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, 2012

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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, 2011

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

City of Norfolk

EMPLOYEES' RETIREMENT SYSTEM

December 20, 2012

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, 2012 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 U.S. generally accepted accounting principles (GAAP).

The System is the administrator of a single-employer contributory 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 fiduciary fund 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, 2012 (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.

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 December 13, 2011, the City Council of the City of Norfolk approved Ordinance Number 44,483 that required persons who became members of the Employees' Retirement System on or after December 13, 2011, to meet a five (5) year vesting requirement in order to be eligible for benefits.

On June 12, 2012, the City Council approved Ordinance Numbers 44,719 and 44,720 that provided employees of the Norfolk Community Services Board (NCSB) at June 30, 2012 who will become City employees on July 1, 2012 to have their period of employment at the NCSB counted toward the five (5) year service requirement for vesting only, and the mandatory contributions to the System waived.

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 2012 financial statements have been audited by KPMG LLP in conjunction with the City of Norfolk's annual audit.

The accrual basis of accounting is used to record assets and liabilities and additions and deductions therein 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 with the concept of reasonable rather than absolute assurance recognizing that the cost of a control should not exceed the benefits likely to be derived and that the calculation of costs and benefits requires estimates and judgments by management. A continuing effort is being made towards improving the controls to assure the participants of a financially sound retirement system.

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, 2012. 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, which provides 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, 2012, the System's funded ratio is 80.7%, and is an increase of 2.5% from 78.2% as of the June 30, 2011. This funded ratio does not include any market movements since June 30, 2012. The next valuation will reflect market conditions through June 30, 2013.

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 investments of the System. The policy is reviewed annually and changes are made as warranted. During the fiscal year, the System adopted an asset allocation of 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.

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 securities, and real estate funds managed by JP Morgan and UBS Trumbull, 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 result 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, 2012 were $885.5 million, a decrease of $26.3 million from the prior year balance of $911.8 million. Investment return for the year was 0.65%. 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 showed strength in the first quarter of fiscal year 2013. Equity markets have performed strongly as a result of better than expected economic data. The fair market value of the System's investment portfolio has risen approximately 4.9% from June 30, 2012 through September 30, 2012. As a result, the market value of the portfolio has risen to $872.2 million as compared to $863.9 million at June 30, 2012. For the first quarter of the 2013 fiscal year, the US equity markets returned 6.2%, international markets rose 7.4%, and fixed income increased by 1.6%. Equity investors were rewarded in this environment.

Calendar year-to-date through September 30, 2012, the US equity market (Russell 3000 Index) was up 16.1%, international markets (MSCI ACWI ex US Index) were up 10.4%, and the fixed income market generated a positive return of 4.0%. However, as attention has turned to the looming "fiscal cliff", performance has been weaker in October with the portfolio declining 0.46% for the month. The market value of the System declined by $3 million over this time period as a result of declining US equity markets.

We expect volatility to remain heightened as a result of the European debt crisis, the looming fiscal cliff, and the outlook for slower global growth in the coming years. 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 KPMG LLP's opinion on the financial statements 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.

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, 2011. This was the seventh 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 GAAP 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,

Sheryl Potter-Griggs

Sheryl Potter-Griggs
Acting Executive Director

The Board of Trustees

Stephanie Adler Calliott, CFP Senior Vice President, Community Relations Children's Hospital of the King's Daughters	Chair	Appointed January 9, 2007
Christopher R. Neikirk Assistant Vice-President - Finance Norfolk Southern Corporation	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.

Consultants and Professional Services

Legal Advisor
Mary L. G. Nexsen
Deputy City Attorney

Actuary
CHEIRON

Custodian
State Street Bank and Trust

Auditor
KPMG LLP
Norfolk, VA

Medical Examiner
Dr. Chantal Brooks
Medical Consultants of Virginia

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

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

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

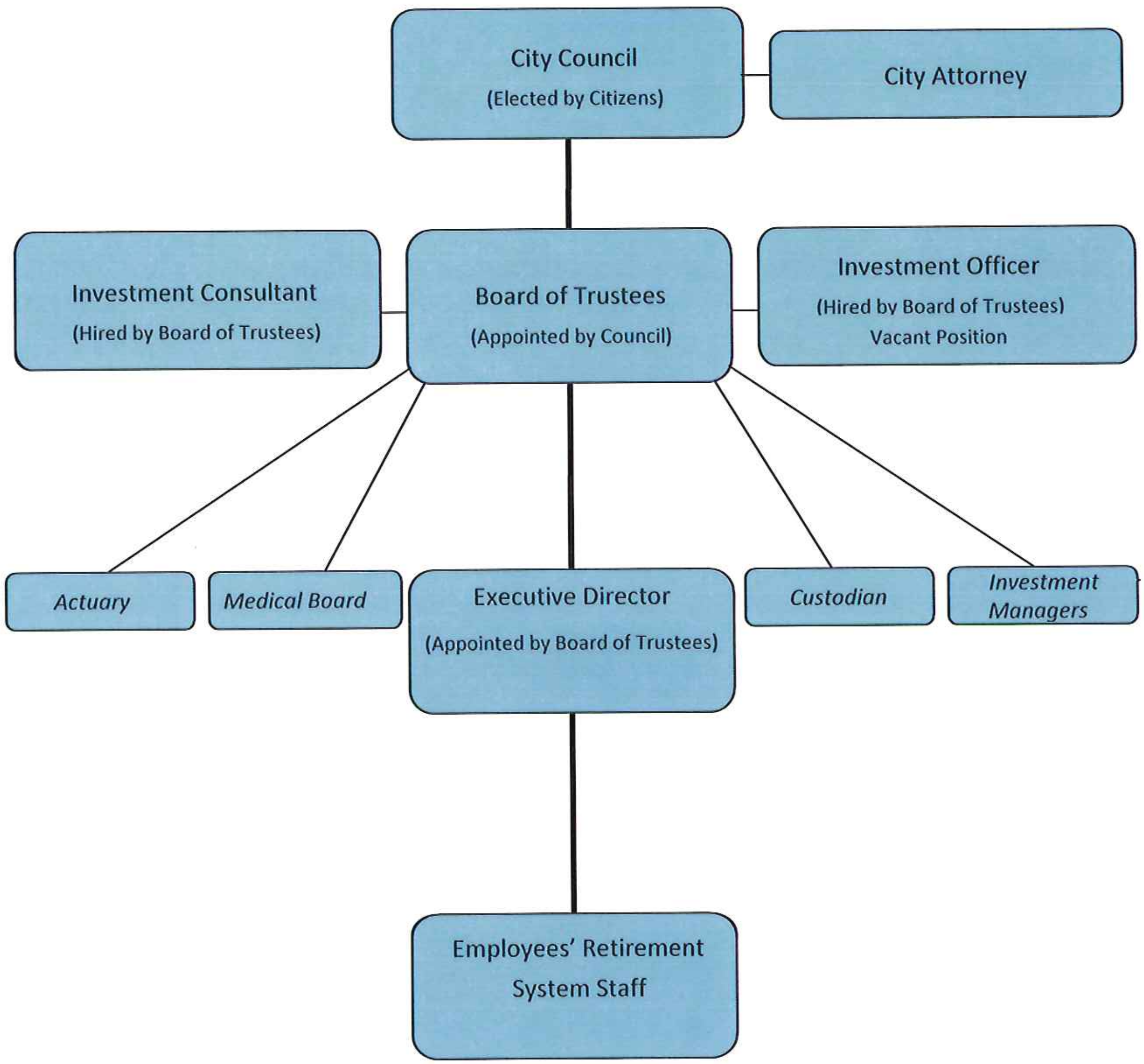
Real Estate

J.P. Morgan Chase Bank
New York, NY

UBS Trumbull
Hartford, CT

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

ORGANIZATIONAL CHART



FINANCIAL SECTION

KPMG

KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report

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

We have audited the accompanying statement of plan net assets of the Employees' Retirement System of the City of Norfolk (the System), a fiduciary fund of the City of Norfolk, Virginia, as of June 30, 2012, 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 audits 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 financial status of the System as of June 30, 2012, and the changes in its financial status 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 20, 2012 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 12 through 15, the schedule of funding progress on page 25, and the schedule of employer contributions on page 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial

KPMG

reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the System's basic financial statements. The schedule of administrative expenses and the schedule of investment expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The schedule of administrative expenses and the schedule of investment expenses have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of administrative expenses and the schedule of investment expenses are fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory section, investment section, actuarial section and statistical section are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

KPMG LLP

December 20, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Our discussion and analysis of the financial performance of the Employees' Retirement System of the City of Norfolk (the System) provides an overview of financial activities for the fiscal years ended June 30, 2012 and 2011. 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 2012 and 2011 by $885.5 million and $911.8 million, respectively (reported as total net assets). Total net assets are held in trust to meet future benefit obligations.

- The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2012 and 2011, the funded ratio was 80.7% and 78.2%, respectively. The increase in the funded ratio can be partially attributed to a change in the methodology used to measure the actuarial value of assets.

- Total additions decreased over the prior year $153.5 million or about (77.2)%. This decrease was mainly due to a decrease 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 $66.4 million to $71.6 million or 7.8%. 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 financial statements include all assets and liabilities that are due and payable using an economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, all additions and deductions are taken into account regardless of when cash is received or paid.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

FINANCIAL ANALYSIS

Employees' Retirement System of the City of Norfolk
Summary of Net Assets
As of June 30, 2012 and 2011

	FY 2012	FY 2011	2012-2011 Total % Change
ASSETS			
Cash and cash equivalents	$ 24,606,872	$ 7,222,094	240.7%
Receivables	95,466,202	45,676,229	109.0%
Investments	863,923,831	864,382,867	(0.1)%
Total assets	983,996,905	917,281,190	7.3%
LIABILITIES			
Accounts payable and accrued expenses	631,499	369,131	71.1%
Due to brokers for securities purchased	97,866,206	5,143,544	1,802.7%
Total Liabilities	98,497,705	5,512,675	1,686.8%
TOTAL NET ASSETS	$885,499,200	$911,768,515	(2.9)%

Total assets as of June 30, 2012 and 2011 were $983,996,905 and $917,281,190, respectively, and were comprised of cash and cash equivalents, receivables, and investments. Total assets increased $66,715,715 or 7.3% for Fiscal Year 2012, primarily due to timing of investment sales.

Total liabilities that are due and payable as of June 30, 2012 and 2011 were $98,497,705 and $5,512,675, respectively, and were comprised of payables to brokers for investment purchases and administrative costs. For FY 2012, total liabilities increased $92,985,030 or 168.7% 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 2012 and 2011 by $885,499,200 and $911,768,515, respectively. In fiscal year 2012, total net assets available for pension benefits decreased $26,269,315 or (2.9)% from the previous year primarily due to net depreciation in fair value of investments as a result of less favorable market conditions.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Employees' Retirement System of the City of Norfolk
Summary of Changes in Plan Net Assets
For the Fiscal Years Ended June 30, 2012 and 2011

	FY 2012	FY 2011	2012-2011 Total % Change
ADDITIONS			
Investment income, net	$ 3,252,793	$ 155,818,865	(97.9)%
Employer contributions	41,466,456	42,828,229	(3.2)%
Employee contributions	593,956	140,524	322.7%
Total additions	45,313,205	198,787,618	(77.2)%
DEDUCTIONS			
Benefit payments	71,021,815	65,839,610	7.9%
Refunds of contributions	24,879	16,685	49.1%
Administrative expenses	535,826	566,459	(5.4)%
Total deductions	71,582,520	66,422,754	7.8%
Net (decrease) increase	(26,269,315)	132,364,864	(119.8)%
Net assets held in trust for pension benefits			
Beginning of year	911,768,515	779,403,651	17.0%
End of year	$885,499,200	$911,768,515	(2.9)%

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 2012 and 2011 totaled $45,313,205 and $198,787,618, respectively.

Net investment income and contributions decreased for FY 2012 by $153,474,413 from that of the prior year, due primarily to a net depreciation in fair value of System's investments. The total portfolio returned 0.65% for fiscal year ended June 30, 2012 versus 21.3% for the prior fiscal year. Our target return is 7.0%

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 2012 were $71,582,250, an increase of 7.8% over FY 2011 deductions.

MANAGEMENT'S DISCUSSION AND ANALYSIS (concluded)

The pension benefits payments increased by $5,182,205 in FY 2012 or 7.9% from the previous year. The increase in pension benefit payments is a result of turnover in the retirement population. New retirees with higher benefits replaced older retirees, and one hundred forty-nine (149) employees retired July 1, 2011 as a result of the Voluntary Retirement Incentive Program (VRIP). The total number of retirees added in fiscal year 2012 was 322 as compared to 168 for fiscal year 2011. Administrative expenses as of June 30, 2012 and 2011 were $535,826 and $566,459, respectively. This was a decrease of $30,633 or 5.4% from the previous year due largely to a reduction in system staff due to the Voluntary Retirement Incentive Program.

RETIREMENT SYSTEM AS A WHOLE

As a result of a decrease in the equity markets, combined net assets decreased in Fiscal Year 2012 over Fiscal Year 2011. The System's funding ratio as determined by the System's actuary was 80.7% at June 30, 2012 and 78.2% at June 30, 2011.

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.

Employees' Retirement System of the City of Norfolk

(A Pension Trust Fund of Norfolk, Virginia)

Statement of Plan Net Assets

June 30, 2012

Assets:	
Cash and cash equivalents	$ 24,606,872
Receivables:	
Employer contribution	41,466,456
Accrued investment income	839,626
Accounts receivable	198
Due from broker for securities sold	53,159,922
Total receivables	95,466,202
Investments:	
United States Treasury securities	17,780,663
Fixed income securities	135,389,701
Equity securities	3,062
Other	69,085
Commingled funds:	
Equity	512,607,482
Fixed income	156,013,580
Real estate	42,060,258
Total commingled funds	710,681,320
Total investments	863,923,831
Total assets	983,996,905
Liabilities:	
Accounts payable and accrued expenses	631,499
Due to broker for securities purchased	97,866,206
Total liabilities	98,497,705
Net assets held in trust for pension benefits	$ 885,499,200

See accompanying notes to financial statements.

Employees' Retirement System of the City of Norfolk

(A Pension Trust Fund of Norfolk, Virginia)

Statement of Changes in Plan Net Assets

Year Ended June 30, 2012

Additions:	
Investment income (expense):	
Net depreciation in fair value of investments	$ (4,850,684)
Interest	6,845,251
Dividends	2,165,807
Other	203,222
	4,363,596
Less investment expenses	(1,110,803)
Net investment income	3,252,793
Employer contributions	41,466,456
Employee contributions	593,956
Total net additions	45,313,205
Deductions:	
Benefits paid directly to participants	67,290,271
Beneficiary payments	3,731,544
Refunds of contributions	24,879
Administrative expenses	535,826
Total deductions	71,582,520
Net decrease	(26,269,315)
Net assets held in trust for pension benefits:	
Beginning of year	911,768,515
End of year	$ 885,499,200

See accompanying notes to financial statements.

