

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, 2011

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A Pension Trust Fund of the City of Norfolk, Virginia

For the Fiscal Year Ended June 30, 2011

Prepared by the Employees' Retirement System Staff
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INTRODUCTORY SECTION
(Unaudited)

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Employees' Retirement System
of the City of Norfolk, Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

INTRODUCTORY SECTION



December 14, 2011

Letter of Transmittal

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

The Comprehensive Annual Financial Report (CAFR) for the Employees' Retirement System (System) of the City of Norfolk for fiscal year ended June 30, 2011 is submitted herewith. The System is a Pension Trust Fund included in the financial statements of the City of Norfolk, Virginia. The System administration is responsible for the accuracy and fairness of information contained in this report. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the plan net assets and changes in plan net assets of the System in accordance with accounting principles generally accepted in the United States of America (GAAP).

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

Management's Discussion and Analysis (MD&A) as required by GAAP is included in the financial section of this report. The MD&A provides a narrative overview and analysis of the financial status of the System for the year ended June 30, 2011 (for more information, see pages 12 through 15).

System History

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

INTRODUCTORY SECTION

Letter of Transmittal (continued)

Benefit Provisions

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

On October 5, 2010, the City Council of the City of Norfolk approved Ordinance Number 44,001 that required persons who became members of the Employees' Retirement System on or after October 5, 2010, to pay member contributions on a salary reduction basis in the amount of 5% of earnable compensation. 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 accruing interest at a rate of four percent (4%) annually beginning at the end of the fiscal year in which the contribution was made, shall be refunded. The impact from these changes is reflected in the financial section of this report.

On March 29, 2011, the City Council also approved Ordinance Number 44,192 that provided a limited period for members in service on March 31, 2011 and who were eligible for normal service retirement, to elect to participate in a Voluntary Retirement Incentive Program (VRIP). One hundred forty-nine (149) employees electing to participate in the program were required to retire on July 1, 2011.

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

Accounting System and Internal Control

Financial statements included in this report are the responsibility of the System's management and have been prepared in accordance with the principles of governmental accounting and reporting promulgated by the Governmental Accountant Standards Board (GASB). The financial report has been prepared in accordance with GASB Statement No. 25, *Financial Reporting for Defined Benefit Plans*. The 2011 statements have been audited by KPMG LLP in conjunction with the City of Norfolk's annual audit.

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

INTRODUCTORY SECTION

Letter of Transmittal (continued)

Funded Status

A pension plan is considered adequately funded when reserves are available to meet all expected future obligations to participants. The System's funding objective is to meet long-term benefit payments through investment returns on trust fund assets and annual employer 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 actuarial valuation of the System to determine funding requirements is performed annually. The actuarial valuation used for this report period was completed with payroll data as of June 30, 2011. Information from this report is included in the Actuarial Section.

The City of Norfolk's commitment to provide a financially sound retirement plan for its members is illustrated in two schedules contained in this report. "The Schedule of Funding Progress" found in the Required Supplementary Information of the Financial Section, expresses plan net assets as a percentage of the actuarial accrued liability, providing one indication of the System's funding status. The "Schedule of Employer Contributions" includes historical trend information about the annual required contributions (ARC) of the employer and the contributions made by the employer in relation to the ARC. As of June 30, 2011, the System's funded ratio is 78.2%, and is an increase of 0.1% from 78.1% from the previous fiscal year ended June 30, 2010. This funded ratio does not include any market movements since June 30, 2011. The next valuation will reflect market conditions through June 30, 2012.

Investments

The Board of Trustees (Trustees) for the Employees' Retirement System formally amended and adopted a written Statement of Investment Policy on September 8, 2010 that includes the guidelines and objectives for the investment of the System. The policy is reviewed annually and changes are made as warranted. During the fiscal year, the System adopted an asset allocation of 36% Domestic Equities; 24% International Equities; 35% Fixed Income; and 5% Real Estate.

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

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

INTRODUCTORY SECTION

Letter of Transmittal (continued)

The System has converted the majority of its portfolio to a passive investment structure. With the exception of the PIMCO Fixed Income and JP Morgan Real Estate assets, all of the System's investments were consolidated into a passive approach with State Street Global Advisors (SSgA) 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 results for the total fund are monitored by an independent pension investment consultant 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.

The net assets of the System as of June 30, 2011 were \$911.8 million, an increase of \$132.4 million from the prior year balance of \$779.4 million. Investment return for the year was 21.3%. The System is financially and actuarially sound. The Retirement Fund is sound and well positioned to pay retirement benefits as they are due. A summary of the Fund's asset allocation and historic returns can be found in the Investment Section of this report.

Current Economic Condition

World financial markets have deteriorated since June 30, 2011 as a result of the European debt crisis, the US Treasury debt being downgraded, and the outlook for slower global growth in the coming years. The fair market value of the System's investment portfolio has fallen approximately 9.7% from June 30, 2011 through September 30, 2011. As a result, the market value of the portfolio has fallen to \$780.7 million as compared to \$864.4 million at June 30, 2011.

Year-to-date through September 30, 2011, the US equity market (Russell 3000 Index) is down 9.9%, and international markets (MSCI ACWI ex US Index) are down 16.8%. The fixed income market has generated a positive return of 6.7% in the first nine months of the calendar year.

For the first quarter of the 2012 fiscal year, the US equity markets have returned -15.3%, international markets have fallen 19.9%, and fixed income has increased by 3.8%. These first three months of the fiscal year have been extremely volatile. As a result, the Investment Management Committee continues to meet regularly to monitor the investment results and portfolio structure of the System and to assess whether any actions need to be taken to minimize losses.

Professional Services

The professional consultants who are contracted by the Board of Trustees to perform services that are essential to the effective and efficient operation of the System are listed on page 8. An independent audit was conducted by KPMG LLP and a copy of that opinion is found on pages 10 and 11. A certification letter from the actuary, Cheiron, is also included as part of this report on pages 36 and 37. State Street Bank and Trust is the System's custodian.

INTRODUCTORY SECTION

Letter of Transmittal (concluded)

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, 2010. This was the sixth year that the System has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report satisfies both accounting principles generally accepted in the United States of America and applicable legal requirements.

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

Acknowledgements

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

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

Respectfully submitted,



Theodore O. Wilder, Jr.
Executive Director

INTRODUCTORY SECTION

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 - Executive Norfolk Southern Corporation	Member	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 Lieutenant/Paramedic	Member	Appointed August 28, 2007
Eric G. Tucker (general employee) Assistant Director of Utilities	Member	Appointed August 28, 2007
Marcus D. Jones City Manager	Ex-officio Trustee	
Shenette Felton Acting Director of Finance	Ex-officio Trustee	

