2017	11.64%
2016	0.39%
2015	1.97%
2014	17.36%
2013	N/A
2012	N/A
2011	N/A
2010	N/A
2009	N/A
2008	N/A

See accompanying independent auditors' report

Notes to Required Supplementary Information (Unaudited)

Changes in Benefits. Additional liabilities derived as a result of 5% pay increase to members for purposes of paying 5% member contributions; Voluntary Incentive Program; and new Deferred Retirement Option Program for public safety members.

Methods and assumptions used in calculations of actuarially determined contributions. The actuarially determined contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule.

Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent Closed, 20-Years Layers
Asset Valuation Method	3-Year smoothed Value
Investment Rate of Return	7.00%
Amortization growth Rate	3.00%
Inflation	3.00%
Salary Increases - General Employees	Average of 5.12% over a 30-year-career; based on rates that vary by year of service and are compounded annually
Salary Increases - Public Safety Employees	Average of 6.19% over a 30-year-career; based on rates that vary by year of service and are compounded annually
Mortality	108% of RP-2014 adjusted back to 2006 using MP-2014 and brought forward to 2016 using MP-2016 and generational improvements of 0.75% per year (ages < 86) thereafter for healthy lives; and 100% of RP-2014 Disability Mortality adjusted back to 2006 using MP-2014 and brought forward to 2016 using MP-2016 and generational improvements of 0.75% per year (ages < 86) thereafter for disabled lives

Other Supplementary Information

Employees' Retirement System of the City of Norfolk
(A Pension Trust Fund of Norfolk, Virginia)
Schedule of Administrative Expenses
Year Ended June 30, 2017

		In '000 Dollars
Personnel Services:		
Staff Salaries	$	450
Benefits		100
Total Personnel Services	$	550
Professional Services:		
Actuarial Fees	$	67
Medical Examinations		2
Legal Fees		29
Audit Fees		7
Total Professional Services	$	105
Communication:		
Travel and Training	$	4
Postage and Shipping		2
Total Communication	$	6
Miscellaneous:		
Supplies and Equipment	$	6
Other		1
Total Miscellaneous	$	7
Total Administrative Expenses	$	668

See accompanying independent auditors' report.

Other Supplementary Information

Employees' Retirement System of the City of Norfolk
(A Pension Trust Fund of Norfolk, Virginia)
Schedule of Investment Expenses
Year Ended June 30, 2017

				In '000 Dollars
Investment Manager Fees				
Manager Fees	$	1,563		
Total Investment Manager Fees			$	1,563
Custody and Investment Consultant Fess:				
Investment Consultant Fees	$	229		
Custody Fees		126		
Total Custody and Investment Consultant Fees			$	355
Total Investment Expenses			$	1,918

See accompanying independent auditors' report.

Investment Section
(Unaudited)

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Investment Performance, Policy, Statistics, and Activity

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

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

Investment Objectives

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

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

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

    1. The rate of inflation, as measured by the Consumer Price Index, plus 2.5% per year.
    2. The return of a target policy index ("Target Policy") comprised of 62.5% MSCI AC World IMI (Net), 37.5% Barclays Capital Aggregate Bond Index.
    3. The return of a Strategy Index; such index being comprised of the return of the various broad market benchmarks assigned to each manager or other indices representing each asset class, each weighted to reflect the target asset allocation.
    4. The actuarially assumed investment rate of return.
    5. For the aggregate Global Equity, Fixed Income, Real Estate, and Master Limited Partnership components of the Fund: the return of the MSCI AC World IMI (Net), Barclays Capital Aggregate Bond, NCREIF – ODCE, and Alerian MLP Total Return indices, respectively.

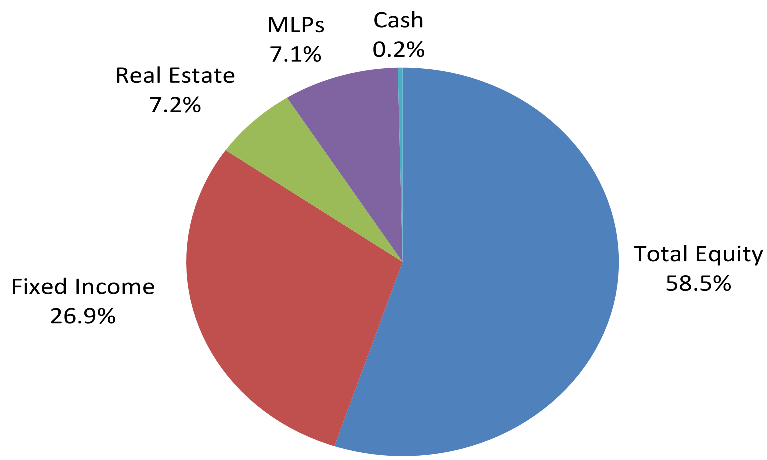
Asset Allocation

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 Statement of Investment Policy.

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

Asset Allocation by Asset Class as of June 30, 2017



		In '000 Dollars	
Total Equity	$	610,607	58.5%
Fixed Income		281,282	26.9%
Real Estate		75,416	7.2%
MLPs		74,081	7.1%
Cash & Equivalents		2,496	0.2%
(excludes cash held by managers)			
Total*	$	1,043,882	

All value in '000s (thousands)

*Total net assets at fair value. See page 36 for a reconciliation to the total investments reported on the statement of plan fiduciary net position.

See accompanying independent auditors' report

Asset Allocation as of June 30, 2017 (concluded)

		In '000 Dollars
Total net assets fair value	$	1,043,882
Adjustments to Reconcile Statement of Plan Asset Investments Total:		
Total Cash and Cash Equivalents		(7,456)
Receivable for Investments Sold		(126,629)
Interest Receivable		(1,067)
Interest Payable – Short Positions		73
Payable for Investments Purchased		209,440
Unrealized Appreciation (Depreciation):		
on Receivables		(139)
on Forward Contracts		39
Total Investments Reconciled to the Statement of Plan Fiduciary Net Position (See page 17)	**$**	**1,118,143**

Investment Managers and Investment Assignments as of June 30, 2017

		In '000 Dollars Market Value	Percentage of Portfolio
SSGA MSCI ACWI IMI Index Fund	$	610,607	58.49%
PIMCO Total Return		148,148	14.19%
SSGA Bond Market Index		133,134	12.75%
JP Morgan Strategic Property Fund		37,993	3.64%
UBS Trumbull Property Fund		37,423	3.58%
Tortoise Capital Advisors		37,242	3.57%
Harvest MLP		36,839	3.53%
Cash Holding Account		2,496	0.24%
Total *	$	1,043,882	100.0%