Employees' Retirement System of the City of Norfolk

(A Pension Trust Fund of Norfolk, Virginia)
Notes to Financial Statements
For the Year Ended June 30, 2012

Note 1. Significant Accounting Policies

Reporting entity: The Employees' Retirement System (System) of the City of Norfolk is the administrator of a single-employer contributory 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. The System 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. All employees hired on or after October 5, 2010 contribute 5% of compensation to the benefit plan with the exception of Norfolk Community Services Board employees at June 30, 2012 who will become City employees on July 1, 2012. Effective December 13, 2011, all employees hired on or after December 2011 are required to meet the vesting requirement of five (5) years in order to be eligible to receive benefits under the Plan with the exception of Norfolk Community Services Board employees at June 30, 2012 who will become City employees on July 1, 2012. The aforementioned will have their prior service with the Norfolk Community Services Board counted towards the five (5) year vesting requirement without this service being deemed creditable service in the System.

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 meets the definition of a Fiduciary Fund of the City of Norfolk under applicable accounting standards and as a result, the System's financial statements are incorporated into the Comprehensive Annual Financial Report of the City of Norfolk. These financial statements are those of the System and not of the City of Norfolk, Virginia as a whole. The City of Norfolk makes contributions, which 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 are recorded when paid.

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, with maturities of three months or less, and short-term investments. Short-term investments are recorded at cost which approximates fair value.

Notes to Financial Statements

Note 1. Significant Accounting Policies, concluded:

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 real estate commingled funds are valued based on semiannual or annual appraised values of the properties held by the funds. The remaining commingled funds are reported at estimated fair value, primarily net asset value (NAV), based on the quoted market prices of the underlying securities.

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

Estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets 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, contributory, 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, 2012 consists of the following:

Retirees and beneficiaries receiving benefits:	
General	2,415
Public safety	1,132
Terminated plan members entitled to but not yet receiving benefits:	
General	763
Public safety	194
Active plan members:	
Fully vested:	
General	1,791
Public safety	885
Nonvested:	
General	740
Public safety	342
Total	8,262

Notes to Financial Statements

Note 2. Description of the Plan, concluded:

The System provides retirement benefits as well as death and disability benefits. All benefits vest after five years of creditable service. 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.
>
> 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 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. Retirees and beneficiaries as of June 30, 2011 were granted a permanent 2.0% COLA effective July 2012. 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 $41,466,456 for the year ended June 30, 2012 was based on 25.3% 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 $65,069 at June 30, 2012.

Notes to Financial Statements

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

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. Mandatory contributions totaled $593,956 at June 30, 2012.

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, 2012, the actuarial value of assets was $923,198,558. The actuarial accrued liability was $1,144,406,630. The funding shortage of $221,208,072 represents 131.9% of the covered payroll of $167,592,964. The System's funded ratio is 80.7%. The schedule of funding progress, following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing relative to the actuarial accrued liability for benefits over time.

For the June 30, 2012 actuarial valuation, the actuarial assumptions included the following:

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 and the Voluntary Retirement Incentive Program which is amortized over a closed 20-year period commencing July 1, 2012.
Asset valuation method	The actuarial value method of assets is determined by first calculating the expected actuarial value of assets based on last year's valuation interest rate, last year's actuarial value of assets, and the net cash flow (contributions less benefit payments) of the System over the year prior to the valuation. One-third of the market value of assets less the expected actuarial value of assets is then added to the expected actuarial value of assets to determine the valuation assets. Since this is the first year this method is being used, the expected actuarial value of assets is based on last year's market value of assets in lieu of the prior year's actuarial value of assets.
Assumed inflation rate	3.0%
Investment rate of return	7.0% per annum, compounded annually
Projected salary increases**	Average salary increases of 5.64% for general employees and 6.68% for public safety employees. Based on rates that very 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 employees' 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 75% of the public safety employees are assumed to be married, with the males three years older than females.
**Includes inflation rate at 3.0%	

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.

Notes to Financial Statements

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 Deposits Act, Sec 2.2-4400 et. seq. of the Code of Virginia. Cash equivalents amounting to $23,947,116 consisted of $6,647,116 in short-term investments and $17,300,000 in J.P. Morgan, Barclay Capital, and Citigroup repurchase agreements.

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.

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

Interest rate risk: The System 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, 2012		Investment Maturity				
Investment Type	Fair Value	Less 1 yr	1-3 yrs	3-6 yrs	6-10 yrs	10 yrs +
Corporate Debt	$ 29,038,289	$11,322,906	$4,569,123	$ 6,441,353	$ 1,505,907	$5,199,000
Futures/Options/Swaps	56,207	(25,121)	155,636	(71,619)	(2,689)	N/A
U.S. Government securities	17,780,663	N/A	N/A	14,248,696	3,531,967	N/A
Municipals	9,195,621	N/A	N/A	N/A	N/A	9,195,621
Asset backed securities	8,266,885	N/A	524,134	N/A	N/A	7,742,751
Mortgage backed securities	78,686,080	N/A	1,003,920	2,323,347	2,725,030	72,633,783
Foreign government securities	10,215,704	5,142,952	N/A	305,406	4,649,911	117,435
Common stock	3,062	N/A	N/A	N/A	N/A	3,062
Fixed income funds	156,013,580	N/A	N/A	N/A	N/A	N/A
Domestic equity funds	325,721,196	N/A	N/A	N/A	N/A	N/A
International equity funds	186,886,286	N/A	N/A	N/A	N/A	N/A
Real estate funds	42,060,258	N/A	N/A	N/A	N/A	N/A
Totals	$863,923,831	$16,440,737	$6,252,813	$23,247,183	$12,410,126	$94,891,652

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.

Notes to Financial Statements

Note 4. Investments and Deposits, continued:

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, 2012

Currency	Fixed Income
Australian Dollar	$ (3,226,301)
Brazilian Real	1,613,151
Canadian Dollar	4,839,452
Japanese Yen	(50,007,667)
Mexican Peso	6,452,602
Totals	$ (40,328,763)

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. Investments in derivatives with a fair value of $56,207 were held at June 30, 2012 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, 2012 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, 2012

Fair Quality Rating	Corporate Bonds	Mortgages Backed Securities	Foreign Government	Asset Backed Securities	U.S. Government Securities	Municipals	Common Stock	Futures/ Options/ Swaps	Fixed Income/Equity/ Real Estate Funds
AAA	-	$ 722,671	$ 222,307	$ 107,305	-	-	-	-	-
AA+	$459,200	47,065,218	-	1,551,343	-	-	-	-	-
AA	-	-	-	-	-	$ 944,744	-	-	-
AA-	2,813,943	-	2,670,123	-	-	1,318,055	-	-	-
A+	7,785,687	4,605,627	2,180,322	-	-	2,643,162	-	-	-
A	3,659,304	133,965	-	-	-	936,118	-	-	-
A-	9,675,908	335,759	-	-	-	3,353,542	$ 2,346	-	-
BBB+	1,945,426	113,290	-	-	-	-	-	-	-
BBB	233,144	153,972	-	-	-	-	-	-	-
BBB-	1,766,133	-	-	-	-	-	-	-	-
BB+	102,250	-	-	-	-	-	-	-	-
BB	175,500	-	-	-	-	-	-	-	-
BB-	-	-	-	-	-	-	707	-	-
B+ and below	208,274	882,174		31,538	-	-	9	-	-
NR	213,520	24,673,404	5,142,952	6,576,699	$17,780,663	-	-	$ 56,207	$710,681,320
Totals	$29,038,289	$78,686,080	$10,215,704	$8,266,885	$17,780,663	$9,195,621	$ 3,062	$ 56,207	$710,681,320

Notes to Financial Statements

Note 4: Investments and Deposits, concluded:

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, 2012:

Investment	Amounts
Passive Bond Market Index Non-Lending Fund	$ 81,356,224
MSCI All Country World Index Ex-U.S. Non-Lending Fund	$186,908,595
Russell 3000 Index Fund	$325,746,786

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, 2012 were $535,826.