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

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

INTRODUCTORY SECTION

Consultants and Professional Services

Legal Advisor
Mary L. G. Nexsen
Deputy City Attorney

Medical Examiner
Dr. Chantal Brooks
Medical Consultants of Virginia

Actuary
CHEIRON

Dr. David Sack and Dr. Anthony C. Cetrone
NowCare

Custodian
State Street Bank

Consultants
Summit Strategies Group,
Jessica N. Portis, Senior Consultant

Investment Officer
Vacant Position

Investment Managers

Domestic Equity

State Street Global Advisors
Boston, Massachusetts

International

State Street Global Advisors
Boston, Massachusetts

Fixed Income

State Street Global Advisors
Boston, Massachusetts

Pacific Investment Management Company
Newport Beach, California

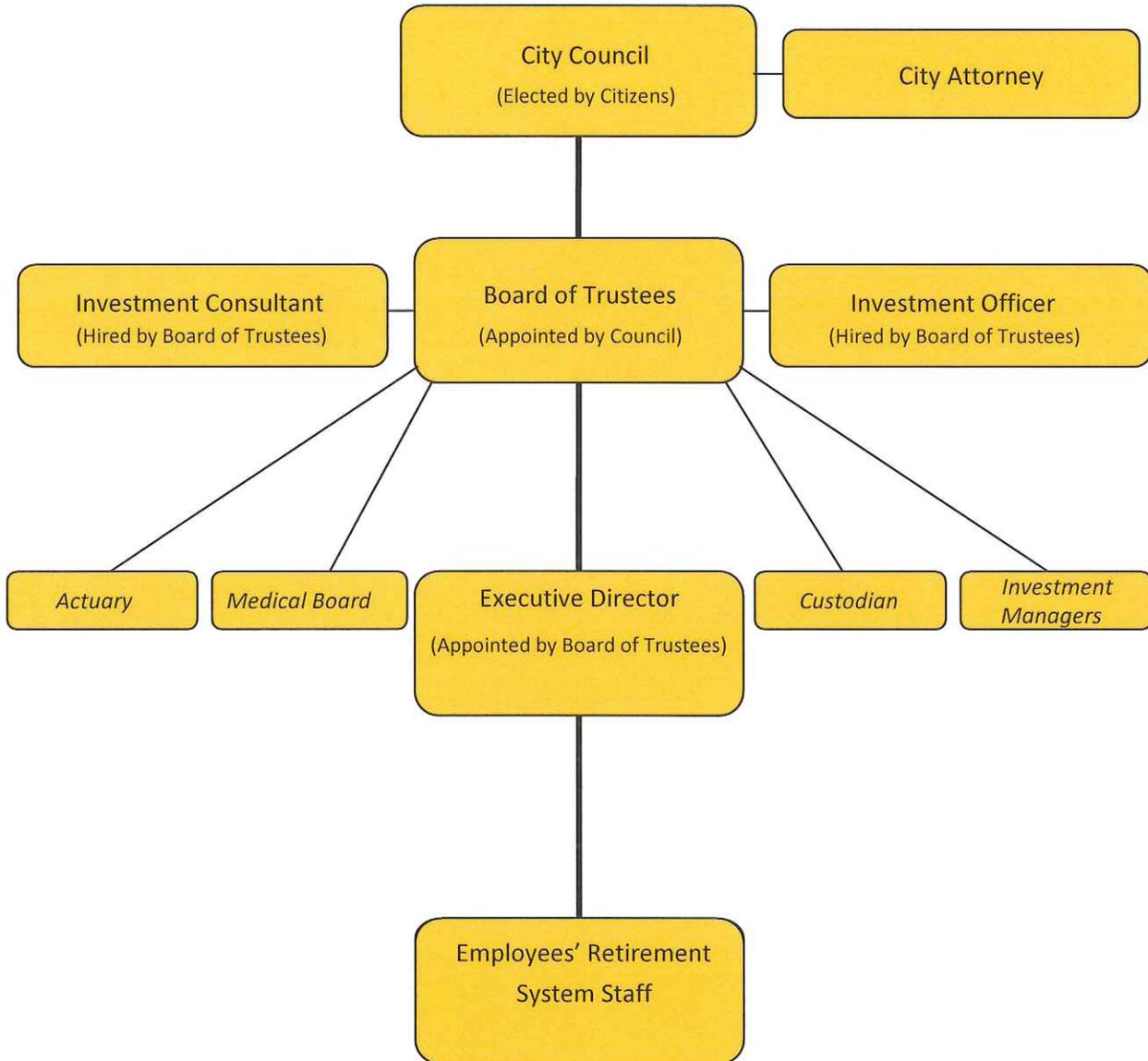
Real Estate

J.P. Morgan Chase Bank
New York, NY
(Funded on March 2, 2011)

UBS Trumbull
Hartford, CT
(Queue call anticipated January 2012)

Investment Manager and Investment Assignments can be found on page 32.

ORGANIZATIONAL CHART



FINANCIAL SECTION

FINANCIAL SECTION



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
Norfolk, Virginia:

We have audited the accompanying statement of plan net assets of the Employees' Retirement System of the City of Norfolk (the System), a component unit of the City of Norfolk, Virginia, as of June 30, 2011, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the System as of June 30, 2011, and the changes in its plan net assets for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2011 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* and should be considered in assessing the results of our audit.

Management's discussion and analysis and the required supplementary actuarial information on pages 12 through 15 and pages 25 through 27, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental

KPMG LLP is a Delaware limited liability partnership,
the U.S. member firm of KPMG International Cooperative
("KPMG International"), a Swiss entity.

FINANCIAL SECTION



Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The schedules listed in the table of contents on pages 28 and 29 and the introductory section, investment section, actuarial section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules on pages 28 and 29 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, investment section, actuarial section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

December 14, 2011

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the financial performance of the Employees' Retirement System of the City of Norfolk (the System) provides an overview of financial activities for the fiscal years ended June 30, 2011 and 2010. Please read Management's Discussion and Analysis in conjunction with the basic financial statements, which follow this discussion.

FINANCIAL HIGHLIGHTS

- System assets exceeded liabilities at the close of fiscal years 2011 and 2010 by \$911.8 million and \$779.4 million, respectively (reported as total net assets). Total net assets are held in trust to meet future benefit payments.
- The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2011 and 2010, the funded ratio was 78.2% and 78.1%, respectively.
- Total additions increased over the prior year \$71.0 million or about 55.6%. This increase was mainly due to an increase in net appreciation in fair value of the System's investments in the most recent period versus the prior period.
- Total deductions increased over the prior year from \$63.9 million to \$66.4 million or 4.0%. Most of this increase represented increased retirement benefits paid.

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

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

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

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

FINANCIAL ANALYSIS

**Employees' Retirement System of the City of Norfolk
Net Assets
As of June 30, 2011 and 2010**

	FY 2011	FY 2010	2011-2010 Total % Change
ASSETS			
Cash and Cash Equivalents	\$ 7,222,094	\$ 5,181,457	39.4%
Receivables	45,676,229	42,021,772	8.7%
Investments	<u>864,382,867</u>	<u>758,318,402</u>	14.0%
Total Assets	<u>917,281,190</u>	<u>805,521,631</u>	13.9%
LIABILITIES			
Accounts Payable and Accrued Expenses	369,131	358,349	3.0%
Due to Brokers for Securities Purchased	<u>5,143,544</u>	<u>25,759,631</u>	(80.0)%
Total Liabilities	<u>5,512,675</u>	<u>26,117,980</u>	(78.9)%
TOTAL NET ASSETS	<u>\$911,768,515</u>	<u>\$779,403,651</u>	17.0%

Total assets as of June 30, 2011 and 2010 were \$917,281,190 and \$805,521,631, respectively, and were comprised of cash and cash equivalents, receivables, and investments. Total assets increased \$111,759,559 or 13.9% for Fiscal Year 2011, primarily due to appreciation in fair value of investments.

Total liabilities that are due and payable as of June 30, 2011 and 2010 were \$5,512,675 and \$26,117,980, respectively, and were comprised of payables to brokers for investment purchases and administrative costs. For FY 2011, total liabilities decreased \$(20,605,305) or 78.89% from the prior year primarily due to the timing of investment purchases.

System net assets exceeded its due and payable liabilities at the close of fiscal year 2011 and 2010 by \$911,768,515 and \$779,403,651, respectively. In fiscal year 2011, total net assets available for pension benefits increased \$132,364,864 or 17.0% from the previous year primarily due to favorable market conditions.

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

**Employees' Retirement System of the City of Norfolk
Changes in Plan Assets
For the Fiscal Years Ended June 30, 2011 and 2010**

	FY 2011	FY 2010	2011-2010 Total % Change
ADDITIONS			
Investment income, net	\$155,818,865	\$ 92,247,887	68.9 %
Employer contributions	42,828,229	35,515,472	20.6 %
Employee contributions	<u>140,524</u>	<u>-</u>	100.0 %
Total Additions	<u>198,787,618</u>	<u>127,763,359</u>	55.6 %
DEDUCTIONS			
Benefit payments	65,839,610	63,280,585	4.0 %
Refund of contributions	16,685	26,271	(36.4)%
Administrative expenses	<u>566,459</u>	<u>589,223</u>	(3.9)%
Total Deductions	<u>66,422,754</u>	<u>63,896,079</u>	4.0 %
Net Increase	<u>132,364,864</u>	<u>63,867,280</u>	107.2%
Net Assets Held in Trust for Pension Benefits			
Beginning of Year	<u>779,403,651</u>	<u>715,536,371</u>	8.9%
End of Year	<u>\$911,768,515</u>	<u>\$779,403,651</u>	17.0%

ADDITIONS TO PLAN ASSETS

The reserves 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 2011 and 2010 totaled \$198,787,618 and \$127,763,359, respectively.

Net investment income and contributions increased for FY 2011 by \$71,024,259 from that of the prior year, due primarily to higher net appreciation in fair value of System's investments. The total portfolio returned 21.3% for fiscal year ended June 30, 2011 versus 13.7% for the prior fiscal year. Our target return is 7.5%.

DEDUCTIONS FROM PLAN NET ASSETS

The deductions of the System include pension payments to members and beneficiaries, refunds of contributions to former members, and the cost of administering the System. Total deductions for FY 2011 were \$66,422,754, an increase of 4.0% over FY 2010 deductions.

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS (concluded)

The pension benefits payments increased by \$2,559,025 in FY 2011 or 4.0% from the previous year. The increase in pension benefit payments is a result of turnover in the retirement population, and new retirees with higher benefits replacing older retirees. The total number of retirees added in fiscal year 2011 was 168 as compared to 152 for fiscal year 2010. Administrative expenses as of June 30, 2011 and 2010 were \$566,459 and \$589,223, respectively. This was a decrease of \$22,764 or 3.9% from the previous year due largely to a reduction in transferring accrued benefits to the Virginia Retirement System.

RETIREMENT SYSTEM AS A WHOLE

As a result of an increase in the equity markets, combined net assets increased in Fiscal Year 2011 over Fiscal Year 2010. The System's funding ratio as determined by the System's actuary was 78.2% at June 30, 2011 and 78.1% at June 30, 2010.

The City's contributions are expected to significantly increase over the next several years based on the actuarial valuation report. The Board, with the assistance of its pension consultant and actuary, continues to utilize the concepts of prudent investment management, cost controls, and strategic planning.

CONTACTING SYSTEM FINANCIAL MANAGEMENT

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

FINANCIAL SECTION

Employees' Retirement System of the City of Norfolk

(A Pension Trust Fund of Norfolk, Virginia)

Statement of Plan Net Assets

June 30, 2011

Assets:	
Cash and cash equivalents	<u>\$ 7,222,094</u>
Receivables:	
Employer contribution	42,828,229
Accrued investment income	1,313,684
Accounts receivable	4,378
Due from broker for securities sold	<u>1,529,938</u>
Total receivables	<u>45,676,229</u>
Investments:	
United States Treasury securities	4,794,384
Fixed income securities	103,412,599
Equity securities	2,866,084
Other	630,665
Balanced commingled funds:	
Equity	545,470,374
Fixed income	186,962,641
Real estate	<u>20,246,120</u>
Total balanced commingled funds	<u>752,679,135</u>
Total investments	<u>864,382,867</u>
Total assets	<u>917,281,190</u>
Liabilities:	
Accounts payable and accrued expenses	369,131
Due to broker for securities purchased	<u>5,143,544</u>
Total liabilities	<u>5,512,675</u>
Net assets held in trust for pension benefits	<u>\$ 911,768,515</u>

See Accompanying Notes to Financial Statements.