* See reconciliation of Statement of Plan Assets above

Asset Allocation Comparison as of June 30, 2017

	Equity Commitment	Fixed Income Commitment	Total Other *
Total Fund	58.5%	27.0%	14.6%
Median A Public Plans	59.2%	32.5%	20.5%

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

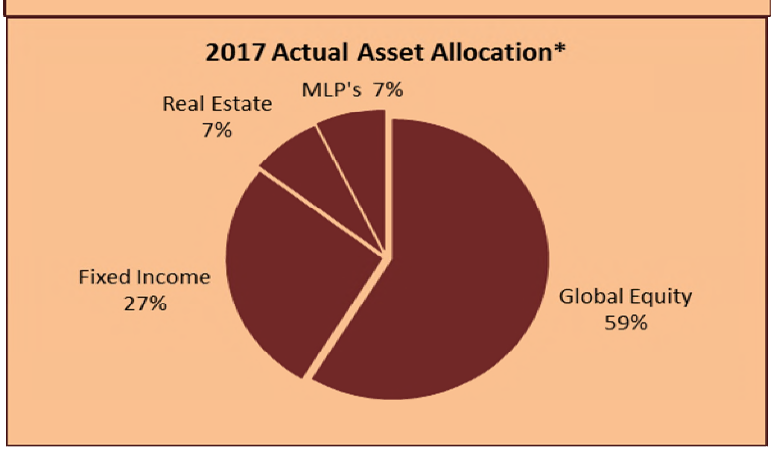
See accompanying independent auditors' report

Target Asset Allocation

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

Asset Class	Minimum Percentage	Maximum Percentage	Target Percentage
Equities	**45%**	**65%**	**55%**
Fixed Income	**25%**	**40%**	**30%**
Real Estate	**5%**	**10%**	**7.5%**
MLPs	**5%**	**10%**	**7.5%**

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



*Fixed income includes 24 basis points of cash and cash equivalents.

Investment Performance Summary

For the Periods Ended June 30, 2017

Account	1 Year	2 Years	3 Years	5 Years
Total Equity	**19.46**	**7.45**	**5.91**	**11.75**
*Total Equity Policy Index**	*19.01*	*7.24*	*5.53*	*11.50*
Fixed Income				
PIMCO Total Return	1.72	3.11	2.98	2.99
Barclays Aggregate	*-0.31*	*2.79*	*2.48*	*2.21*
SSGA Bond Market Index	-0.31	2.79	2.49	2.22
Barclays Aggregate	*-0.31*	*2.79*	*2.48*	*2.21*
Total Fixed Income	**0.76**	**2.91**	**2.73**	**2.46**
Barclays Capital Aggregate	*-0.31*	*2.79*	*2.48*	*2.21*
Real Estate				
JP Morgan Strategic Property Fund	6.89	8.44	9.71	11.06
NCREIF Fund Index - ODCE [M]	*6.90*	*8.83*	*10.33*	*10.76*
UBS Trumbull Property Fund	4.56	6.97	8.42	8.58
NCREIF Fund Index - ODCE [M]	*6.90*	*8.83*	*10.33*	*10.76*
Total Real Estate	**5.89**	**7.82**	**9.17**	**9.95**
NCREIF Fund Index – ODCE [M]	*6.90*	*8.83*	*10.33*	*10.76*
MLPs				
Harvest MLP	2.08	-8.97	-8.88	N/A
Alerian MLP	*0.40*	*-6.60*	*-11.23*	*1.77*
Tortoise Capital Advisors	3.79	-6.79	-9.18	N/A
Alerian MLP	*0.40*	*-6.60*	*-11.23*	*1.77*
Total MLP	**2.94**	**-7.84**	**-9.02**	**N/A**
Alerian MLP	*0.40*	*-6.60*	*-11.23*	*1.77*
Total Fund Composite	**11.66**	**5.93**	**4.59**	**8.51**
*Total Fund Policy Index***	*11.42*	*5.82*	*4.58*	*7.91*

*Total Equity Policy Index as of June 30, 2017 = 100% MSCI AC World IMI (Net).
**Total Fund Policy Index as of June 30, 2017 = 62.5% MSCI AC World IMI (Net) and 37.5% Barclays Aggregate.

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

Schedule of Broker Commissions

Broker selection is the responsibility of individual investment managers. Transactions and commission costs are monitored by State Street Bank (the custodian), the investment consultant, and System staff. Commissions paid in fiscal year 2017 were $16,861.69.

List of Largest Assets as of June 30, 2017

Ten Largest Stock Holdings within the Domestic Equity (Commingled) Funds (by fair value)

Stock	Shares	Fair Value
Apple Inc	67,986	$9,791.29
Alphabet Inc	7,879	$7,325.36
Microsoft Corp	95,057	$6,552.31
Amazon.com Inc	5,251	$5,083.09
Johnson & Johnson	35,096	$4,642.88
Facebook Inc	30,469	$4,600.23
Exxon Mobil Corp	53,625	$4,329.14
JPMorgan Chase & Co	46,259	$4,228.03
Nestle SA, Cham Und Vevey	40,398	$3,519.98
Wells Fargo & Co	61,559	$3,410.98

All values in '000s (thousands)

Ten Largest Bond Holdings (by fair market value)

Bonds	Interest Rate	Maturity Date	Par Value	Fair Value
PIMCO Short-Term	N/A	N/A	$2,941.40	$28,002.15
FNMA Pool	3.5000	9/13/2047	$19,300.00	$19,759.34
FNMA Pool	3.5000	8/14/2047	$15,200.00	$15,585.17
US Treasury	1.8750	3/31/2022	$12,300.00	$12,307.26
US Treasury	1.3750	4/30/2020	$9,600.00	$9,556.90
FNMA Pool	3.0000	9/13/2047	$8,500.00	$8,461.33
US Treasury	4.3750	11/15/2039	$6,300.00	$8,029.79
US Treasury	4.2500	5/15/2039	$6,000.00	$7,516.20
FNMA Pool	3.5000	6/13/2047	$7,200.00	$7,399.44
US Treasury	1.6250	7/31/2020	$6,400.00	$6,407.49

*These holdings represent investments in PIMCO's sector funds. Holdings for the sector funds and a complete list of portfolio holdings are available upon request.