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.

Subsequent to year end, the Plan received a new determination letter dated October 18, 2012. This letter indicates that the Plan, as amended, complies with applicable sections of the Internal Revenue Code.

Required Supplementary 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, 2012**	**923.2**	**1,144.4**	**(221.2)**	**80.7%**	**167.6**	**(132.0)%**
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)%

* 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, 2012 to a new smoothing method. The prior actuarial asset valuation method reflected expected income (based on the valuation interest rate) and spread over three years recognition of any gains (losses) due to investment return in excess of (or less than) the expected return. The new method is determined by first calculating the expected actuarial value of assets based on last year's valuation interest rate, last year's actuarial value of assets, and the net cash flow of the System over the year prior to the valuation. One-third of the market value of assets less the expected actuarial value of assets is then added to the expected actuarial value of assets to determine the valuation of assets. The actuarial value of assets increased and the funding shortage decreased by $54.6 million, as a result of this change.

See accompanying independent auditors' report.

Required Supplementary Information

Schedule of Employer Contributions
(Unaudited)

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Accrued
2012	**$41,466,456**	**100**
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

See accompanying independent auditors' report.

Employees' Retirement System of the City of Norfolk

(A Pension Trust Fund of Norfolk, Virginia)

Schedule of Administrative Expenses

Year Ended June 30, 2012

Personal services:	
Staff salaries	$228,144
Benefits	115,527
Total personal services	343,671
Professional services:	
Actuarial fees	80,291
Audit fees	25,000
Total professional services	105,291
Communication:	
Travel and training	3,857
Postage and shipping	22,435
Total communication	26,292
Miscellaneous:	
Supplies and equipment	6,675
Other	53,897
Total miscellaneous	60,572
Total administrative expenses	$535,826

See accompanying independent auditors' report.

Employees' Retirement System of the City of Norfolk

(A Pension Trust Fund of Norfolk, Virginia)

Schedule of Investment Expenses

Year Ended June 30, 2012

Investment manager fees	$814,014	
Total investment manager fees		$814,014
Custody and Investment Consultant Fees:		
Custody fees	$ 113,837	
Investment consultant fees	182,952	
Total custody and investment consultant fees		$ 296,789
Total investment expenses		$1,110,803

See accompanying independent auditors' report.

INVESTMENT SECTION
(Unaudited)

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.

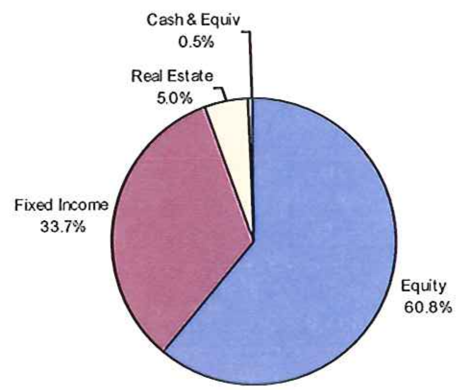
Asset Allocation

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.

Asset Allocation by Asset Class as of June 30, 2012



Total Equity	$512,655,381
Fixed Income	284,624,417
Real Estate	42,060,258
Cash and Equivalents (Excludes manager cash)	4,354,980
Total	$843,695,036

Asset Allocation as of June 30, 2012 (concluded)

Total net assets market value	**$843,695,036**
Adjustments to Reconcile Statement of Plan Asset Investments Total:	
Total Cash and Cash Equivalents	(23,824,157)
Receivable for Investments Sold	(53,159,922)
Interest Receivable	(839,626)
Tax Refund Receivable	(20,050)
Interest Payable – Short Positions	2,845
Payable for Investments Purchased	97,866,206
Other Payables	15,644
Unrealized Appreciation (Depreciation):	
on Foreign Cash Positions	61,801
on Receivables	(100)
on Forward Contracts	126,154
Total Investments Reconciled to the Statement of Plan Net Assets (See page 16)	$863,923,831

Investment Managers and Investment Assignments as of June 30, 2012

	Market Value		% of Portfolio
SSgA Russell 3000	$325,746,786		38.6%
SSgA MSCI ACWI-ex US Index	186,908,595		22.2%
PIMCO Total Return Funds	159,747,067		18.9%
SSgA Bond Market Index	81,356,224		9.6%
SSgA US TIPS Index	43,521,126		5.2%
JP Morgan Asset Mgmt Strat Prop Fund	22,487,879		2.7%
UBS Trumbull Property Fund	19,572,379		2.3%
Real Estate Cash	143,311		0.0%
Cash Holding Account	4,211,669		0.5%
Total	$843,695,036	*	100%

* See reconciliation of Statement of Plan Assets above.

Asset Allocation Comparison as of June 30, 2012

	Equity Commitment	Fixed Income Commitment	Total Other *	Percentage Total
Total Fund	60.9%	33.8%	5.3%	100%
Median All Public Plans	56.6%	36.2%	16.3%	100%

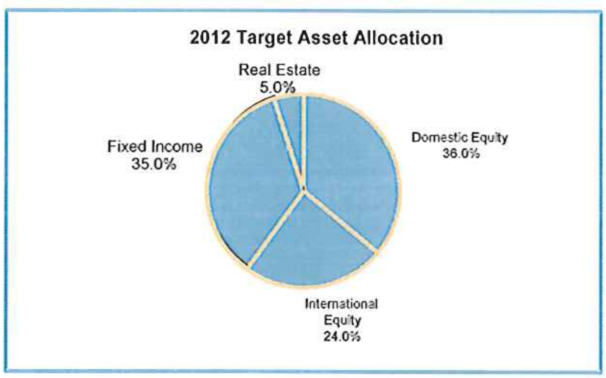
* Includes cash and alternative asset classes such as real estate, private equity, and hedge funds.

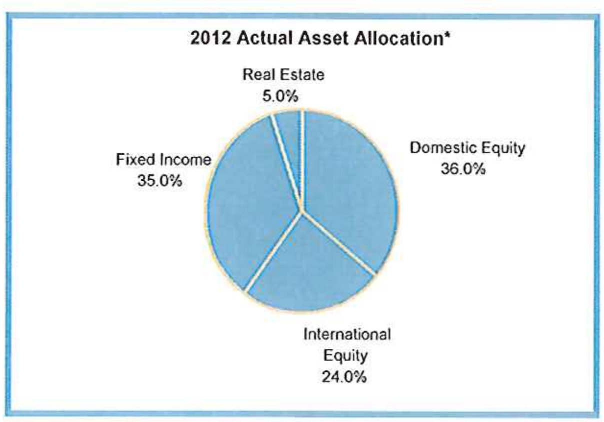
Target Asset Allocation

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

Asset Class	Minimum Percentage	Maximum Percentage	Target Percentage
Equities	**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 Performance Summary