FINANCIAL SECTION

Employees' Retirement System of the City of Norfolk

(A Pension Trust Fund of Norfolk, Virginia)

Statement of Changes in Plan Net Assets

Year Ended June 30, 2011

Changes to net assets attributed to:

Investment income:

Net appreciation in fair value of investments	\$ 145,750,412
Interest	6,614,337
Dividends	4,568,353
Other	<u>247,216</u>
	157,180,318

Less investment expenses (1,361,453)

Net investment income 155,818,865

Employer contributions 42,828,229

Employee contributions 140,524

Total 198,787,618

Benefit payments and expenses:

Benefits paid directly to participants	62,207,210
Beneficiary payments	3,632,400
Refunds of contributions	16,685
Administrative costs	<u>566,459</u>
Total	<u>66,422,754</u>

Net increase 132,364,864

Net assets held in trust for pension benefits:

Beginning of year 779,403,651

End of year \$ 911,768,515

See Notes to Financial Statements.

FINANCIAL SECTION

Employees' Retirement System of the City of Norfolk (A Pension Trust Fund of Norfolk, Virginia) Notes to Financial Statements For the Year Ended June 30, 2011

Note 1. Significant Accounting Policies

Reporting entity: The Employees' Retirement System (System) of the City of Norfolk is the administrator of a single-employer noncontributory defined benefit plan that covers substantially all employees of the City of Norfolk, excluding School Board and Constitutional Officers employees covered by the Virginia Retirement System, as authorized by Section 143(a) of the City Charter and was established and placed under the management of the Board of Trustees for the Employees' Retirement System for the purpose of providing retirement allowances and death benefits as authorized by the provisions of Chapter 37 of the Norfolk City Code. Effective October 5, 2010, all employees hired on or after October 5, 2010 will contribute 5% of compensation to the benefit plan. The System has a nine-member Board of Trustees appointed by the City Council of the City of Norfolk, including the City Manager and Director of Finance as ex-officio members. The System falls within the definition of a "Blended Component Unit" provided in applicable accounting standards for the City of Norfolk and as a result, the System's financial data are incorporated into the Comprehensive Annual Financial Report of the City of Norfolk. These financial statements are those of the System and not of the City of Norfolk, Virginia as a whole. The City of Norfolk allocates contributions, which are combined with investment earnings of the System, to provide funding for pension benefits and administrative costs.

Basis of accounting: The financial statements of the System are prepared using the accrual basis of accounting. Employer contributions are recognized when earned. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

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

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

Cash and cash equivalents: Cash equivalents consist of repurchase agreements and short-term investments. Short-term investments are recorded at cost which approximates fair value.

Investment valuation method: Investments are reported at fair value. The United States Treasury securities and fixed income securities traded on a national or international exchange are valued at the last reported sales price. Such securities not traded on a national or international exchange are valued based on equivalent values of comparable securities with similar yield and risk. Derivatives are valued by an external pricing source when available. In the absence of an external pricing source, fair value is determined using a proprietary analytics model. Equity securities are valued based upon quotations from national security exchanges. The balanced commingled funds are reported as estimated fair value, primarily net asset value (NAV) determined based on the fair value of the underlying securities.

FINANCIAL SECTION

Notes to Financial Statements

Note 1. Significant Accounting Policies, concluded:

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

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

Note 2. Description of the Plan

The System is the administrator of a single-employer, noncontributory, defined benefit plan that covers substantially all employees of the City of Norfolk, Virginia, excluding School Board and Constitutional Officers employees who are covered by the Virginia Retirement System. Although the System presents separate financial statements, it is also included as a component unit in the City of Norfolk's Comprehensive Annual Financial Report as a pension trust fund. The types of employees covered and current membership as of June 30, 2011 consists of the following:

Retirees and beneficiaries receiving benefits:

General	2,228
Public safety	1,097

Terminated plan members entitled to but not yet receiving benefits:

General	750
Public safety	182

Active plan members:

Fully vested:	
General	1,822
Public safety	883
Nonvested:	
General	805
Public safety	<u>357</u>
Total	<u>8,124</u>

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

Retirement (for employees who became members prior to July 1, 1980): Normal retirement is the earlier of age 60 or after completion of 30 years of credited service for general employees, and the earlier of age 55 or after the completion of 25 years of credited service for public safety employees. The normal service retirement benefit per annum is equal to 2.0% of average final compensation (average of the three highest years of compensation) times years of creditable service, with service limited to 35 years. Public safety employees accrue benefits at 2.5% of average final compensation times years of creditable service, not to exceed 65% of average final compensation. Mandatory retirement is age 62 for public safety employees. On October 5, 2010, the City Council changed the mandatory retirement age to 65 for public safety employees.

FINANCIAL SECTION

Notes to Financial Statements

Note 2. Description of Plan, concluded:

Retirement (for employees who became members on or after July 1, 1980): Normal retirement is the earlier of age 60 or after completion of 30 years of credited service for general employees, and age 55 or after the completion of 25 years of credited service for public safety employees. The normal service retirement benefit per annum for general employees is equal to 1.75% of average final compensation times years of creditable service, with service limited to 35 years. Public safety employees accrue benefits at 2.5% of average final compensation times years of creditable service, not to exceed 65% of average final compensation. Mandatory retirement is age 62 for public safety employees. On October 5, 2010, the City Council changed the mandatory retirement age to 65 for public safety employees.

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

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

Note 3. Actuarial Contributions Required and Contributions Made

Significant assumptions used to calculate contribution requirements are the same as those used to calculate the actuarial accrued liability. Normal cost is funded on a current basis. Periodic contributions for normal cost are based on the level percentage-of-payroll method. The funding strategy for normal cost should provide sufficient resources to pay employee pension benefits on a timely basis.

Section 37 of the Code of the City of Norfolk, Virginia 1979, as amended 1997 establishes the authority under which the employer's obligation to contribute to the plan is established or may be amended. Contribution requirements are actuarially determined at the end of each fiscal year and paid by the City of Norfolk in the ensuing year. The contribution requirement of \$42,828,229 for the year ended June 30, 2011 was based on 24.8% of covered payroll for general employees and for public safety employees.

Voluntary contributions were discontinued in 1979 and have been accumulated thereafter with interest at a rate of 7%. Such contributions are refundable to members who terminate before becoming eligible for retirement benefits. At retirement, members' contributions plus accumulated interest are refunded. Such amounts totaled \$86,281 at June 30, 2011.

Mandatory contributions are collected from employees hired on or after October 5, 2010 on a salary reduction basis in the amount of 5% of earnable compensation and accumulate thereafter with interest at a rate of 4%. Members who vest are not eligible to receive any refund of the mandatory member contribution. Upon vesting, the contribution becomes an asset of the System to be used to pay benefits under the System. Such contributions are refundable to members who terminate before becoming eligible for retirement benefits. Such amounts totaled \$140,524 at June 30, 2011.

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

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

As of June 30, 2011, the actuarial value of assets was \$831,975,004. The actuarial accrued liability was \$1,063,973,994. The funding shortage of \$231,998,990 represents 135.7% of the covered payroll of \$170,921,920. The System's funded ratio is 78.2%.

FINANCIAL SECTION

Notes to Financial Statements

Note 3. Actuarial Contributions Required and Contributions Made, concluded:

For the June 30, 2011 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included the following:

- a) 7.5% rate of return on investments,
- b) projected salary increases of 5.24% for general employees and 5.67% for public safety employees, and
- c) an inflation component of 3.5%.

The actuarial value of assets was determined using a level dollar open amortization method, except for the Public Safety Retirement Enhancement Program, which is amortized over a closed 20-year period commencing July 1, 2005. The remaining amortization period at June 30, 2011 was 14 years.

Note 4. Investments and Deposits

Deposits: The System's entire bank balance was covered by federal depository insurance or commercial insurance or collateralized in accordance with the Virginia Security for Public Deposits Act. Under the Virginia Security for Public Deposits Act, 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. The System's policy is to maintain all accounts collateralized in accordance with the Virginia Security for Public Disclosures Act, Sec 2.2-4400 et. seq. of the Code of Virginia. Cash equivalents amounting to \$6,959,448 consisted of \$973,123 invested in State Street Short-Term Investment Fund and \$4,851,880 in Merrill Lynch and Barclay Capital repurchase agreement.

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

Securities Lending Program: As of August 2010, the System is no longer a participant in the securities lending program offered by State Street Global Advisors (SSgA). On August 18, 2010, the System transferred the balance of assets in the SSgA Russell 3000 lending fund to the SSgA Russell 3000 non-lending fund. As a result of support provided by SSgA in the form of a contribution, coupled with SSgA's disposition of longer dated securities trading below par, the System was able to exit the collateral pool at a net asset value of \$1.00. No realized losses were incurred by the System when transferring the assets from lending to non-lending.

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.

FINANCIAL SECTION

Notes to Financial Statements

Note 4. Investments and Deposits, 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. The System does not have a policy regarding interest rate risk.