All values in '000s (thousands)

Actuarial Section
(Unaudited)

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CHEIRON Classic Values, Innovative Advice

Actuary's Certification Letter

October 3, 2017

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

The Members of the Board:

The purpose of this letter is to provide the certification for the Actuarial Section of the Comprehensive Annual Financial Report (CAFR) for the Employees' Retirement System of the City of Norfolk (System) with respect to pension benefits.

Actuarial Valuation Used for Funding Purposes

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, 2017, are summarized in this letter. Please refer to that valuation report for additional information related to the System.

The valuation reflects the benefits in effect on the valuation date and was prepared on the basis of the data submitted by the City of Norfolk and the actuarial assumptions as adopted by the Board of Trustees of the Employees' Retirement System, including a valuation interest rate assumption of 7% per annum, compounded annually. The actuarial cost method, the Entry Age Normal Cost Method, and the actuarial assumptions used for funding purposes are the same as those used for financial reporting purposes (with the exception of the discount rate).

We prepared the following schedules for inclusion in the Actuarial Section of the CAFR based on the June 30, 2017 actuarial valuation.

- Summary of Actuarial Assumptions and Methods
- Schedule of Active Member Valuation Data
- Schedule of Retirees and Beneficiaries Added to and Removed from Rolls
- Solvency Test
- Analysis of Financial Experience
- Summary of Benefits and Contribution Provisions

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

a) fully fund the normal cost contribution for the current year determined under the funding method; and

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Actuary's Certification Letter

The Board of Trustees
October 3, 2017
Page 2

b) amortize the projected unfunded actuarial liability as of June 30, 2018 over a closed period of 20 years. The projected unfunded actuarial liability is the amount as of June 30, 2017 adjusted with interest less the portion of the City's schedule contribution to be paid during the fiscal year not attributable to the value of additional benefits earned (i.e. normal cost.) Future annual changes in the UAL will be amortized over their own closed 20-year periods. In performing the amortization calculation, payments are assumed to increase by 3% per annum.

The City's contribution appropriated for the fiscal year ended June 30, 2017 (and to be paid during fiscal year ending June 30, 2018) was determined based on the results of the June 30, 2016 valuation. The City's contribution amount will be $35,494,000 for the fiscal year ending June 30, 2018. Based on the funding policy adopted at the July 12, 2017 meeting, City contributions will no longer be recognized as a receivable asset beginning with the June 30, 2017 valuation but rather over the period in which they are actually paid. Therefore, the City contributions of $33,457,000 that were paid during the fiscal year ended June 30, 2017 were recognized for GASB 67 purposes but not for funding since they were already included as a receivable under the prior funding policy.

The results of the June 30, 2017 valuation determine the contribution appropriation for the fiscal year ending June 30, 2018 (and to be paid during fiscal year ending June 30, 2019), which will be presented in our valuation report subject to your approval.

As of June 30, 2017, the System's actuarial liability was 78% funded based on the Actuarial Value of Assets. The actuarial liability was also 78% funded based on the Market Value of Assets.

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

Actuarial Valuation Used for Financial Reporting Purposes

For financial reporting purposes, the Total Pension Liability is based on the June 30, 2017 actuarial valuation. Please refer to the GASB 67/68 report for additional information related to the financial reporting of the System. We prepared the following schedules for inclusion in the Financial Section of the CAFR based on the June 30, 2017 valuation report.

- Change in Net Pension Liability
- Sensitivity of Net Pension Liability to Changes in Discount Rate
- Schedule of Changes in Net Pension Liability and Related Ratios
- Schedule of Employer Contributions

CHEIRON

Actuary's Certification Letter

The Board of Trustees
October 3, 2017
Page 3

Reliance on the Information Provided by the City and Compliance with ASOPs and GAAP

In preparing our valuations and schedules for the CAFR, we relied on information (some oral and some written) supplied by the City of Norfolk. This information includes, but is not limited to, the plan provisions, employee data and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice #23.

The current actuarial assumptions used for valuation purposes were adopted by the Board of Trustees and were first effective for the June 30, 2017 Actuarial Valuation. The most recent study of the System's experience, used in developing the current actuarial assumptions, was based on a period from July 2011 to June 2016. In our opinion, the actuarial assumptions used in the valuation are 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. Future valuation reports may differ significantly from the current results presented in this letter due to such factors as the following: plan experience differing from that anticipated by the assumptions; changes in assumptions; and changes in plan provisions or applicable law.

We hereby certify that, to the best of our knowledge, this certification letter and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. The schedules provided for financial reporting purposes have been prepared in accordance with our understanding of generally accepted actuarial principles as promulgated by the GASB. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter. This letter does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

This letter was prepared for the City of Norfolk Employees' Retirement System for the purposes described herein and for the use by the plan auditor in completing an audit related to the matters herein. Other users of this letter are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to any such other users.

Respectfully submitted,
Cheiron

Fiona E. Liston, FSA, EA, MAAA
Principal Consulting Actuary

Kevin J. Woodrich, FSA, EA, MAAA
Principal Consulting Actuary

CHEIRON

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Actuarial Assumptions

Interest Rate:
7% per annum, compounded annually (originally adopted as of June 30, 2012).

Mortality:

Pre-Retirement:	108% of RP-2014 adjusted back to 2006 using MP-2014 and brought forward to 2016 using MP-2016 and generational improvements of 0.75% per year (ages < 86) thereafter*
Healthy Annuitants:	108% of RP-2014 adjusted back to 2006 using MP-2014 and brought forward to 2016 using MP-2016 and generational improvements of 0.75% per year (ages < 86) thereafter
Disableds:	100% of RP-2014 Disability Mortality adjusted back to 2006 using MP-2014 and brought forward to 2016 using MP-2016 and generational improvements of 0.75% per year (ages < 86) thereafter

* *5% of deaths are assumed to be accidental for general employees;*
60% of deaths are assumed to be accidental for firefighters and police.

Salary Increase:
Representative values are as follows:

	Annual Rate of Salary Increase	
Service	**General**	**Firefighters and Police**
0	6.60 %	9.69 %
1	6.45	6.60
2	6.30	6.60
3	6.14	6.60
4	5.99	6.60
5	5.83	6.60
10	5.34	6.60
15	5.18	6.60
20	4.74	5.68
25	4.23	5.06
30	3.71	5.06

The table above includes an annual inflation rate of 3.00%.