For the Periods Ended June 30, 2012

Account	1 Year	2 Years	3 Years	5 Years
Equity				
SSgA Russell 3000	3.89%	17.30%	16.78%	N/A
Russell 3000	*3.84%*	*17.24%*	*16.73%*	*0.39%*
Total Domestic Equity	**3.89%**	**17.30%**	**16.78%**	**(0.50)%**
*Domestic Equity Policy Index**	*3.84%*	*17.24%*	*16.73%*	*0.39%*
SSgA MSCI ACWI-ex US Index	(14.37)%	5.48%	7.14%	N/A
MSCI AC World ex USA (Net)	*(14.56)%*	*5.28%*	*6.97%*	*(4.62)%*
Total International Equity	**(14.37)%**	**5.48%**	**7.14%**	**(4.93)%**
*International Equity Policy***	*(14.56)%*	*5.28%*	*6.97%*	*(5.21)%*
Total Equity	**(3.50)%**	**12.62%**	**12.94%**	**(2.32)%**
*Total Equity Policy Index****	*(3.83)%*	*12.40%*	*12.75%*	*(1.86)%*
Fixed Income				
PIMCO Total Return	6.14%	7.16%	9.10%	8.97%
Barclays Capital Aggregate	*7.47%*	*5.67%*	*6.93%*	*6.79%*
SSgA Bond Market Index	7.44%	5.65%	6.94%	N/A
Barclays Capital Aggregate	*7.47%*	*5.67%*	*6.93%*	*6.79%*
SSgA US TIPS Index	11.65%	9.64%	N/A	N/A
Barclays Capital US Treasury: US TIPS	*11.66%*	*9.68%*	*9.63%*	*8.44%*
Total Fixed Income	**7.14%**	**7.15%**	**8.85%**	**6.85%**
Barclays Capital Aggregate	*7.47%*	*5.67%*	*6.93%*	*6.79%*
Real Estate				
JP Morgan Asset Management Strategic Property Fund	11.96%	N/A	N/A	N/A
NCREIF Fund Index – ODCE	*12.42%*		*6.39%*	*(0.90)%*
UBS Trumbull Property Fund	N/A	N/A	N/A	N/A
NCREIF Property Index	*12.04%*			
Total Real Estate	**11.82%**	**N/A**	**N/A**	**N/A**
NCREIF Fund Index – ODCE	*12.42%*		*8.39)*	*(0.90)%*
Total Fund Composite	**0.65%**	**10.47%**	**11.52%**	**2.13%**
*Total Fund Policy Index*****	*1.12%*	*10.14%*	*10.84%*	*2.05%*

* Domestic Equity Policy Index as of June 30, 2012 = 100% Russell 3000.
** International Equity Policy Index as of June 30, 2012 = 100% MSCI AC World ex US Index (Net).
*** Total Equity Policy Index as of June 30, 2012 = 60% Russell 3000 and 40% MSCI AC World ex US Index (Net).
**** Total Fund Policy Index as of June 30, 2012 = 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).

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 $0.87 in commissions for the Fiscal Year 2012.

List of Largest Assets

As of June 30, 2012

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

Stock	Shares	Fair Value
Apple Inc.	19,673	$11,489,032
Exxon Mobile Corp.	98,364	$ 8,417,007
Microsoft Corp.	158,211	$ 4,839,674
General Electric Co.	222,657	$ 4,640,172
International Business Machines Corp.	22,905	$ 4,479,759
AT&T Inc.	123,202	$ 4,393,383
Chevron Corp.	41,451	$ 4,373,080
Johnson & Johnson	57,700	$ 3,898,212
Pfizer Inc.	157,286	$ 3,617,578
Procter & Gamble Co.	57,551	$ 3,524,999

Ten Largest Bond Holdings (by fair market value)

Bond	Interest Rate	Maturity Date	Par Value	Fair Value
PIMCO Prv Short-Term*	N/A	N/A	$18,713,677	$19,129,114
FNMA Single Fam	4.00%	Dec. 1, 2099	$16,981,094	$16,997,440
FNMA Single Fam	5.50%	Dec. 1, 2009	$13,079,564	$13,089,360
Federal Natl MTG ASSN	3.50%	Aug. 1, 2041	$11,505,313	$11,531,080
Markit CDX IG Incx	1.00%	June 20, 2017	$11,442,701	$11,500,000
U S Treasury	1.00%	March 31, 2017	$ 9,360,961	$ 9,427,875
PIMCO Prv Real Return*	N/A	N/A	$ 7,639,560	$ 7,872,020
JP Morgan Term Repo	0.20%	July 2, 2012	$ 7,400,000	$ 7,400,000
Citigroup Repo	0.20%	July 2, 2012	$ 5,500,000	$ 5,500,000
Barclays Capital Repo	0.16%	July 2, 2012	$ 4,400,000	$ 4,400,000

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

A complete list of portfolio holdings is available upon request.

ACTUARIAL SECTION
(Unaudited)

CHEIRON Classic Values, Innovative Advice

Actuary's Certification Letter

November 8, 2012

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, 2012, 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 7% 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, 2012 was determined based on the results of the June 30, 2011 valuation. The City's contribution amount was $41,466,456.

The results of the June 30, 2012 valuation determine the contribution appropriation for the fiscal year ending June 30, 2013, which will be presented in our valuation report subject to your approval.

As of June 30, 2012, the System's accrued liability was 81% funded based on the actuarial value of assets, including the contribution for the fiscal year ended June 30, 2012. The accrued liability was 77% funded based on the market value of assets.

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

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 performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice #23.

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

Actuary's Certification Letter

The Board of Trustees
November 8, 2012
Page 2

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 for this June 30, 2012 Actuarial Valuation. The most recent study of the System's experience, used in developing the current actuarial assumptions, was based on a period from July 2006 to June 2012. 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 actuarial value of assets is determined by first calculating the expected actuarial value of assets based on last year's valuation interest rate, last year's actuarial value of assets, and the net cash flow (contributions less benefit payments and administrative expenses) of the System over the year prior to the valuation. One-third of the market value of assets less the expected actuarial value of assets is then added to the expected actuarial value of assets to determine the valuation assets. Since this is the first year this method is being used, the expected actuarial value of assets is based on last year's market value of assets in lieu of the prior year's actuarial value of assets.

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.

I hereby certify that, to the best of my knowledge, this certification letter and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as a credentialed actuary, I meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter. This letter does not address any contractual or legal issues. I am not an attorney and our firm does not provide any legal services or advice.

This letter was prepared for the City of Norfolk for the purposes described herein and for the use by the plan auditor in completing an audit related to the matters herein. This letter is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

Respectfully submitted,
Cheiron

Fiona E. Liston

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

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Actuarial Assumptions

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

Mortality:

Pre-Retirement:	RP-2000 Combined Health Mortality projected to 2010 by Scale AA*
Health Annuitants:	RP-2000 Combined Health Mortality projected to 2010 by Scale AA
Disableds:	RP-2000 Disability Mortality projected to 2010 by Scale AA

* *5% of deaths are assumed to be accidental for general employees;*
50% of deaths are assumed to be accidental for firefighters and police.