Segmented Time Distribution:

June 30, 2011 Investment Type	Fair Value	Investment Maturity				
		Less 1 yr	1-3 yrs	3-6 yrs	6-10 yrs	10 yrs +
Corporate Debt	\$ 53,179,999	\$8,670,238	\$19,989,203	\$10,867,359	\$ 5,404,812	\$8,248,387
Futures/Options/Swaps	655,613	414,248	43,306	(17,962)	(56,740)	272,761
Government	20,852,486	650,068	8,299,119	443,388	4,010,448	7,449,463
Municipals	8,175,074	N/A	206,696	N/A	N/A	7,968,378
ABS	8,476,767	N/A	N/A	N/A	N/A	8,476,767
Mortgages	17,497,709	N/A	362,105	100,529	985,259	16,049,816
Common Stock	4,084	N/A	N/A	N/A	N/A	4,084
Preferred Stock	2,862,000	N/A	N/A	N/A	N/A	2,862,000
Fixed Income Funds	186,962,641	N/A	N/A	N/A	N/A	N/A
Domestic Equity Fund	327,117,125	N/A	N/A	N/A	N/A	N/A
International Equity Fund	218,353,249	N/A	N/A	N/A	N/A	N/A
Real Estate Fund	20,246,120	N/A	N/A	N/A	N/A	N/A
Totals	\$864,382,867	\$9,734,554	\$28,900,430	\$11,393,314	\$10,343,778	\$51,331,656

Notes: Corporate debt includes all Corporate Floating Rate Notes; Floating Rate Mortgages are included in the Non-Agency Mortgage Section. Fixed Income Funds include PIMCO sector funds, and SSGA fixed income funds.

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, 2011

Currency	Fixed Income
Brazilian Real	\$ 1,419,599.29
Canadian Dollar	1,087,744.91
China Yuan Renminbi	774,326.88
Euro	(2,046,435.34)
Indonesian Rupiah	516,217.92
Korean Won	626,836.05
Malaysian Ringgit	368,727.09
Mexican Peso	645,272.40
Singapore Dollar	35,029.07
South African Rand	294,981.67
Great Britain Pound	(202,799.90)
Totals	\$3,519,500.05

FINANCIAL SECTION

Notes to Financial Statements

Note 4. Investments and Deposits, continued:

Credit risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The System's formal policy governing credit risk is that securities rated below investment grade by two of the three primary rating agencies, Moody's, Fitch Ratings, and Standard and Poor's (S&P's) are not permitted without the written permission of the Board. PIMCO has been given the authority by the Board to invest 20% of their portfolio in below investment grade securities.

The System invests in certain derivatives including futures, swaps and options. Derivatives with a fair value of \$653,013 were held at June 30, 2011 and are included in reported investments. For accounting purposes, all derivative instruments are considered to be investments and not hedges. The System primarily enters into derivative transactions in order to manage risks from exposure to foreign currency rate fluctuation and to shorten the duration of the fixed income investment portfolio.

The System's rated debt investments as of June 30, 2011 were rated by S&P's and/or an equivalent national rating organization and the ratings are presented below using the S&P's credit quality rating scale.

June 30, 2011

Fair Quality Rating	Corporate Bonds	Mortgages	ABS	Government	Municipals	Common Stock	Preferred Stock	Futures/Options/Swaps	Fixed Income Funds
AAA	\$ 250,166	\$ 8,633,795	\$1,833,875	\$ 6,461,634	\$ -	\$ -	\$ -	\$ -	\$ -
AA+	404,628	884,959	-	-	619,698	-	-	-	-
AA	435,912	173,375	-	1,959,580	851,724	-	-	-	-
AA-	5,150,441	42,290	-	943,365	561,703	-	-	-	-
A+	8,013,772	2,459,379	-	-	2,572,984	-	-	-	-
A	12,257,544	132,462	-	101,197	743,078	-	-	-	-
A-	10,728,399	320,938	-	-	973,669	-	2,862,000	-	-
BBB+	3,610,373	109,333	-	-	-	-	-	-	-
BBB	230,875	-	-	106,400	-	-	-	-	-
BBB-	1,462,976	-	-	240,278	-	-	-	-	-
BB+	1,339,250	263,498	-	-	-	-	-	-	-
BB-	2,131,521	-	-	-	-	-	-	-	-
B and below	5,334,764	286,676	46,203	-	-	-	-	-	-
NR	1,829,378	4,191,003	6,596,689	11,040,032	1,852,218	4,084	-	655,613	186,962,641
Totals	\$53,179,999	\$17,497,709	\$8,476,767	\$20,852,486	\$8,175,074	\$4,084	\$2,862,000	\$655,613	\$186,962,641

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

The following table presents the fair value of investments that represent 5% or more of the System's net assets at June 30, 2011:

Investment	Amounts
PIMCO Private Short-Term Fund	\$ 54,899,204
Passive Bond Market Index Non-Lending Fund	\$ 76,706,232
Russell 3000 Index Fund	\$327,117,124
MSCI All Country World Index Ex-U.S. Non-Lending Fund	\$218,353,249

FINANCIAL SECTION

Notes to Financial Statements

Note 5. Transactions with City of Norfolk

Effective January 1, 1992, the System began reimbursing the City for all administrative costs related to the System's operations. The costs reimbursed for the year ended June 30, 2011 was \$566,459.

Note 6. Income Tax Status

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

FINANCIAL SECTION

Required Supplementary Actuarial Information

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

**Schedule of Funding Progress
Dollar Amounts in Millions
(Unaudited)**

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability	(a-b) Funding Excess (Shortage)	(a/b) Funded Ratio	(c) Covered Payroll	((a-b)/c) Funding Excess (Shortage) as a Percentage Of Covered Payroll
June 30, 2011	832.0	1,064.0	(232.0)	78.2%	171.0	(135.7)%
June 30, 2010	817.7	1,046.8	(229.1)	78.1%	175.2	(130.8)%
June 30, 2009	885.6	1,029.6	(144.0)	86.0%	179.6	(80.2)%
June 30, 2008	937.8	1,009.1	(71.3)	92.9%	175.4	(40.6)%
June 30, 2007*	925.8	972.2	(46.4)	95.2%	168.1	(27.6)%
June 30, 2006	881.0	939.1	(58.1)	93.8%	159.3	(36.5)%
June 30, 2005	854.1	883.9	(29.8)	96.6%	160.2	(18.6)%
June 30, 2004**	816.1	845.7	(29.6)	96.5%	157.7	(18.8)%
June 30, 2003	760.5	813.2	(52.7)	93.5%	152.1	(34.6)%

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

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

FINANCIAL SECTION

Required Supplementary Actuarial Information

**Schedule of Employer Contributions
(Unaudited)**

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Accrued
2011	\$42,828,229	100
2010	35,515,472	100
2009	28,278,984	100
2008	25,667,556	100
2007	25,135,944	100
2006	25,728,228	100
2005	23,652,756	100
2004	23,469,744	100
2003	21,390,058	100

FINANCIAL SECTION

Required Supplementary Actuarial Information

Actuarial Assumptions:

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

Valuation date	June 30, 2011
Actuarial cost method*	Entry age normal cost method
Amortization method	Level dollar open, except for Public Safety Retirement Enhancement Program which is amortized over a closed 20-year period commencing July 1, 2005
Remaining amortization period	14 years
Asset valuation method	3-year smoothed market
Actuarial assumptions:	
Assumed inflation rate	3.5%
Investment rate of return	7.5% per annum, compounded annually
Projected salary increases**	Average salary increases of 5.24% for general employees and 5.67% for public safety employees. Based on rates that vary by year-of-service and are compounded annually.
Cost-of-living allowance	None
Separation from active service	Assumed rates of separation from service vary depending on the employee's years of service and whether the employee is a general employee or public safety employee. Mortality is based on the RP-2000 mortality tables for healthy and disabled members.
Marital status	65% of the general employees and 80% of the public safety employees are assumed to be married, with the males three years older than females.

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

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

** Includes inflation at 3.5%.

FINANCIAL SECTION

Employees' Retirement System of the City of Norfolk

(A Pension Trust Fund of Norfolk, Virginia)

Schedule of Administrative Expenses

Year Ended June 30, 2011

Personal services:

Staff salaries	\$306,460
Benefits	<u>16,091</u>
Total personal services	<u>422,551</u>

Professional services:

Actuarial fees	57,730
Medical examinations	<u>1,875</u>
Total professional services	<u>59,605</u>

Communication:

Travel and training	3,354
Postage and shipping	<u>15,234</u>
Total communication	<u>18,588</u>

Miscellaneous:

Supplies and equipment	4,831
Maintenance and repairs	509
Other	<u>60,375</u>
Total miscellaneous	<u>65,715</u>

Total administrative expenses	<u>\$566,459</u>
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FINANCIAL SECTION

Employees' Retirement System of the City of Norfolk

(A Pension Trust Fund of Norfolk, Virginia)

Schedule of Investment Expenses

Year Ended June 30, 2011

Investment manager fees	<u>\$1,087,744</u>	
Total investment manager fees		\$1,087,744

Schedule of Payments to Custodian and Investment Consultants

Custody fees	\$ 95,415	
Investment consultant fees	<u>178,294</u>	
Total custody and investment consultant fees		<u>\$ 273,709</u>
Total investment expenses		<u>\$1,361,453</u>

INVESTMENT SECTION
(Unaudited)

INVESTMENT SECTION

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");
 3. For the aggregate domestic equity, international equity, and fixed income components of the fund, the return of the Russell 3000, MSCI ACWI ex US, and the Barclays Capital Aggregate Bond indices, respectively; and
 4. The actuarially assumed investment rate of return.

Asset Allocation

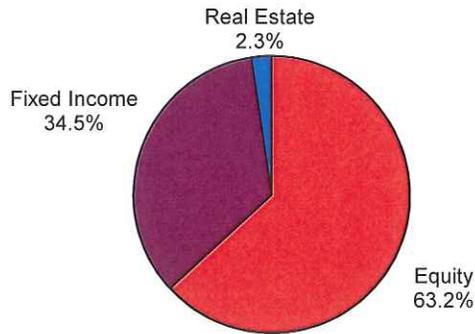
The System adopts and implements an asset allocation policy that is predicated on a number of factors, including:

- Historical and expected long-term capital market risk and return behavior;
- Projected assets, liabilities, benefit payments, and contributions provided by 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.