See accompanying independent auditors' report

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (continued)

Withdrawal:

Service	General	Firefighters and Police
0	19.00 %	10.00 %
1	17.00	9.00
2	15.00	8.00
3	13.00	7.00
4	11.00	6.00
5	9.50	5.00
10	4.70	2.80
15	3.00	1.00
20	2.50	1.00
25	1.00	1.00
30	1.00	1.00

Disability:

	General*		Firefighters and Police**
Age	Male	Female	Unisex
20	0.06%	0.05%	0.04%
25	0.07	0.05	0.06
30	0.08	0.06	0.08
35	0.13	0.10	0.11
40	0.20	0.15	0.22
45	0.31	0.23	0.40
50	0.46	0.35	0.67
54	0.59	0.45	0.90
55	0.63	0.48	0.96
59	0.92	0.70	1.26

* 25% of General disabilities are assumed to be accidental.

** 70% of Police & Fire disabilities are assumed to be accidental.

See accompanying independent auditors' report

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (continued)

Retirement:

General:

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

Firefighters and Police Officers:

For those eligible for the Deferred Retirement Option Program (DROP):

Service	Rate of Retirement
20	2.50 %
21	3.00
22	3.50
23	4.00
24	15.00
25	30.00
26	30.00
27 and up	30.00

See accompanying independent auditors' report

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (continued)

For those not eligible for the Deferred Retirement Option Program (DROP):

Service	Rate of Retirement
20	2.50 %
21	3.00
22	3.50
23	4.00
24	15.00
25	20.00
26	20.00
27 and up	20.00

In lieu of the rates above, any active participant at least age 65 is assumed to retire immediately.

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

Future Expenses:

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

Loading or Contingency Reserves:

A load of 1.00% for General employees and 1.15% for Firefighters and Police is applied to retirement benefits for active employees to account for unused sick leave balances at time of retirement.

Marital Status:

65% of the General employees and 75% percent of the Firefighters and Police are assumed to be married, with males three years older than females.

DROP Election:

All Firefighters and Police who are eligible to elect DROP are assumed to do so in lieu of retirement.

Rationale for Economic and Demographic Assumptions:

Assumptions were set by the Board of Trustees on the basis of recommendations made by Cheiron as a result of an experience study covering the period from July 1, 2011 through June 30, 2016.

See accompanying independent auditors' report

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (concluded)

Methods

Actuarial Cost Method:
Entry Age Normal Cost Method. The unfunded actuarial liability (UAL) as of June 30, 2017 was projected to June 30, 2018 based on interest and the portion of the City contribution being paid during the fiscal year ending June 30, 2018 not attributable to additional benefits being earned. Future annual changes in the UAL due to Plan changes and gains and losses will be amortized over their own closed 20-year periods. All rates are developed using a level-percent of pay amortization method with a 3% per annum increase in the payments.

Asset Valuation Method:
The actuarial value of assets is determined by first calculating the expected actuarial value of assets based on last year's valuation interest rate, last year's actuarial value of assets, and the net cash flow (contributions less benefit payments) of the System over the year prior to the valuation. One-third of the market value of assets less the expected actuarial value of assets is then added to the expected actuarial value of assets to determine the valuation assets.

See accompanying independent auditors' report

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Census and Assets:

The valuation was based on members of the System as of June 30, 2017 and does not take into account future members. All census data were supplied by the Executive Secretary of the System and were subject to reasonable consistency checks. Asset data were supplied by the Executive Secretary and the accountants of the System.

General Employees:

Valuation as of June 30	Number of Active Members	Valuation Payroll ($ in Thousands)	Average Salary	Percent Increase (Decrease) in Average
2017	2,727[1]	$ 128,708	$ 47,198	1.9%
2016	2,741	126,900	46,297	1.5
2015	2,704	123,366	45,624	3.8
2014	2,709	119,079	43,957	1.8
2013	2,787	120,324	43,173	2.1
2012	2,517	106,448	42,292	0.7
2011	2,613	109,766	42,008	(0.1)
2010	2,683	112,858	42,064	(0.6)

[1] Excludes 19 members on leave of absence and 117 participants due a refund on June 30, 2017.

Firefighters and Police Officers:

Valuation as of June 30	Number of Active Members	Valuation Payroll ($ in Thousands)	Average Salary	Percent Increase (Decrease) in Average
2017	1,219[1]	$ 68,343[1]	$ 56,065	4.9%
2016	1,238	66,136	53,422	.2
2015	1,207	64,346	53,310	2.5
2014	1,216	63,219	51,989	3.4
2013	1,268	63,737	50,266	(0.2)
2012	1,214	61,145	50,367	0.8
2011	1,224	61,155	49,964	(2.8)
2010	1,232	63,321	51,397	0.6

[1] Excludes 11 members on leave of absence and 21 participants due a refund on June 30, 2017. Includes 70 members that are currently in the Deferred Retirement Option Program (DROP).

Total:

Valuation as of June 30	Number of Active Members	Valuation Payroll ($ in Thousands)	Average Salary	Percent Increase (Decrease) in Average
2017	3,946[1]	$ 197,051[1]	$ 49,937	2.9%
2016	3,979	193,036	48,514	1.1
2015	3,911	187,712	47,996	3.3
2014	3,925	182,298	46,445	2.3
2013	4,055	184,061	45,391	1.1
2012	3,731	167,593	44,919	0.8
2011	3,837	170,921	44,546	(0.4)
2010	3,915	175,179	44,745	(0.7)

[1] Excludes 30 members on leave of absence and 138 participants due a refund on June 30, 2017. Includes 70 members that are currently in the Deferred Retirement Option Program (DROP).

See accompanying independent auditors' report

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

	Added to Rolls		Removed from Rolls		On Rolls at Year-End			
Year Ended June 30	No.	Annual Allowance ($ Thous.)	No.	Annual Allowance ($ Thous.)	No.	Annual Allowance ($ Thous.)	Average Allowance	% Increase Average Allowance
2017	176	$ 3,449	100	$ 1,272	3,913	$ 83,051	$ 21,224	0.7%
2016	159	3,369	82	1,046	3,837	80,874	21,077	0.9%
2015	158	2,605	116	1,374	3,760	78,552	20,891	0.5%
2014	221	4,477	108	1,154	3,718	77,321	20,796	1.3%
2013	164	3,077	106	1,318	3,605	73,998	20,526	0.8%
2012	322	8,429	100	1,537	3,547	72,238	20,366	3.6%
2011	168	3,428	114	1,458	3,325	65,346	19,653	1.4%
2010	152	3,483	111	1,279	3,271	63,376	19,375	2.3%

Note: The amount added to the rolls includes additions and deletions due to COLAs, supplements, workers' compensation in addition to the annual allowance for new retirees.