Salary Increase:
Representative values are as follows:

Service	Annual Rate of Salary Increase General	Annual Rate of Salary Increase Firefighters and Police
0	7.12 %	11.24 %
1	6.97	8.15
2	6.81	7.63
3	6.66	7.63
4	6.50	7.63
5	6.35	7.63
10	5.85	7.63
15	5.70	7.33
20	5.26	5.78
25	4.74	4.55
30	4.23	4.55

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

Withdrawal:

Service	General	Firefighters and Police
0	15.00 %	10.00 %
1	13.00	9.00
2	11.00	8.00
3	9.00	7.00
4	9.00	6.00
5	7.50	5.00
10	2.50	2.80
15	2.50	1.00
20	2.50	1.00
25	1.00	1.00
30	1.00	1.00

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (continued)

Disability:

	General*		Firefighters and Police**
Age	Male	Female	Unisex
20	0.07%	0.05%	0.04%
25	0.08	0.05	0.06
30	0.09	0.06	0.08
35	0.14	0.10	0.11
40	0.22	0.15	0.22
45	0.34	0.23	0.40
50	0.51	0.35	0.67
54	0.66	0.45	0.90
55	0.70	0.48	0.96
59	1.02	0.70	1.26

* 20% of General disabilities are assumed to be accidental.

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

Retirement:

General:

Age	Early Retirement	Normal Service Retirement
45	5.00 %	7.50 %
50	7.50	7.50
51	5.00	7.50
52	5.00	7.50
53	5.00	7.50
54	5.00	7.50
55	5.00	7.50
56	5.00	7.50
57	5.00	7.50
58	5.00	7.50
59	5.00	7.50
60		12.50
61		12.50
62		12.50
63		12.50
64		12.50
65		25.00
66		15.00
67		15.00
68		15.00
69		15.00
70		100.00

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (continued)

Firefighters and Police:

Service	Rate of Retirement
20	2.50 %
21	3.00
22	3.50
23	4.00
24	5.00
25	10.00
26	25.00
27 and up	10.00

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

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

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

Loading or Contingency Reserves:
A load of 0.85% for General employees and 1.05% 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 seventy-five percent of the Firefighters and Police are assumed to be married, with males three years older than females.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (concluded)

Methods

Actuarial Cost Method:
Entry Age Normal Cost Method. The unfunded actuarial liability (UAL) that arose from the offering of the Public Safety Retirement Enhancement Program is being amortized over a closed 20-year period commencing as of July 1, 2005. The unfunded actuarial liability (UAL) that arose from the offering of the Voluntary Retirement Incentive Program is being amortized over a closed 20-year period commencing as of July 1, 2012. The remaining UAL as of June 30, 2012 will be amortized over a closed period of 20 years. Future annual changes in the UAL will be amortized over a closed period of 20 years as well. All rates are developed using a level-percent of pay amortization method.

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

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Census and Assets:
The valuation was based on members of the System as of June 30, 2012 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
2012	2,517	$106,447,927	$42,292	0.7%
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

* Excludes 14 members on leave of absence on June 30, 2012.

Firefighters and Police:

Valuation as of June 30	Number of Active Members*	Valuation Payroll	Average Salary	Percent Increase (Decrease) in Average
2012	1,214	$61,145,037	$50,367	0.8%
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

* Excludes 13 members on leave of absence on June 30, 2012.

Total:

Valuation as of June 30	Number of Active Members*	Valuation Payroll	Average Salary	Percent Increase in Average
2012	3,731	$167,592,964	$44,919	0.8%
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

* Excludes 27 members on leave of absence on June 30, 2012.

RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

Year Ended June 30	Added to Rolls No.	Added to Rolls Annual Allowance	Removed from Rolls No.	Removed from Rolls Annual Allowance	On Rolls at Year-End No.	On Rolls at Year-End Annual Allowance	Average Allowance	% Increase Average Allowance
2012	322	8,428,819	100	1,536,835	3,547	72,238,155	20,366	3.6%
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%

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

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

SOLVENCY TEST

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

A short condition test is one means of checking a plan's progress under its funding program. In a short condition test, the System's present assets (cash and investments) are compared with: (1) active member contributions, (2) the liabilities for future benefits to present retired lives, and (3) the employer-provided portion of liabilities for service already rendered by active members. In a plan that has been following the discipline of level percent of payroll financing, the active member contribution balances (Liability (1)), and 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, 2005 through June 30, 2012 are presented as follows:

	(1)	(2)	(3)				
Valuation Date	Active Member Contributions	Retirees, Vested Terms, Beneficiaries	Active Members (Employer Financed Portion)	Reported Assets	Portion of Accrued Liabilities Covered by Reported Assets		
					(1)	(2)	(3)
2012 (1)	$629,200	$768,508,092	$375,269,338	$923,198,558	100.0%	100.0%	41.1%
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 (2)	78,685	605,567,032	403,409,400	937,766,796	100.0%	100.0%	82.3%
2007 (3)	83,376	585,584,308	386,563,802	925,821,257	100.0%	100.0%	88.0%
2006 (4)	84,360	566,232,610	372,779,959	881,035,790	100.0%	100.0%	84.4%
2005 (5)	198,018	469,436,407	414,295,992	854,146,038	100.0%	100.0%	92.8%

(1) Retirees and beneficiaries as of June 30, 2011 were granted a permanent 2.0% supplemental benefit increase effective July 2012.

150 members retired under the Voluntary Retirement Incentive Program (VRIP) between July 1, 2011 and June 30, 2012.

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

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

(4) 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.

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

ANALYSIS OF FINANCIAL EXPERIENCE

Type of Activity	2009	2010	2011	2012
Investment income	$(87,432,722)	$(104,166,163)	$(21,698,596)	$ 31,495,079
Combined liability experience	14,859,619	18,097,499	12,889,233	3,881,141
Gain (loss) during year from financial experience	(72,573,103)	(86,068,664)	(8,809,363)	35,376,221
Non-recurring items	0	0	3,202,603	(26,747,315)
Composite gain (loss) during year	$(72,573,103)	$(86,068,664)	$ (5,606,760)	$ 8,628,906

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.

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS (continued)

Early Service Retirement Allowance

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

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

Vested Allowance

Eligibility:
Five years of creditable service.

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

Ordinary Disability Retirement Allowance

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

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

Accidental Disability Retirement Allowance

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

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

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

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS (continued)

Ordinary Death Benefit

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

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

Accidental Death Benefit

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

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

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

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS (continued)

Death Benefit After Retirement

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

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

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

Return of Contributions

Eligibility:
Termination of membership prior to death.

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

Normal and Optional Forms of Benefits:

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

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS (concluded)

Return of Contributions, (concluded)

Contributions

By Members	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

Retirees and beneficiaries as of June 30, 2011 were granted a permanent 2.0% supplemental benefit increase effective July 2012.

150 members retired under the Voluntary Retirement Incentive Program (VRIP) between July 1, 2011 and June 30, 2012.

STATISTICAL SECTION
(Unaudited)

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, 2012.

ADDITIONS BY SOURCE AND DEDUCTIONS BY TYPE

Schedule of Additions by Source

Fiscal Year Ended June 30	Employee Contributions	Employers' Contributions Dollars	Employers' Contributions % of Covered Payroll	Total Net Investment Income (Loss)	Additions
2012	$ 600,000	$ 41,500,000	25.11 %	$ 3,200,000	$ 45,300,000
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

Schedule of Deductions by Type

Fiscal Year Ended June 30	Benefit Payments	Refund of Contributions	Lump-Sum Death Benefits	Administrative Expenses	Total Deductions
2012	$ 71,000,000	$ -	$ 100,000	$ 500,000	$ 71,600,000
2011	65,900,000	-	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

Total Change in Net Assets

Fiscal Year Ended June 30	Total Change in Net Assets
2012	$ (26,300,000)
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

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

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

General

As of June 30	Service Retired Members	Contingent Annuitants	Disabled Annuitants	Total
2012	$ 33,871,000	$ 2,720,000	$ 2,907,000	$ 39,498,000
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