INVESTMENT SECTION

Asset Allocation by Asset Class as of June 30, 2011



Total Equity*	\$548,549,373
Fixed Income	299,614,473
Real Estate	20,246,120
Cash and Equivalents (Excludes manager cash)	<u>11,395</u>
Total	<u>\$868,421,361</u>

*Preferred stock held by PIMCO is included in Total Equity

INVESTMENT SECTION

Asset Allocation as of June 30, 2011 (concluded)

Total net assets market value	\$868,421,361
Adjustments to Reconcile Statement of Plan Asset Investments Total:	
Total Cash and Cash Equivalents	(6,413,807)
Receivable for Investments Sold	(1,529,938)
Interest Receivable	(1,313,684)
Tax Refund Receivable	(18,422)
Interest Payable – Short Positions	70,197
Payable for Investments Purchased	5,143,544
Other Payables	44,737
Unrealized Appreciation (Depreciation):	
on Foreign Cash Positions	(7,382)
on Receivables	(228)
on Forward Contracts	<u>(13,511)</u>
Total Investments Reconciled to the Statement of Plan Net Assets (See page 16)	<u>\$864,382,867</u>

Investment Managers and Investment Assignments as of June 30, 2011

	Market Value	% of Portfolio
SSgA Russell 3000	\$327,117,124	37.7%
SSgA MSCI ACWI-ex US Index	218,353,249	25.2%
PIMCO Total Return Funds	184,133,361	21.2%
SSgA Bond Market Index	76,706,231	8.8%
SSgA US TIPS Index	41,853,881	4.8%
JP Morgan Asset Mgmt Strat Prop Fund	20,246,120	2.3%
Cash Holding Account	<u>11,395</u>	<u>0.0%</u>
Total	<u>\$868,421,361</u> *	<u>100.0%</u>

* See reconciliation of Statement of Plan Assets above.

Asset Allocation Comparison as of June 30, 2011

	Equity Commitment	Fixed Income Commitment	Total Other *	Percentage Total
Total Fund	62.8%	34.9%	2.3%	100%
Median All Public Plans	55.0%	32.4%	12.6%	100%

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

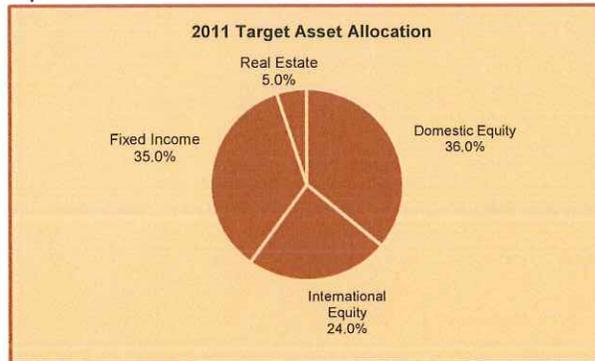
INVESTMENT SECTION

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	55%	65%	60%
US Equity	31%	41%	36%
International Equity	19%	29%	24%
Fixed Income	30%	40%	35%
Real Estate	0%	10%	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 cash and cash equivalents.

INVESTMENT SECTION

Investment Performance Summary

For the Periods Ended June 30, 2011

Account	Annualized				
	1 Year	2 Years	3 Years	4 Years	5 Years
Equity					
SSgA Russell 3000	32.41%	23.80%	N/A	N/A	N/A
<i>Russell 3000</i>	32.37%	23.76%	4.00%	(0.45%)	3.35%
Total Domestic Equity	32.41%	23.82%	3.61%	(1.68%)	2.20
<i>Domestic Equity Policy Index*</i>	32.37%	23.76%	4.00%	(0.45%)	3.35%
SSgA MSCI ACWI-ex US Index	29.92%	19.83%	N/A	N/A	N/A
<i>MSCI AC World ex USA (Net)</i>	29.73%	16.69%	(0.35%)	(1.96%)	3.67%
Total International Equity	29.92%	19.83%	0.17%	(2.73%)	2.77%
<i>International Equity Policy**</i>	29.73%	19.69%	(0.11%)	(2.72%)	2.70%
Total Equity	31.41%	22.16%	2.11%	(2.21%)	2.24%
<i>Total Equity Policy Index***</i>	31.37%	22.08%	2.41%	(1.36%)	2.97%
Fixed Income					
PIMCO Total Return	7.85%	10.25%	9.43%	9.37%	8.71%
<i>Barclays Capital Aggregate</i>	3.90%	6.66%	6.46%	6.62%	6.52%
SSgA Bond Market Index	3.86%	6.67%	N/A	N/A	N/A
<i>Barclays Capital Aggregate</i>	3.90%	6.66%	6.46%	6.62%	6.53%
SSgA US TIPS Index	7.64%	N/A	N/A	N/A	N/A
<i>Barclays Capital US Treasury: US TIPS</i>	7.74%	8.63%	5.28%	7.65%	6.92%
Total Fixed Income	7.01%	9.54%	6.45%	6.59%	6.47%
<i>Barclays Capital Aggregate</i>	3.90%	6.66%	6.46%	6.62%	6.52%
Real Estate					
JP Morgan Asset Management Strategic Property Fund	N/A	N/A	N/A	N/A	N/A
<i>NCREIF Fund Index – ODCE</i>	20.61%	6.49%	(7.64%)	(3.95%)	0.03%
Total Real Estate	N/A	N/A	N/A	N/A	N/A
<i>NCREIF Fund Index – ODCE</i>	20.61%	6.49%	(7.64%)	(3.95%)	0.03%
Total Fund Composite	21.16%	17.30%	4.98%	2.31%	4.84%
<i>Total Fund Policy Index****</i>	19.97%	16.05%	4.63%	2.29%	4.83%

* Domestic Equity Policy Index as of June 30, 2011 = 100% Russell 3000.

** International Equity Policy Index as of June 30, 2011 = 100% MSCI AC World ex US Index (Net).

*** Total Equity Policy Index as of June 30, 2011 = 60% Russell 3000 and 40% MSCI AC World ex US Index (Net).

**** Total Fund Policy Index as of June 30, 2011 = 36% Russell 3000, 24% MSCI AC World ex US Index (Net), and 40% Barclays Capital Aggregate.

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

INVESTMENT SECTION

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. Due to the Plan's conversion to predominately commingled funds, the Plan only paid \$7.70 in commissions for the Fiscal Year 2011.

List of Largest Assets

As of June 30, 2011

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

Stock	Shares	Fair Value
Exxon Mobil Corporation	107,172	\$8,721,625
Apple Inc.	20,063	\$4,940,445
International Business Machines	26,265	\$4,505,811
Chevron Corp.	43,596	\$4,483,400
General Electric	229,979	\$4,337,397
Microsoft Corp.	160,905	\$4,183,525
AT&T Inc.	128,404	\$4,033,159
Johnson & Johnson	59,431	\$3,953,317
Proctor & Gamble Co.	60,519	\$3,847,217
Pfizer Inc.	171,284	\$3,528,460

Ten Largest Bond Holdings (by fair market value)

Bond	Interest Rate	Maturity Date	Par Value	Fair Value
PIMCO Prv Short-Term*	3.45%	Sept 1, 2012	\$5,993,363	\$54,899,204
PIMCO Prv High Yield Sec Fd*	10.45%	July 1, 2017	\$704,805	\$5,575,008
U S Treasury Note	0.75%	June 15, 2014	\$4,800,000	\$4,795,128
PIMCO Prv Dvlpng LCL Mkt*	2.11%	July 1, 2012	\$746,021	\$4,477,164
Canadian Govt Repo	1.00%	July 7, 2011	\$4,200,000	\$4,351,881
FIN FUT US 2 Yr CBT	0.00%	Oct 1, 2011	\$3,800,000	\$4,167,531
Barclays Bank PLC SR NT	5.45%	Sept 12, 2012	\$3,500,000	\$3,688,689
American General Finance	5.63%	Aug 17, 2011	\$3,500,000	\$3,502,625
PIMCO Priv Inv Grd Corp Sec*	5.96%	Feb 1, 2021	\$318,960	\$3,451,152
SBAP 2005-20A 1	4.86%	Jan 1, 2025	\$2,689,810	\$2,879,820

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

A complete list of portfolio holdings is available upon request.

ACTUARIAL SECTION
(Unaudited)



Actuary's Certification Letter

November 2, 2011

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

The Members of the Board:

Actuarial valuations of the Employees' Retirement System of the City of Norfolk are performed annually. The results of the latest actuarial valuation of the System, which we have prepared as of June 30, 2011, are summarized in this letter.

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

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

Financing Objective and Contribution Appropriation

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

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

The City's contribution appropriated for the fiscal year ended June 30, 2011 was determined based on the results of the June 30, 2010 valuation. The City's contribution amount was \$42,828,229.

The results of the June 30, 2011 valuation determine the contribution appropriation for the fiscal year ending June 30, 2012, which will be presented in our valuation report subject to your approval.

As of June 30, 2011, the System's accrued liability was 78% funded based on the actuarial value of assets, including the contribution for the fiscal year ended June 30, 2011. The accrued liability was 86% funded based on the market value of assets.

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



ACTUARIAL SECTION

Actuary's Certification Letter

The Board of Trustees
November 2, 2011
Page 2

Assets and Participant Data

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

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

Actuarial Assumptions and Methods

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

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

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

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

Schedules of Financial Results and Membership Data

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

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

Respectfully submitted,
Cheiron



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

ACTUARIAL SECTION

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Actuarial Assumptions

Interest Rate: 7½% per annum, compounded annually (adopted as of June 30, 1990).