See accompanying independent auditors' report

SOLVENCY TEST

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

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

The relationship between accrued liabilities and net assets of the System for fiscal years ended June 30, 2010 through June 30, 2017 are presented as follows:

$ in Thousands

Valuation Date	(1) Active Member Contributions	(2) Retirees, Vested Terms, Beneficiaries	(3) Active Members (Employer Financed Portion)	Reported Assets[A]	Portion of Accrued Liabilities Covered by Reported Assets (1)	(2)	(3)
2017 [B]	$ 21,937	$ 921,087	$ 392,802	$ 1,043,620	100.0%	100.0%	25.6%
2016	15,493	877,143	361,774	1,048,346	100.0%	100.0%	43.0%
2015	8,425	850,742	365,456	1,038,059	100.0%	100.0%	49.0%
2014 [C]	3,451	816,288	377,728	1,011,523	100.0%	100.0%	50.8%
2013	1,780	782,860	375,074	954,499	100.0%	100.0%	45.3%
2012 [D]	770	768,508	375,129	923,199	100.0%	100.0%	41.0%
2011	197	658,832	404,945	831,975	100.0%	100.0%	42.7%
2010	55	637,489	409,218	817,698	100.0%	100.0%	44.0%

(A) Reported assets are actuarial value of assets. If assets were market value of assets, the results would be different.

(B) Reported assets for 2017 do not include the receivable employer contribution. Reported assets prior to 2017 included these amounts.

(C) 81 members retired under the Voluntary Retirement Incentive Program (VRIP) between July 1, 2013 and June 30, 2014.

(D) Retirees and beneficiaries as of June 30, 2011 were granted a permanent 2.0% supplemental benefit increase effective July 2012. 150 members retired under the Voluntary Retirement Incentive Program (VRIP) between July 1, 2011 and June 30, 2012.

See accompanying independent auditors' report

ANALYSIS OF FINANCIAL EXPERIENCE

Gain or (Loss) for Year Ending June 30,

($ in thousands)

Type of Activity	**2014**	**2015**	**2016**	**2017**
Investment income	$ 31,460	$ 2,975	$ (20,184)	$ 196
Combined liability experience	10,654	2,471	2,666	2,568
Gain (loss) during year from financial experience	42,114	5,446	(17,518)	2,764
Non-recurring items	(20,690)	(353)	(2,608)	(54,510)
Composite gain (loss) during year	$ 21,424	$ 5,093	$ (20,126)	$ (51,746)

See accompanying independent auditors report

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS

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

Membership

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

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

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

Employees of the Norfolk Community Services Board became participants on July 1, 2012.

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 65 for firefighters and police officers.

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

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

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

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

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

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

See accompanying independent auditors' report

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS (continued)

Early Service Retirement Allowance

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

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

Vested Allowance

Eligibility:
Five years of creditable service.

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

Ordinary Disability Retirement Allowance

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

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

Accidental Disability Retirement Allowance

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

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

Amount:
The amount payable is 66⅔% of average final compensation.

See accompanying independent auditors' report

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS (continued)

Ordinary Death Benefit

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

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

Accidental Death Benefit

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

Amount:
Fifty percent of average final compensation is payable to spouse until death or remarriage. If there is no spouse or if spouse dies or remarries, benefit is payable to children under age 18 or dependent parents. In addition, all contributions, if any, made by the member with interest credited are paid to their designated recipient or estate. If there is no spouse, a lump-sum benefit equal to 50% of their earnable compensation during the year immediately preceding their death is payable.

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

See accompanying independent auditors' report

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS (continued)

Death Benefit After Retirement

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

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

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

Return of Contributions

Eligibility:
Termination of membership prior to death.

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

Normal and Optional Forms of Benefits:

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

See accompanying independent auditors' report

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS (concluded)

Return of Contributions, (concluded)

<u>Contributions</u>

By Members	5% of pay for anyone hired on or after October 5, 2010. Effective January 8, 2015, all members (except City Council members hired before October 5, 2010) will be required to contribute 5% of pay.
By City	Annual contributions actuarially computed to be required to cover the cost of benefits of the System.

Only City contributions will continue to be made throughout the DROP period for any eligible participant who has elected to participate in DROP.

Deferred Retirement Option Program (DROP)

<u>Eligibility:</u>
Any police officer or fireman member in service who attains his or her Normal Retirement Age may elect to participate.

<u>Amount:</u>
The DROP period may be elected by the police officer or fireman member but shall not exceed four years. During the DROP period, 70% of the participant's monthly retirement allowance shall be paid to the DROP account. No interest shall accrue on this account during the DROP period. At the end of the DROP period, the participant will receive a lump sum of the DROP account and shall begin receiving his or her full monthly benefit payment as a retired member.

Only City contributions will continue to be made throughout the DROP period.

Changes in Plan Provisions

Effective July 1, 2017, 703 in-pay participants received a one-time supplement payment of $839. Eligible participants were those receiving retirement benefits for a year (retired on or before June 30, 2016) with 25 or more years of creditable service who receive less than $30,000 in annual retirement benefits and workers' compensation benefits.
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See accompanying independent auditors' report

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Statistical Section
(Unaudited)

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This section provides the reader with detailed information about the economics and demographic trends experienced over the past eight years in the System.

Schedule of Additions by Source and Deductions by Type displays the changes in plan net assets as a result of payments made to and by the System.

Schedule of Benefit Payments by Type identifies the type of payments made to beneficiaries and former employees.

Schedule of Retired Members by Type of Benefit identifies the range of benefit payments made to retirees sorted by plan and type of retirement for the current fiscal year.

Schedule of Average Benefit Payments presents the average monthly benefit paid as of June 30, 2017.