Firefighters and Police

As of June 30	Service Retired Members	Contingent Annuitants	Disabled Annuitants	Total
2012	$ 27,940,000	$ 1,855,000	$ 2,945,000	$ 32,740,000
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

Total

As of June 30	Service Retired Members	Contingent Annuitants	Disabled Annuitants	Total*
2012	$ 61,811,000	$ 4,575,000	$ 5,852,000	$ 72,238,000
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

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

Schedule of Retired Members by Type of Benefit as of June 30, 2012

General

Amount of Monthly Benefit	Number of Retirees	Type of Retirement															Option Selected*	
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	1	2
Deferred**	763																	
$1-$300	267	30	4	0	24	2	95	55	0	37	2	0	0	12	5	1	62	120
$301-$600	472	57	6	0	78	8	147	83	1	68	0	0	0	20	4	0	98	258
$601-$900	277	18	1	1	38	7	120	59	0	28	0	0	0	2	3	0	55	164
$901-$1,200	251	7	3	0	28	9	130	63	0	10	0	0	0	1	0	0	76	128
$1,201-$1,500	247	9	2	0	16	16	135	59	0	7	0	0	0	1	2	0	81	149
$1,501-$1,800	193	3	1	1	14	7	92	74	0	1	0	0	0	0	0	0	88	100
$1,801-$2,100	187	4	0	0	11	6	128	38	0	0	0	0	0	0	0	0	74	112
$2,101-$2,400	135	2	1	0	4	2	90	35	0	1	0	0	0	0	0	0	56	75
$2,401-$2,700	114	0	0	0	4	0	90	20	0	0	0	0	0	0	0	0	43	70
$2,701-$3,000	89	1	0	0	2	1	77	8	0	0	0	0	0	0	0	0	27	62
Over $3,000	183	1	1	0	3	1	164	12	0	1	0	0	0	0	0	0	43	135
Totals	3,178	132	19	2	222	59	1,268	506	1	153	2	0	0	36	14	1	703	1,373

Firefighters and Police

Amount of Monthly Benefit	Number of Retirees	Type of Retirement															Option Selected*	
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	1	2
Deferred**	194																	
$1-$300	28	4	0	0	4	7	3	1	0	9	0	0	0	0	0	0	6	5
$301-$600	92	9	0	1	14	16	22	4	0	21	3	0	2	0	0	0	12	30
$601-$900	78	9	0	2	11	21	22	8	0	3	0	0	1	0	1	0	9	34
$901-$1,200	69	2	3	1	11	11	26	11	0	3	0	1	0	0	0	0	12	29
$1,201-$1,500	68	1	1	1	5	10	38	10	0	0	1	0	1	0	0	0	9	37
$1,501-$1,800	58	1	1	2	3	17	24	10	0	0	0	0	0	0	0	0	8	37
$1,801-$2,100	75	0	0	0	5	12	46	12	0	0	0	0	0	0	0	0	16	54
$2,101-$2,400	77	0	0	0	2	15	47	12	0	0	0	1	0	0	0	0	18	57
$2,401-$2,700	92	0	0	0	2	6	72	11	0	0	0	1	0	0	0	0	26	66
$2,701-$3,000	87	0	0	0	0	11	68	8	0	0	0	0	0	0	0	0	27	60
Over $3,000	408	1	0	0	2	6	385	8	0	0	3	2	1	0	0	0	110	297
Totals	1,326	27	5	7	59	132	753	95	0	36	7	5	5	0	1	0	253	706

Total

Amount of Monthly Benefit	Number of Retirees	Type of Retirement															Option Selected*	
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	1	2
Deferred**	957																	
$1-$300	295	34	4	0	28	9	98	56	0	46	2	0	0	12	5	1	68	125
$301-$600	564	66	6	1	92	24	169	87	1	89	3	0	2	20	4	0	110	288
$601-$900	355	27	1	3	49	28	142	67	0	31	0	0	1	2	4	0	64	198
$901-$1200	320	9	6	1	39	20	156	74	0	13	0	1	0	1	0	0	88	157
$1201-$1500	315	10	3	1	21	26	173	69	0	7	1	0	1	1	2	0	90	186
$1501-$1800	251	4	2	3	17	24	116	84	0	1	0	0	0	0	0	0	96	137
$1801-$2100	262	4	0	0	16	18	174	50	0	0	0	0	0	0	0	0	90	166
$2101-$2400	212	2	1	0	6	17	137	47	0	1	0	1	0	0	0	0	74	132
$2401-$2700	206	0	0	0	6	6	162	31	0	0	0	1	0	0	0	0	69	136
$2701-$3000	176	1	0	0	2	12	145	16	0	0	0	0	0	0	0	0	54	122
Over $3000	591	2	1	0	5	7	549	20	0	1	3	2	1	0	0	0	153	432
Totals	4,504	159	24	9	281	191	2,021	601	1	189	9	5	5	36	15	1	956	2,079

* Beneficiaries were excluded.

Type of Retirement:

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

Option Selected:

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

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

Schedule of Retired Members by Type of Benefit as of June 30, 2012

General

Amount of Monthly Benefit	Number of Retirees	Type of Retirement: Service Retired Members	Contingent Annuitants	Disabled Annuitants	Option Selected*: 1	2
Deferred**	763					
$1-$300	267	177	83	7	62	120
$301-$600	472	304	116	52	98	258
$601-$900	277	184	58	35	55	164
$901-$1,200	251	168	47	36	76	128
$1,201-$1,500	247	200	18	29	81	149
$1,501-$1,800	193	166	6	21	88	100
$1,801-$2,100	187	169	1	17	74	112
$2,101-$2,400	135	125	4	6	56	75
$2,401-$2,700	114	109	1	4	43	70
$2,701-$3,000	89	86	0	3	27	62
Over $3,000	183	174	5	4	43	135
Totals	3,178	1,862	339	214	703	1,373

Firefighters and Police

Amount of Monthly Benefit	Number of Retirees	Type of Retirement: Service Retired Members	Contingent Annuitants	Disabled Annuitants	Option Selected*: 1	2
Deferred**	194					
$1-$300	28	11	15	2	6	5
$301-$600	92	33	51	8	12	30
$601-$900	78	26	35	17	9	34
$901-$1,200	69	28	28	13	12	29
$1,201-$1,500	68	34	22	12	9	37
$1,501-$1,800	58	28	13	17	8	37
$1,801-$2,100	75	53	5	17	16	54
$2,101-$2,400	77	57	2	18	18	57
$2,401-$2,700	92	82	1	9	26	66
$2,701-$3,000	87	76	0	11	27	60
Over $3,000	408	396	1	11	110	297
Totals	1,326	824	173	135	253	706

Total

Amount of Monthly Benefit	Number of Retirees	Type of Retirement: Service Retired Members	Contingent Annuitants	Disabled Annuitants	Option Selected*: 1	2
Deferred**	957					
$1-$300	295	188	98	9	68	125
$301-$600	564	337	167	60	110	288
$601-$900	355	210	93	52	64	198
$901-$1,200	320	196	75	49	88	157
$1,201-$1,500	315	234	40	41	90	186
$1,501-$1,800	251	194	19	38	96	137
$1,801-$2,100	262	222	6	34	90	166
$2,101-$2,400	212	182	6	24	74	132
$2,401-$2,700	206	191	2	13	69	136
$2,701-$3,000	176	162	0	14	54	122
Over $3,000	591	570	6	15	153	432
Totals	4,504	2,686	512	349	956	2,079

* Beneficiaries were excluded.