Mortality:

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

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

Salary Increase:

Representative values are as follows:

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

Withdrawal:

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

ACTUARIAL SECTION

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (continued)

Disability:

Age	General*		Firefighters and Police	
	Male	Female	Accidental	Ordinary
20	0.13%	0.09%	0.03%	0.04%
25	0.15	0.11	0.05	0.06
30	0.18	0.12	0.07	0.09
35	0.29	0.20	0.10	0.12
40	0.44	0.30	0.25	0.18
45	0.68	0.47	0.47	0.32
50	1.01	0.69	0.79	0.55
54	1.32	0.90	1.06	0.74
55	1.41	0.96	1.13	0.79
59	2.05	1.40	1.49	1.03

* 7.5% of disabilities are assumed to be accidental.

Retirement:

General:

Age	Early Retirement	Normal Service Retirement
45	7.50 %	15.00 %
50	7.50	15.00
51	7.50	15.00
52	5.00	15.00
53	5.00	15.00
54	5.00	15.00
55	5.00	15.00
56	5.00	15.00
57	5.00	15.00
58	5.00	15.00
59	5.00	15.00
60		25.00
61		25.00
62		25.00
63		25.00
64		25.00
65		25.00
66		25.00
67		25.00
68		25.00
69		25.00
70		100.00

ACTUARIAL SECTION

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (continued)

Firefighters and Police:

Age	Early Retirement	Normal Service Retirement
35	5.00 %	0.00 %
40	5.00	20.00
45	5.00	20.00
50	3.00	20.00
51		20.00
52		20.00
53		20.00
54		20.00
55		25.00
56		25.00
57		25.00
58		25.00
59		25.00
60		25.00
61		25.00
62		25.00
63		25.00
64		25.00
65		100.00

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

Future Expenses:

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

Loading or Contingency Reserves:

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

Marital Status:

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

ACTUARIAL SECTION

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (concluded)

Methods

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

Asset Valuation Method: The valuation assets are determined as the market value less (1) 66⅔% of investment gain (loss) during the preceding year, less (2) 33⅓% of investment gain (loss) during the second preceding year. For the purpose of this calculation, the gain (loss) is defined as the difference between the actual and the expected return (based on the valuation interest rate) on the market value of assets during the year. The valuation assets on June 30, 2011 reflect the market value on that date less 66⅔% of investment gain (loss) during the preceding year, less 33⅓% of investment gain (loss) during the second preceding year.

ACTUARIAL SECTION

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Census and Assets: The valuation was based on members of the System as of June 30, 2011 and does not take into account future members. All census data were supplied by the Executive Secretary of the System and were subject to reasonable consistency checks. Asset data were supplied by the Executive Secretary and the accountants of the System.

General Employees:

Valuation as of June 30	Number of Active Members*	Valuation Payroll	Average Salary	Percent Increase in Average
2011	2,613	\$109,766,481	\$42,008	(0.1)%
2010	2,683	112,857,502	42,064	(0.6)
2009	2,737	115,782,546	42,303	1.1
2008	2,731	114,324,832	41,862	1.7
2007	2,664	109,648,809	41,159	2.5
2006	2,581	103,670,563	40,167	2.9
2005	2,607	101,743,424	39,027	2.5
2004	2,644	100,685,330	38,081	2.6

* Excludes 14 members on leave of absence on June 30, 2011.

Firefighters and Police:

Valuation as of June 30	Number of Active Members*	Valuation Payroll	Average Salary	Percent Increase (Decrease) in Average
2011	1,224	\$61,155,439	\$49,964	(1.2)%
2010	1,232	63,321,292	50,585	(1.0)
2009	1,249	63,808,617	51,088	0.7
2008	1,204	61,065,532	50,719	3.0
2007	1,188	58,481,530	49,227	5.0
2006	1,186	55,608,188	46,887	(1.3)
2005	1,231	58,480,713	47,507	1.4
2004	1,217	57,029,081	46,860	2.1

* Excludes 16 members on leave of absence on June 30, 2011.

Total:

Valuation as of June 30	Number of Active Members*	Valuation Payroll	Average Salary	Percent Increase in Average
2011	3,837	\$170,921,920	\$44,546	(0.4)%
2010	3,915	175,178,794	44,745	(0.7)
2009	3,986	179,591,163	45,055	1.1
2008	3,935	175,390,364	44,572	2.1
2007	3,852	168,130,339	43,648	3.2
2006	3,767	159,278,750	42,283	1.3
2005	3,838	160,224,137	41,747	2.2
2004	3,861	157,714,411	40,848	2.4

* Excludes 30 members on leave of absence on June 30, 2011.

ACTUARIAL SECTION

RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

Year Ended June 30	Added to Rolls		Removed from Rolls		On Rolls at Year-End			% Increase Average Allowance
	No.	Annual Allowance	No.	Annual Allowance	No.	Annual Allowance	Average Allowance	
2011	168	3,428,334	114	1,458,047	3,325	65,346,171	19,653	1.4%
2010	152	3,482,589	111	1,278,794	3,271	63,375,884	19,375	2.3%
2009	179	3,616,692	228	2,298,307	3,230	61,172,089	18,939	3.8%
2008	145	3,644,988	88	1,233,612	3,279	59,853,704	18,254	2.4%
2007	176	4,566,162	105	1,431,827	3,222	57,442,328	17,828	3.4%
2006	308	10,207,250	86	992,041	3,151	54,307,994	17,235	12.0%
2005	207	3,994,142	60	571,616	2,929	45,092,784	15,395	2.8%
2004	176		104		2,782	41,670,258	14,979	4.3%

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

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

ACTUARIAL SECTION

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, 2004 through June 30, 2011 are presented as follows:

Valuation Date	(1)	(2)	(3)	Reported Assets	Portion of Accrued Liabilities Covered by Reported Assets		
	Active Member Contributions	Retirees, Vested Terms, Beneficiaries	Active Members (Employer Financed Portion)		(1)	(2)	(3)
2011	\$196,733	\$658,831,846	\$404,945,415	\$831,975,004	100.0%	100.0%	42.7%
2010	54,808	637,488,648	409,218,088	817,698,124	100.0%	100.0%	44.0%
2009	72,008	617,813,260	411,732,258	885,609,003	100.0%	100.0%	65.0%
2008 ⁽¹⁾	78,685	605,567,032	403,409,400	937,766,796	100.0%	100.0%	82.3%
2007 ⁽²⁾	83,376	585,584,308	386,563,802	925,821,257	100.0%	100.0%	88.0%
2006 ⁽³⁾	84,360	566,232,610	372,779,959	881,035,790	100.0%	100.0%	84.4%
2005 ⁽⁴⁾	198,018	469,436,407	414,295,992	854,146,038	100.0%	100.0%	92.8%
2004 ⁽⁵⁾	215,208	421,470,962	423,984,074	816,120,329	100.0%	100.0	93.0%

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

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

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

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

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

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

ACTUARIAL SECTION

ANALYSIS OF FINANCIAL EXPERIENCE

Type of Activity	2008	2009	2010	2011
Investment income	\$ (22,682,482)	\$ (87,432,722)	\$ (104,166,163)	\$ (21,698,596)
Combined liability experience	<u>8,284,079</u>	<u>14,859,619</u>	<u>18,097,499</u>	<u>12,889,233</u>
Gain (loss) during year from financial experience	(14,398,403)	(72,573,103)	(86,068,664)	(8,809,363)
Non-recurring items	<u>(10,545,384)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Composite gain (loss) during year	\$ (24,943,787)	\$ (72,573,103)	\$ (86,068,664)	\$ (8,809,363)

ACTUARIAL SECTION

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS

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

Membership

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

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

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

Benefits

Normal Service Retirement Allowance:

Eligibility:

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

ACTUARIAL SECTION

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 $\frac{1}{4}$ of 1% for each month commencement date precedes the normal retirement date for general employees, and $\frac{1}{2}$ of 1% for each month commencement date precedes the normal retirement date for firefighters, police officers, and paramedics.

Vested Allowance

Eligibility:

Five years of creditable service.

Amount:

Accrued service retirement allowance deferred to normal retirement age. If not eligible for retirement, a member may elect to leave 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 66 $\frac{2}{3}$ % of average final compensation.

ACTUARIAL SECTION

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS (continued)

Ordinary Death Benefit

Eligibility:

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

Amount:

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

Accidental Death Benefit

Eligibility:

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

Amount:

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

Offset on Account of Workers' Compensation:

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

ACTUARIAL SECTION

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS (continued)

Death Benefit After Retirement

Eligibility:

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

Amount:

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

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

Return of Contributions

Eligibility:

Termination of membership prior to death.

Amount:

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

Normal and Optional Forms of Benefits:

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

ACTUARIAL SECTION

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS (concluded)

Return of Contributions, (concluded)

Contributions

By Members	5% of pay for anyone hired on or after October 5, 2010
By City	Annual contributions actuarially computed to be required to cover the cost of benefits of the System.

Changes in Plan Provisions

The mandatory retirement age for public safety personnel was increased from age 62 to 65.
New hires on or after October 5, 2010 must make member contributions in the amount of 5% of pay.

STATISTICAL SECTION
(Unaudited)

STATISTICAL SECTION

About the Statistical Section

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, 2011.