ADDITIONS BY SOURCE AND DEDUCTIONS BY TYPE
($ in Thousands)

Schedule of Additions by Source

Fiscal Year Ended June 30	Employee Contributions	Employer Contributions	% of Covered Payroll	Total Net Investment Income (Loss)	Additions
2017	$ 9,450	$ 33,457	17.79 %	$ 111,228	$ 154,135
2016	9,039	30,761	17.51	3,278	43,078
2015	4,915	34,932	21.44	16,596	56,443
2014	1,672	42,330	23.84	157,292	201,294
2013	1,007	41,466	25.11	100,594	143,067
2012	594	42,828	24.80	3,253	46,675
2011	141	35,515	19.98	155,819	191,475
2010	-	28,279	16.16	92,248	120,527

Schedule of Deductions by Type

Fiscal Year Ended June 30	Benefit Payments	Refund of Contributions	Lump-Sum Death Benefits	Administrative Expenses	Total Deductions
2017	$ 83,049	$ 762	$ 166	$ 668	$ 84,645
2016	80,553	305	231	672	81,761
2015	78,914	3	115	386	79,418
2014	76,785	4	276	413	77,478
2013	74,037	6	153	541	74,737
2012	70,910	25	112	536	71,583
2011	65,678	17	162	566	66,423
2010	63,127	26	154	589	63,896

Total Change in Net Assets

Fiscal Year Ended June 30	Total Change in Net Assets
2017	$ 69,490
2016	(38,683)
2015	(22,975)
2014	123,816
2013	68,330
2012	(24,908)
2011	125,052
2010	56,631

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

See accompanying independent auditors' report

Schedule of Benefit Payments by Type
Annual Allowances Scheduled to be Paid in Ensuing Fiscal Year
($ in Thousands)

General

As of June 30	Service Retired Members	Contingent Annuitants	Disabled Annuitants	Total
2017	$ 40,489	$ 2,834	$ 2,612	$ 45,935
2016	38,726	2,746	2,711	44,183
2015	37,388	2,716	2,737	42,841
2014	36,643	2,651	2,788	42,082
2013	34,407	2,647	2,871	39,925
2012	33,871	2,720	2,907	39,498
2011	29,349	2,313	2,776	34,438
2010	28,343	2,268	2,776	33,387

Firefighters and Police

As of June 30	Service Retired Members	Contingent Annuitants	Disabled Annuitants	Total
2017	$ 31,743	$ 2,206	$ 3,167	$ 37,116
2016	31,308	2,127	3,256	36,691
2015	30,606	2,106	2,999	35,711
2014	30,346	1,944	2,949	35,239
2013	29,227	1,901	2,945	34,073
2012	27,940	1,855	2,945	32,740
2011	26,547	1,554	2,807	30,908
2010	25,613	1,547	2,829	29,989

Total

As of June 30	Service Retired Members	Contingent Annuitants	Disabled Annuitants	Total*
2017	$ 72,232	$ 5,040	$ 5,779	$ 83,051
2016	70,034	4,873	5,967	80,874
2015	67,994	4,822	5,736	78,552
2014	66,989	4,595	5,737	77,321
2013	63,634	4,548	5,816	73,998
2012	61,811	4,575	5,852	72,238
2011	55,896	3,867	5,583	65,346
2010	53,956	3,815	5,605	63,376

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

See accompanying independent auditors' report

Schedule of Retired Members by Type of Benefit as of June 30, 2017

General

Amount of Monthly Benefit	Number of Retirees	Type of Retirement: Service Retired Members	Type of Retirement: Contingent Annuitants	Type of Retirement: Disabled Annuitants	Option Selected*: 1	Option Selected*: 2
Deferred**	957					
$1-$300	285	223	57	5	106	122
$301-$600	499	351	106	42	151	242
$601-$900	316	216	67	33	88	161
$901-$1,200	274	192	50	32	97	127
$1,201-$1,500	268	220	21	27	94	153
$1,501-$1,800	200	174	7	19	92	101
$1,801-$2,100	208	192	2	14	77	129
$2,101-$2,400	150	137	8	5	68	74
$2,401-$2,700	137	132	2	3	59	76
$2,701-$3,000	105	101	0	4	42	63
Over $3,000	249	242	3	4	76	170
Totals	3,648	2,180	323	188	950	1,418

Firefighters and Police

Amount of Monthly Benefit	Number of Retirees	Type of Retirement: Service Retired Members	Type of Retirement: Contingent Annuitants	Type of Retirement: Disabled Annuitants	Option Selected*: 1	Option Selected*: 2
Deferred**	356					
$1-$300	23	12	9	2	6	8
$301-$600	92	41	44	7	16	32
$601-$900	73	28	34	11	8	31
$901-$1,200	62	21	30	11	11	21
$1,201-$1,500	68	26	27	15	10	31
$1,501-$1,800	53	25	17	11	8	28
$1,801-$2,100	74	49	9	16	23	42
$2,101-$2,400	81	57	5	19	22	54
$2,401-$2,700	103	87	2	14	33	68
$2,701-$3,000	103	91	1	11	37	65
Over $3,000	490	472	1	17	127	362
Totals	1,578	909	179	134	301	742

Total

Amount of Monthly Benefit	Number of Retirees	Type of Retirement: Service Retired Members	Type of Retirement: Contingent Annuitants	Type of Retirement: Disabled Annuitants	Option Selected*: 1	Option Selected*: 2
Deferred**	1,313					
$1-$300	308	235	66	7	112	130
$301-$600	591	392	150	49	167	274
$601-$900	389	244	101	44	96	192
$901-$1,200	336	213	80	43	108	148
$1,201-$1,500	336	246	48	42	104	184
$1,501-$1,800	253	199	24	30	100	129
$1,801-$2,100	282	241	11	30	100	171
$2,101-$2,400	231	194	13	24	90	128
$2,401-$2,700	240	219	4	17	92	144
$2,701-$3,000	208	192	1	15	79	128
Over $3,000	739	714	4	21	203	532
Totals	5,226	3,089	502	322	1,251	2,160

* Beneficiaries were excluded.

Assumed Option Selected (based on marital status in data provided):
1 = Straight Life Annuity
2 = Joint and 50% Survivor

** Deferred Future Benefits - Terminated employees entitled to benefits but not yet receiving them. Includes 70 participants currently in DROP and 23 participants on Leave of Absence that are vested.