Type of Retirement:

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

Option Selected:

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

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

Schedule of Average Benefit Payments
(Excludes Beneficiaries)

General

Retirement Effective Dates	Years of Credited Service					
	0-10	10-15	15-20	20-25	25-30	30+
July 1, 2005 to June 30, 2006						
Average Monthly Benefit	$396	$445	$1,034	$1,502	$2,016	$3,001
Average - Average Final Compensation	$50,698	$23,125	$38,764	$40,889	$46,215	$52,530
Number of Active Retirees	10	13	9	16	18	32
July 1, 2006 to June 30, 2007						
Average Monthly Benefit	$350	$536	$817	$1,395	$1,885	$2,584
Average - Average Final Compensation	$29,803	$27,122	$31,171	$40,839	$45,321	$45,521
Number of Active Retirees	12	26	14	13	14	35
July 1, 2007 to June 30, 2008						
Average Monthly Benefit	$523	$460	$796	$1,298	$1,741	$2,612
Average - Average Final Compensation	$53,322	$25,864	$28,757	$39,042	$42,564	$47,676
Number of Active Retirees	4	23	11	10	11	20
July 1, 2008 to June 30, 2009						
Average Monthly Benefit	$316	$465	$1,040	$1,471	$1,668	$3,004
Average - Average Final Compensation	$34,665	$23,733	$39,305	$45,720	$46,594	$53,518
Number of Active Retirees	11	21	6	13	13	31
July 1, 2009 to June 30, 2010						
Average Monthly Benefit	$355	$692	$1,011	$1,758	$1,742	$3,005
Average - Average Final Compensation	$36,704	$35,515	$33,430	$47,789	$44,477	$54,177
Number of Active Retirees	13	17	13	9	11	30
July 1, 2010 to June 30, 2011						
Average Monthly Benefit	$442	$792	$809	$1,989	$1,860	$2,569
Average - Average Final Compensation	$44,314	$40,698	$30,185	$59,928	$45,758	$50,079
Number of Active Retirees	14	19	12	9	16	30
July 1, 2011 to June 30, 2012						
Average Monthly Benefit	$400	$769	$1,367	$1,476	$1,796	$2,853
Average - Average Final Compensation	$41,991	$37,725	$55,196	$44,673	$45,893	$52,148
Number of Active Retirees	28	30	17	28	23	90

Schedule of Average Benefit Payments
(Excludes Beneficiaries)

Firefighters and Police

Retirement Effective Dates	Years of Credited Service					
	0-10	10-15	15-20	20-25	25-30	30+
July 1, 2005 to June 30, 2006						
Average Monthly Benefit	$0	$0	$0	$2,119	$3,457	$3,997
Average - Average Final Compensation	$0	$0	$0	$50,101	$56,171	$59,724
Number of Active Retirees	0	0	0	9	42	68
July 1, 2006 to June 30, 2007						
Average Monthly Benefit	$0	$799	$2,067	$2,399	$3,227	$4,570
Average - Average Final Compensation	$0	$30,410	$47,904	$53,370	$57,276	$74,658
Number of Active Retirees	0	8	4	9	13	4
July 1, 2007 to June 30, 2008						
Average Monthly Benefit	$800	$1,009	$1,262	$2,408	$3,025	$3,863
Average - Average Final Compensation	$37,660	$38,885	$41,792	$55,165	$54,778	$73,329
Number of Active Retirees	1	2	3	7	9	6
July 1, 2008 to June 30, 2009						
Average Monthly Benefit	$0	$540	$1,452	$2,925	$3,763	$3,381
Average - Average Final Compensation	$0	$25,951	$42,421	$58,382	$68,073	$62,851
Number of Active Retirees	0	8	4	6	17	4
July 1, 2009 to June 30, 2010						
Average Monthly Benefit	$0	$0	$0	$2,948	$3,412	$4,001
Average - Average Final Compensation	$0	$0	$0	$63,537	$62,020	$71,886
Number of Active Retirees	0	0	0	10	12	12
July 1, 2010 to June 30, 2011						
Average Monthly Benefit	$1,452	$1,131	$1,293	$2,594	$3,516	$3,866
Average - Average Final Compensation	$90,137	$30,385	$36,401	$54,084	$63,775	$69,548
Number of Active Retirees	2	4	2	3	16	10
July 1, 2011 to June 30, 2012						
Average Monthly Benefit	$0	$1,270	$2,125	$2,995	$3,473	$3,672
Average - Average Final Compensation	$0	$37,819	$46,354	$62,583	$64,224	$67,511
Number of Active Retirees	0	5	3	8	16	10

Schedule of Average Benefit Payments
(Excludes Beneficiaries)

Total

Retirement Effective Dates	Years of Credited Service					
	0-10	10-15	15-20	20-25	25-30	30+
July 1, 2005 to June 30, 2006						
Average Monthly Benefit	$396	$445	$1,034	$1,724	$3,024	$3,678
Average - Average Final Compensation	$50,698	$23,125	$38,764	$44,205	$53,184	$57,422
Number of Active Retirees	10	13	9	25	60	100
July 1, 2006 to June 30, 2007						
Average Monthly Benefit	$350	$598	$1,095	$1,805	$2,531	$2,788
Average - Average Final Compensation	$29,803	$27,896	$34,889	$45,965	$51,077	$48,510
Number of Active Retirees	12	34	18	22	27	39
July 1, 2007 to June 30, 2008						
Average Monthly Benefit	$578	$504	$896	$1,755	$2,318	$2,900
Average - Average Final Compensation	$50,190	$26,906	$31,550	$45,681	$48,060	$53,596
Number of Active Retirees	5	25	14	17	20	26
July 1, 2008 to June 30, 2009						
Average Monthly Benefit	$316	$486	$1,205	$1,930	$2,855	$3,047
Average - Average Final Compensation	$34,665	$24,345	$40,551	$49,719	$58,766	$54,585
Number of Active Retirees	11	29	10	19	30	35
July 1, 2009 to June 30, 2010						
Average Monthly Benefit	$355	$692	$1,011	$2,384	$2,613	$3,290
Average - Average Final Compensation	$36,704	$35,515	$33,430	$56,078	$53,630	$59,237
Number of Active Retirees	13	17	13	19	23	42
July 1, 2010 to June 30, 2011						
Average Monthly Benefit	$568	$851	$879	$2,140	$2,688	$2,893
Average - Average Final Compensation	$50,042	$38,905	$31,073	$58,467	$54,767	$54,946
Number of Active Retirees	16	23	14	12	32	40
July 1, 2011 to June 30, 2012						
Average Monthly Benefit	$400	$841	$1,481	$1,814	$2,484	$2,935
Average - Average Final Compensation	$41,991	$37,738	$53,870	$48,653	$53,413	$53,684
Number of Active Retirees	28	35	20	36	39	100

COMPLIANCE SECTION

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

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

We have audited the financial statements of the Employees' Retirement System of the City of Norfolk (the System), a fiduciary fund of the City of Norfolk, as of and for the year ended June 30, 2012, and have issued our report thereon dated December 20, 2012. 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. However, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency as described below. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Valuation of Non-Exchange Traded Funds

The System holds a significant investment in nonexchange traded funds. The valuation of these investments is performed by the custodian of the assets and is based on the net asset value of each fund as determined by the fair value of the underlying investments. While certain controls over the valuation performed by the custodian are in place, management is not performing a control to obtain and reconcile audited financial statements of the funds. In addition, if the year end of the fund differs from the System's year end, the System should obtain and reconcile the net asset value to the amount recorded by the custodian. These controls are important to validating the fair value of investments as reported to the System by the System's custodian.

Compliance and Other Matters

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

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

KPMG LLP

December 20, 2012