STATISTICAL SECTION

ADDITIONS BY SOURCE AND DEDUCTIONS BY TYPE

Schedule of Additions by Source

Fiscal Year Ended June 30	Employers' Contributions			Total Net Investment Income (Loss)	Additions
	Employee Contributions	Dollars	% of Covered Payroll		
2011	\$ 100,000	\$ 42,800,000	24.80 %	\$ 155,400,000	\$ 198,300,000
2010	-	35,500,000	19.98	92,200,000	127,700,000
2009	-	28,300,000	16.16	(131,200,000)	(102,900,000)
2008	-	25,700,000	14.90	(48,500,000)	(22,800,000)
2007	-	25,100,000	15.98	128,700,000	153,800,000
2006	-	25,700,000	15.28	40,000,000	65,700,000
2005	-	23,700,000	14.63	54,500,000	78,200,000
2004	-	23,500,000	14.77	82,500,000	106,000,000

Schedule of Deductions by Type

Fiscal Year Ended June 30	Benefit Payments	Refund of Contributions	Lump-Sum Death Benefits	Administrative Expenses	Total Deductions
2011	\$ 65,600,000	\$ -	\$ 200,000	\$ 600,000	\$ 66,400,000
2010	63,000,000	-	200,000	600,000	63,800,000
2009	60,900,000	-	200,000	700,000	61,800,000
2008	58,000,000	-	300,000	600,000	58,900,000
2007	55,500,000	-	100,000	600,000	56,200,000
2006	51,100,000	100,000	100,000	600,000	51,900,000
2005	43,300,000	-	100,000	400,000	43,800,000
2004	39,400,000	-	100,000	400,000	39,900,000

Total Change in Net Assets

Fiscal Year Ended June 30	Total Change in Net Assets
2011	\$ 131,900,000
2010	63,900,000
2009	(164,700,000)
2008	(81,700,000)
2007	97,600,000
2006	13,800,000
2005	34,400,000
2004	66,100,000

Contributions were made in accordance with the actuarially determined contribution requirement

STATISTICAL SECTION

**Schedule of Benefit Payments by Type
Annual Allowances Scheduled to be Paid in Ensuing Fiscal Year**

General

As of June 30	Service Retired Members	Contingent Annuitants	Disabled Annuitants	Total
2011	\$ 29,349,000	\$ 2,313,000	\$ 2,776,000	\$ 34,438,000
2010	28,343,000	2,268,000	2,776,000	33,387,000
2009	27,437,000	2,252,000	2,718,000	32,407,000
2008	26,435,000	2,509,000	2,704,000	31,648,000
2007	25,534,000	2,279,000	2,683,000	30,496,000
2006	24,224,000	2,022,000	2,575,000	28,821,000
2005	22,142,000	1,805,000	2,468,000	26,415,000
2004	19,854,000	1,692,000	2,436,000	23,982,000

Firefighters and Police

As of June 30	Service Retired Members	Contingent Annuitants	Disabled Annuitants	Total
2011	\$ 26,547,000	\$ 1,554,000	\$ 2,807,000	\$ 30,908,000
2010	25,613,000	1,547,000	2,829,000	29,989,000
2009	24,320,000	1,531,000	2,914,000	28,765,000
2008	23,682,000	1,594,000	2,929,000	28,205,000
2007	22,927,000	1,470,000	2,549,000	26,946,000
2006	21,824,000	1,374,000	2,288,000	25,486,000
2005	15,118,000	1,262,000	2,297,000	18,677,000
2004	13,826,000	1,229,000	2,632,000	17,687,000

Total

As of June 30	Service Retired Members	Contingent Annuitants	Disabled Annuitants	Total
2011	\$ 55,896,000	\$ 3,867,000	\$ 5,583,000	\$ 65,346,000*
2010	53,956,000	3,815,000	5,605,000	63,376,000
2009	51,757,000	3,783,000	5,632,000	61,172,000
2008	50,117,000	4,103,000	5,633,000	59,853,000
2007	48,461,000	3,749,000	5,232,000	57,442,000
2006	46,048,000	3,396,000	4,863,000	54,307,000
2005	37,260,000	3,067,000	4,765,000	45,092,000
2004	33,680,000	2,921,000	5,068,000	41,669,000

* 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.

STATISTICAL SECTION

Schedule of Retired Members by Type of Benefit as of June 30, 2011

General																	
Amount of Monthly Benefit	Number of Retirees	Type of Retirement												Option Selected*			
		1	2	3	4	5	6	7	8	9	10	11	12	1	2		
Deferred**	750																
\$1-\$300	276	26	4	0	27	2	100	59	0	43	0	0	15	59	116		
\$301-\$600	452	45	6	0	77	8	138	84	0	72	0	22	92	252			
\$601-\$900	271	16	1	1	38	9	112	63	0	26	0	5	54	162			
\$901-\$1,200	235	7	3	0	28	8	120	59	0	9	0	1	71	127			
\$1,201-\$1,500	224	7	2	0	14	16	116	60	0	6	0	3	78	136			
\$1,501-\$1,800	186	1	1	0	18	9	85	72	0	0	0	0	84	99			
\$1,801-\$2,100	160	3	0	0	8	4	104	40	0	1	0	0	71	89			
\$2,101-\$2,400	117	0	1	0	3	0	84	29	0	0	0	0	46	67			
\$2,401-\$2,700	99	1	0	0	4	1	73	20	0	0	0	0	36	63			
\$2,701-\$3,000	75	0	0	0	2	0	68	5	0	0	0	0	28	46			
Over \$3,000	133	1	1	0	2	1	118	9	0	1	0	0	31	101			
Totals	2,978	107	19	1	221	58	1,118	500	0	158	0	46	650	1,258			

Firefighters and Police																	
Amount of Monthly Benefit	Number of Retirees	Type of Retirement												Option Selected*			
		1	2	3	4	5	6	7	8	9	10	11	12	1	2		
Deferred**	182																
\$1-\$300	34	3	0	0	5	10	7	1	0	8	0	0	6	4			
\$301-\$600	91	8	0	1	13	17	21	4	0	25	1	1	13	30			
\$601-\$900	84	7	0	2	14	22	25	9	0	3	0	1	9	36			
\$901-\$1,200	64	3	2	1	11	11	23	9	0	3	1	0	12	35			
\$1,201-\$1,500	60	0	1	0	2	13	33	10	0	0	1	0	8	38			
\$1,501-\$1,800	55	0	1	2	3	13	23	13	0	0	0	0	10	36			
\$1,801-\$2,100	80	0	0	0	5	14	52	9	0	0	0	0	19	57			
\$2,101-\$2,400	77	0	0	0	3	14	46	13	0	1	0	0	21	55			
\$2,401-\$2,700	95	0	0	0	1	9	72	10	0	3	0	0	27	68			
\$2,701-\$3,000	103	0	0	0	0	5	92	6	0	0	0	0	31	72			
Over \$3,000	354	1	0	0	2	4	335	6	0	5	1	0	98	255			
Totals	1,279	22	4	6	59	132	729	90	0	48	3	3	254	686			

Total																	
Amount of Monthly Benefit	Number of Retirees	Type of Retirement												Option Selected*			
		1	2	3	4	5	6	7	8	9	10	11	12	1	2		
Deferred**	932																
\$1-\$300	310	29	4	0	32	12	107	60	0	51	0	0	65	120			
\$301-\$600	543	53	6	1	90	25	159	88	0	97	1	1	105	282			
\$601-\$900	355	23	1	3	52	31	137	72	0	29	0	1	63	198			
\$901-\$1,200	299	10	5	1	39	19	143	68	0	12	1	0	83	162			
\$1,201-\$1,500	284	7	3	0	16	29	149	70	0	6	0	1	86	174			
\$1,501-\$1,800	241	1	2	2	21	22	108	85	0	0	0	0	94	135			
\$1,801-\$2,100	240	3	0	0	13	18	156	49	0	1	0	0	90	146			
\$2,101-\$2,400	194	0	1	0	6	14	130	42	0	1	0	0	67	122			
\$2,401-\$2,700	194	1	0	0	5	10	145	30	0	3	0	0	63	131			
\$2,701-\$3,000	178	0	0	0	2	5	160	11	0	0	0	0	59	118			
Over \$3,000	487	2	1	0	4	5	453	15	0	6	1	0	129	356			
Totals	4,257	129	23	7	280	190	1,847	590	0	206	3	3	904	1,944			

* Beneficiaries were excluded.

Type of Retirement:

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

Option Selected:

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

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

STATISTICAL SECTION

Schedule of Retired Members by Type of Benefit as of June 30, 2011

General							
Amount of Monthly Benefit	Number of Retirees	Type of Retirement			Option Selected*		
		Service Retired Members	Contingent Annuitants	Disabled Annuitants	1	2	
Deferred**	750						
\$1-\$300	276	170	98	8	59	116	
\$301-\$600	452	292	108	52	92	252	
\$601-\$900	271	177	56	38	54	162	
\$901-\$1,200	235	163	37	35	71	127	
\$1,201-\$1,500	224	186	11	27	78	136	
\$1,501-\$1,800	186	155	4	27	84	99	
\$1,801-\$2,100	160	148	0	12	71	89	
\$2,101-\$2,400	117	110	4	3	46	67	
\$2,401-\$2,700	99	94	0	5	36	63	
\$2,701-\$3,000	75	72	1	2	28	46	
Over \$3,000	133	129	1	3	31	101	
Totals	2,978	1,696	320	212	650	1,258	

Firefighters and Police							
Amount of Monthly Benefit	Number of Retirees	Type of Retirement			Option Selected*		
		Service Retired Members	Contingent Annuitants	Disabled Annuitants	1	2	
Deferred**	182						
\$1-\$300	34	10	22	2	6	4	
\$301-\$600	91	33	49	9	13	30	
\$601-\$900	84	27	39	18	9	36	
\$901-\$1,200	64	31	17	16	12	35	
\$1,201-\$1,500	60	33	14	13	8	38	
\$1,501-\$1,800	55	32	9	14	10	36	
\$1,801-\$2,100	80	57	4	19	19	57	
\$2,101-\$2,400	77	58	1	18	21	55	
\$2,401-\$2,700	95	82	1	12	27	68	
\$2,701-\$3,000	103	98	0	5	31	72	
Over \$3,000	354	344	1	9	98	255	
Totals	1,279	805	157	135	254	686	

Total							
Amount of Monthly Benefit	Number of Retirees	Type of Retirement			Option Selected*		
		Service Retired Members	Contingent Annuitants	Disabled Annuitants	1	2	
Deferred**	932						
\$1-\$300	310	180	120	10	65	120	
\$301-\$600	543	325	157	61	105	282	
\$601-\$900	355	204	95	56	63	198	
\$901-\$1,200	299	194	54	51	83	162	
\$1,201-\$1,500	284	219	25	40	86	174	
\$1,501-\$1,800	241	187	13	41	94	135	
\$1,801-\$2,100	240	205	4	31	90	146	
\$2,101-\$2,400	194	168	5	21	67	122	
\$2,401-\$2,700	194	176	1	17	63	131	
\$2,701-\$3,000	178	170	1	7	59	118	
Over \$3,000	487	473	2	12	129	356	
Totals	4,257	2,501	477	347	904	1,944	

* Beneficiaries were excluded.