See accompanying independent auditors' report

Schedule of Retired Members by Type of Benefit as of June 30, 2017

General

Amount of Monthly Benefit	Number of Retirees	Type of Retirement																Option Selected*	
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	1	2
Deferred**	957																		
$1-$300	285	54	3	0	16	1	97	41	0	41	0	0	0	26	5	1	0	106	122
$301-$600	499	97	5	0	63	6	148	76	0	70	0	0	0	22	12	0	0	151	242
$601-$900	316	48	3	0	39	7	120	58	0	29	0	0	0	2	10	0	0	88	161
$901-$1,200	274	27	2	0	26	7	133	67	0	10	0	0	0	1	1	0	0	97	127
$1,201-$1,500	268	19	3	0	12	18	138	66	0	7	0	0	0	1	3	0	1	94	153
$1,501-$1,800	200	5	1	1	11	8	99	74	0	1	0	0	0	0	0	0	0	92	101
$1,801-$2,100	208	5	0	0	7	7	145	43	0	0	0	0	0	0	1	0	0	77	129
$2,101-$2,400	150	2	1	0	2	3	107	33	0	2	0	0	0	0	0	0	0	68	74
$2,401-$2,700	137	1	0	0	4	0	113	19	0	0	0	0	0	0	0	0	0	59	76
$2,701-$3,000	105	1	0	0	3	1	93	7	0	0	0	0	0	0	0	0	0	42	63
Over $3,000	249	1	1	0	3	1	229	13	0	1	0	0	0	0	0	0	0	76	170
Totals	3,648	260	19	1	186	59	1,422	497	0	161	0	0	0	52	32	1	1	950	1,418

Firefighters and Police

Amount of Monthly Benefit	Number of Retirees	Type of Retirement																Option Selected*	
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	1	2
Deferred**	356																		
$1-$300	23	5	0	0	2	4	3	1	0	8	0	0	0	0	0	0	0	6	8
$301-$600	92	19	0	0	15	11	18	3	0	22	2	0	2	0	0	0	0	16	32
$601-$900	73	16	0	0	7	18	19	10	0	2	0	0	1	0	0	0	0	8	31
$901-$1,200	62	6	2	1	7	12	24	6	0	2	0	1	0	0	0	0	1	11	21
$1,201-$1,500	68	2	1	2	8	9	31	12	0	0	1	1	1	0	0	0	0	10	31
$1,501-$1,800	53	2	1	3	2	12	22	10	0	0	0	0	0	0	1	0	0	8	28
$1,801-$2,100	74	0	0	0	5	11	41	17	0	0	0	0	0	0	0	0	0	23	42
$2,101-$2,400	81	1	0	0	2	16	46	13	0	0	0	1	0	0	0	0	2	22	54
$2,401-$2,700	103	0	0	0	3	11	74	12	0	0	0	0	0	0	0	0	3	33	68
$2,701-$3,000	103	0	0	0	0	11	77	11	0	0	1	0	0	0	0	0	3	37	65
Over $3,000	490	1	0	0	2	12	459	11	0	0	2	2	1	0	0	0	0	127	362
Totals	1,578	52	4	6	53	127	814	106	0	34	6	5	5	0	1	0	9	301	742

Total

Amount of Monthly Benefit	Number of Retirees	Type of Retirement																Option Selected*	
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	1	2
Deferred**	1,313																		
$1-$300	308	59	3	0	18	5	100	42	0	49	0	0	0	26	5	1	0	112	130
$301-$600	591	116	5	0	78	17	166	79	0	92	2	0	2	22	12	0	0	167	274
$601-$900	389	64	3	0	46	25	139	68	0	31	0	0	1	2	10	0	0	96	192
$901-$1200	336	33	4	1	33	19	157	73	0	12	0	1	0	1	1	0	1	108	148
$1201-$1500	336	21	4	2	20	27	169	78	0	7	1	1	1	1	3	0	1	104	184
$1501-$1800	253	7	2	4	13	20	121	84	0	1	0	0	0	0	1	0	0	100	129
$1801-$2100	282	5	0	0	12	18	186	60	0	0	0	0	0	0	1	0	0	100	171
$2101-$2400	231	3	1	0	4	19	153	46	0	2	0	1	0	0	0	0	2	90	128
$2401-$2700	240	1	0	0	7	11	187	31	0	0	0	0	0	0	0	0	3	92	144
$2701-$3000	208	1	0	0	3	12	170	18	0	0	1	0	0	0	0	0	3	79	128
Over $3000	739	2	1	0	5	13	688	24	0	1	2	2	1	0	0	0	0	203	532
Totals	5,226	312	23	7	239	186	2,236	603	0	195	6	5	5	52	33	1	10	1,251	2,160

* Beneficiaries were excluded.

Type of Retirement:

1 = Resigned
2 = Ordinary Death
3 = Accidental Death
4 = Ordinary Disability
5 = Accidental Disability
6 = Normal Retirement
7 = Early Retirement
8 = Inactive Vested
9 = Vested Interest Service
10 = Compulsory Service
11 = Accidental Disability (Heart)
12 = Accidental Disability (Lung)
13 = Terminated
14 = Dismissed
15 = From Perm to Ineligible
16 = Early Retirement (Deferred)

Assumed Option Selected (based on marital status in data provided):

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

** Deferred Future Benefits - Terminated employees entitled to benefits but not yet receiving them. Includes 70 participants currently in DROP and 23 participants on Leave of Absence who are vested.

See accompanying independent auditors' report

Schedule of Average Benefit Payments
(Excludes Beneficiaries)

General

Retirement Effective Dates	Years of Credited Service 0-5	5-10	10-15	15-20	20-25	25-30	30+
July 1, 2010 to June 30, 2011							
Average Monthly Benefit	$292	$483	$719	$796	$1,993	$2,024	$2,608
Average - Average Final Compensation	$67,794	$37,910	$37,985	$29,340	$59,928	$50,097	$47,875
Number of Active Retirees	3	11	24	13	9	19	23
July 1, 2011 to June 30, 2012							
Average Monthly Benefit	$171	$493	$745	$1,421	$1,492	$1,871	$2,955
Average - Average Final Compensation	$36,365	$40,909	$36,491	$57,997	$45,207	$46,234	$52,682
Number of Active Retirees	9	22	34	15	27	27	80
July 1, 2012 to June 30, 2013							
Average Monthly Benefit	$59	$555	$716	$1,091	$1,491	$1,891	$3,058
Average - Average Final Compensation	$45,074	$37,375	$35,281	$42,448	$45,137	$54,238	$58,281
Number of Active Retirees	6	15	32	19	6	11	15
July 1, 2013 to June 30, 2014							
Average Monthly Benefit	$112	$395	$787	$1,163	$1,616	$1,851	$2,922
Average - Average Final Compensation	$39,457	$33,778	$39,215	$46,221	$49,961	$45,742	$54,914
Number of Active Retirees	7	25	26	16	8	23	47
July 1, 2014 to June 30, 2015							
Average Monthly Benefit	$139	$443	$579	$1,167	$1,948	$1,962	$2,879
Average - Average Final Compensation	$61,708	$33,859	$29,457	$44,222	$58,217	$49,137	$53,714
Number of Active Retirees	5	18	24	19	9	11	15
July 1, 2015 to June 30, 2016							
Average Monthly Benefit	$935	$454	$694	$1,053	$2,116	$2,281	$2,876
Average - Average Final Compensation	$38,208	$32,045	$34,247	$37,641	$62,150	$59,285	$54,025
Number of Active Retirees	5	18	21	21	14	10	26
July 1, 2016 to June 30, 2017							
Average Monthly Benefit	$270	$560	$563	$979	$1,493	$2,007	$3,013
Average - Average Final Compensation	$43,399	$47,161	$33,041	$40,664	$47,132	$52,358	$57,412
Number of Active Retirees	3	10	18	16	7	10	23