Type of Retirement:

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

Option Selected:

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

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

STATISTICAL SECTION

**Schedule of Average Benefit Payments
(Excludes Beneficiaries)**

<u>Retirement Effective Dates</u>	<u>General</u>					
	<u>Years of Credited Service</u>					
	<u>0-10</u>	<u>10-15</u>	<u>15-20</u>	<u>20-25</u>	<u>25-30</u>	<u>30+</u>
July 1, 2004 to June 30, 2005						
Average Monthly Benefit	\$400	\$426	\$949	\$1,293	\$1,770	\$2,930
Average - Average Final Compensation	\$36,424	\$20,034	\$34,780	\$38,960	\$42,021	\$51,554
Number of Active Retirees	21	10	15	16	29	44
July 1, 2005 to June 30, 2006						
Average Monthly Benefit	\$392	\$448	\$997	\$1,473	\$1,992	\$2,948
Average - Average Final Compensation	\$49,318	\$23,761	\$38,039	\$40,889	\$46,603	\$52,713
Number of Active Retirees	11	14	10	16	19	37
July 1, 2006 to June 30, 2007						
Average Monthly Benefit	\$338	\$517	\$798	\$1,368	\$1,816	\$2,512
Average - Average Final Compensation	\$28,673	\$27,091	\$31,144	\$40,839	\$44,686	\$45,156
Number of Active Retirees	10	25	13	13	13	33
July 1, 2007 to June 30, 2008						
Average Monthly Benefit	\$512	\$454	\$803	\$1,273	\$1,718	\$2,547
Average - Average Final Compensation	\$53,322	\$25,612	\$29,827	\$39,042	\$43,089	\$47,977
Number of Active Retirees	4	20	13	10	13	20
July 1, 2008 to June 30, 2009						
Average Monthly Benefit	\$314	\$484	\$960	\$1,442	\$1,587	\$2,910
Average - Average Final Compensation	\$35,031	\$25,098	\$35,097	\$45,720	\$45,358	\$52,309
Number of Active Retirees	13	21	8	13	13	32
July 1, 2009 to June 30, 2010						
Average Monthly Benefit	\$350	\$651	\$1,067	\$1,711	\$1,827	\$3,020
Average - Average Final Compensation	\$36,641	\$34,004	\$35,994	\$48,389	\$46,598	\$55,622
Number of Active Retirees	11	20	10	11	15	32
July 1, 2010 to June 30, 2011						
Average Monthly Benefit	\$446	\$843	\$792	\$2,038	\$1,735	\$2,448
Average - Average Final Compensation	\$43,317	\$46,070	\$30,313	\$62,454	\$44,130	\$49,495
Number of Active Retirees	15	14	13	7	11	25

STATISTICAL SECTION

**Schedule of Average Benefit Payments
(Excludes Beneficiaries)**

<u>Retirement Effective Dates</u>	<u>Firefighters and Police</u>					
	<u>Years of Credited Service</u>					
	<u>0-10</u>	<u>10-15</u>	<u>15-20</u>	<u>20-25</u>	<u>25-30</u>	<u>30+</u>
July 1, 2004 to June 30, 2005						
Average Monthly Benefit	\$0	\$492	\$0	\$2,766	\$3,553	\$3,532
Average - Average Final Compensation	\$0	\$25,394	\$0	\$56,637	\$59,197	\$57,535
Number of Active Retirees	0	3	0	4	22	41
July 1, 2005 to June 30, 2006						
Average Monthly Benefit	\$0	\$447	\$0	\$2,051	\$3,389	\$3,919
Average - Average Final Compensation	\$0	\$21,419	\$0	\$50,531	\$56,171	\$59,724
Number of Active Retirees	0	1	0	11	42	68
July 1, 2006 to June 30, 2007						
Average Monthly Benefit	\$0	\$832	\$1,382	\$2,502	\$3,164	\$4,480
Average - Average Final Compensation	\$0	\$31,695	\$47,904	\$53,880	\$57,276	\$74,658
Number of Active Retirees	0	7	4	9	13	4
July 1, 2007 to June 30, 2008						
Average Monthly Benefit	\$785	\$773	\$1,238	\$2,260	\$3,180	\$3,787
Average - Average Final Compensation	\$37,660	\$32,234	\$41,792	\$55,327	\$58,747	\$73,329
Number of Active Retirees	1	3	3	5	12	6
July 1, 2008 to June 30, 2009						
Average Monthly Benefit	\$0	\$556	\$1,424	\$2,770	\$3,597	\$3,370
Average - Average Final Compensation	\$0	\$26,953	\$42,421	\$57,267	\$66,303	\$63,375
Number of Active Retirees	0	7	4	7	15	5
July 1, 2009 to June 30, 2010						
Average Monthly Benefit	\$417	\$718	\$938	\$2,890	\$3,339	\$3,883
Average - Average Final Compensation	\$25,023	\$25,023	\$25,023	\$63,537	\$62,005	\$71,224
Number of Active Retirees	1	1	1	10	13	12
July 1, 2010 to June 30, 2011						
Average Monthly Benefit	\$2,430	\$1,240	\$1,598	\$2,543	\$3,513	\$3,825
Average - Average Final Compensation	\$155,251	\$32,173	\$47,779	\$54,084	\$64,951	\$70,158
Number of Active Retirees	1	3	1	3	14	9

STATISTICAL SECTION

**Schedule of Average Benefit Payments
(Excludes Beneficiaries)**

<u>Retirement Effective Dates</u>	<u>Total</u>					
	<u>Years of Credited Service</u>					
	<u>0-10</u>	<u>10-15</u>	<u>15-20</u>	<u>20-25</u>	<u>25-30</u>	<u>30+</u>
July 1, 2004 to June 30, 2005						
Average Monthly Benefit	\$400	\$441	\$949	\$1,588	\$2,539	\$3,220
Average - Average Final Compensation	\$36,424	\$21,271	\$34,780	\$42,495	\$49,430	\$54,439
Number of Active Retirees	21	13	15	20	51	85
July 1, 2005 to June 30, 2006						
Average Monthly Benefit	\$392	\$448	\$997	\$1,708	\$2,954	\$3,576
Average - Average Final Compensation	\$49,318	\$23,605	\$38,039	\$44,817	\$53,191	\$57,253
Number of Active Retirees	11	15	10	27	61	105
July 1, 2006 to June 30, 2007						
Average Monthly Benefit	\$338	\$586	\$935	\$1,832	\$2,490	\$2,725
Average - Average Final Compensation	\$28,673	\$28,098	\$35,088	\$46,174	\$50,981	\$48,345
Number of Active Retirees	10	32	17	22	26	37
July 1, 2007 to June 30, 2008						
Average Monthly Benefit	\$567	\$496	\$884	\$1,602	\$2,420	\$2,834
Average - Average Final Compensation	\$50,190	\$26,475	\$32,071	\$44,470	\$50,605	\$53,827
Number of Active Retirees	5	23	16	15	25	26
July 1, 2008 to June 30, 2009						
Average Monthly Benefit	\$314	\$502	\$1,115	\$1,907	\$2,664	\$2,972
Average - Average Final Compensation	\$35,031	\$25,562	\$37,538	\$49,761	\$56,579	\$53,804
Number of Active Retirees	13	28	12	20	28	37
July 1, 2009 to June 30, 2010						
Average Monthly Benefit	\$355	\$654	\$1,056	\$2,273	\$2,529	\$3,255
Average - Average Final Compensation	\$35,673	\$33,576	\$34,997	\$55,602	\$53,751	\$59,877
Number of Active Retirees	12	21	11	21	28	44
July 1, 2010 to June 30, 2011						
Average Monthly Benefit	\$570	\$913	\$849	\$2,189	\$2,731	\$2,812
Average - Average Final Compensation	\$50,313	\$43,618	\$31,560	\$59,943	\$55,790	\$54,964
Number of Active Retirees	16	17	14	10	25	34

COMPLIANCE SECTION

COMPLIANCE SECTION



KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

December 14, 2011

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

We have audited the financial statements of the Employees' Retirement System of the City of Norfolk (the System), a component unit of the City of Norfolk, Virginia, as of and for the year ended June 30, 2011, and have issued our report thereon dated December 14, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However,

COMPLIANCE SECTION



The Board of Trustees
Employees' Retirement System of the City of Norfolk
December 14, 2011
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providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Very truly yours,

KPMG LLP