See accompanying independent auditors' report

Schedule of Average Benefit Payments
(Excludes Beneficiaries)

Firefighters and Police

Retirement Effective Dates	Years of Credited Service						
	0-5	5-10	10-15	15-20	20-25	25-30	30+
July 1, 2010 to June 30, 2011							
Average Monthly Benefit	$0	$1,452	$469	$1,293	$2,635	$3,544	$3,884
Average - Average Final Compensation	$0	$90,137	$30,385	$36,401	$56,032	$64,253	$69,916
Number of Active Retirees	0	2	4	2	4	18	8
July 1, 2011 to June 30, 2012							
Average Monthly Benefit	$0	$0	$1,270	$2,125	$2,898	$3,451	$3,723
Average - Average Final Compensation	$0	$0	$37,819	$46,354	$64,158	$63,920	$68,485
Number of Active Retirees	0	0	5	3	5	24	4
July 1, 2012 to June 30, 2013							
Average Monthly Benefit	$0	$0	$1,098	$1,299	$2,516	$3,176	$4,308
Average - Average Final Compensation	$0	$0	$34,508	$50,676	$56,521	$59,336	$77,530
Number of Active Retirees	0	0	4	2	6	24	8
July 1, 2013 to June 30, 2014							
Average Monthly Benefit	$0	$451	$650	$1,651	$2,706	$3,432	$4,410
Average - Average Final Compensation	$0	$33,116	$34,047	$43,775	$55,911	$63,219	$79,759
Number of Active Retirees	0	1	5	2	5	21	10
July 1, 2014 to June 30, 2015							
Average Monthly Benefit	$0	$388	$776	$2,237	$2,352	$3,463	$4,057
Average - Average Final Compensation	$0	$33,444	$40,545	$52,631	$55,798	$63,646	$73,848
Number of Active Retirees	0	1	6	1	7	18	16
July 1, 2015 to June 30, 2016							
Average Monthly Benefit	$0	$1,638	$1,288	$1,458	$2,553	$3,615	$0
Average - Average Final Compensation	$0	$24,525	$42,561	$50,291	$61,682	$61,343	$0
Number of Active Retirees	0	5	5	4	9	13	0
July 1, 2016 to June 30, 2017							
Average Monthly Benefit	$0	$449	$838	$833	$2,174	$4,490	$3,029
Average - Average Final Compensation	$0	$34,298	$36,510	$25,000	$58,733	$80,990	$55,086
Number of Active Retirees	0	2	3	1	5	2	3

See accompanying independent auditors' report

Schedule of Average Benefit Payments
(Excludes Beneficiaries)

Total

Retirement Effective Dates	Years of Credited Service						
	0-5	5-10	10-15	15-20	20-25	25-30	30+
July 1, 2010 to June 30, 2011							
Average Monthly Benefit	$292	$632	$684	$862	$2,190	$2,763	$2,937
Average - Average Final Compensation	$67,794	$45,945	$36,899	$30,282	$58,729	$56,984	$53,563
Number of Active Retirees	3	13	28	15	13	37	31
July 1, 2011 to June 30, 2012							
Average Monthly Benefit	$171	$493	$813	$1,538	$1,712	$2,614	$2,992
Average - Average Final Compensation	$36,365	$40,909	$36,661	$56,057	$48,168	$54,557	$53,435
Number of Active Retirees	9	22	39	18	32	51	84
July 1, 2012 to June 30, 2013							
Average Monthly Benefit	$59	$555	$759	$1,111	$2,004	$2,772	$3,493
Average - Average Final Compensation	$45,074	$37,375	$35,195	$43,232	$50,829	$57,734	$64,976
Number of Active Retirees	6	15	36	21	12	35	23
July 1, 2013 to June 30, 2014							
Average Monthly Benefit	$112	$397	$765	$1,218	$2,035	$2,606	$3,183
Average - Average Final Compensation	$39,457	$33,753	$38,381	$45,949	$52,249	$54,083	$59,273
Number of Active Retirees	7	26	31	18	13	44	57
July 1, 2014 to June 30, 2015							
Average Monthly Benefit	$139	$440	$619	$1,220	$2,125	$2,894	$3,487
Average - Average Final Compensation	$61,708	$33,837	$31,675	$44,642	$57,158	$58,142	$64,106
Number of Active Retirees	5	19	30	20	16	29	31
July 1, 2015 to June 30, 2016							
Average Monthly Benefit	$935	$711	$808	$1,118	$2,287	$3,035	$2,876
Average - Average Final Compensation	$38,208	$30,410	$35,845	$39,665	$61,967	$60,448	$54,025
Number of Active Retirees	5	23	26	25	23	23	26
July 1, 2016 to June 30, 2017							
Average Monthly Benefit	$270	$542	$603	$971	$1,777	$2,421	$3,015
Average - Average Final Compensation	$43,399	$45,017	$33,536	$39,742	$51,966	$57,130	$57,143
Number of Active Retirees	3	12	21	17	12	12	26

See accompanying independent auditors' report

Compliance Section

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KPMG LLP
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440 Monticello Avenue
Norfolk, VA 23510

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

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

We have audited, in accordance with the 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, the financial statements of the Employees' Retirement System of the City of Norfolk (the System), a fiduciary fund of the City of Norfolk, which comprise the statement of fiduciary net position as of June 30, 2017, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 18, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the System's financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from 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*.

KPMG

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Norfolk, Virginia
December 18, 2017