IMPERIAL COUNTY EMPLOYEES'
RETIREMENT SYSTEM

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

FOR THE FISCAL YEARS
ENDED JUNE 30, 2011 AND 2010

IMPERIAL COUNTY EMPLOYEES'
RETIREMENT SYSTEM
JUNE 30, 2011 AND 2010

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BROWN ARMSTRONG
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INDEPENDENT AUDITOR'S REPORT

Board of Retirement
Imperial County Employees' Retirement System
El Centro, California

We have audited the statement of plan net assets of the Imperial County Employees' Retirement System (ICERS) as of June 30, 2011 and 2010, and the related statement of changes in plan net assets for the years then ended. These financial statements are the responsibility of ICERS' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of ICERS as of June 30, 2011 and 2010, and its changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Schedule of Funding Progress, and Schedule of Employer Contributions be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2012, on our consideration of ICERS' 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.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Bakersfield, California
January 6, 2012

This Management's Discussion and Analysis (MD&A) of the financial activities of Imperial County Employees' Retirement System's (ICERS) is an overview of its fiscal operations for the year ended June 30, 2011. Readers are encouraged to consider the information presented in conjunction with the Financial Statements and Notes to the Financial Statements.

We are pleased to provide this overview and analysis of the financial activities of ICERS for the year ended June 30, 2011. ICERS is the public employee retirement system established by Imperial County on July 1, 1951, and is administered by the Board of Retirement to provide retirement, disability, and death and survivor benefits for its employees under the County Employees Retirement Act of 1937.

Financial Highlights

ICERS' plan net assets as of June 30, 2011, were $552,207,190. The plan net assets are held in trust for payment of pension benefits to participants and their beneficiaries and all of the net assets are available to meet ICERS' ongoing obligations.

- Net assets increased by $96,382,147; primarily due to positive investment performance.

- Total additions, as reflected in the Statement of Changes in Plan Net Assets increased $44,630,727, primarily as a result of the net appreciation in the fair value of investments.

- Deductions in plan net assets increased from $23,116,150 to $25,230,961 versus the prior year. The increase was due to an increase in retiree pension benefits.

- ICERS' funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2011, the date of the last actuarial evaluation, the funded ratio for all ICERS agencies was 90%. In general, this indicates that for every dollar of benefits due ICERS had approximately $.90 of assets available for payment as of that date. The funding ratios of the employer entities that participate in ICERS were 100%.

Overview of the Financial Statements

This MD&A serves as an introduction to the basic financial statements. ICERS has two basic financial statements, the notes to the financial statements, and two required supplementary schedules of historical trend information. The basic financial statements and the required disclosures are in compliance with the accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board, utilizing the accrual basis of accounting.

The Statement of Plan Net Assets is the first basic financial report. This is a snapshot of account balances at fiscal year end. This statement reflects assets available for future payments to retirees and their beneficiaries and any current liabilities that are owed as of fiscal year end. The Net Assets Held in Trust for Pension Benefits, which are the assets less the liabilities, reflects the funds available for future use.

The Statement of Changes in Plan Net Assets is the second financial report. This report reflects all the activities that occurred during the fiscal year, and shows the impact of those activities as Additions or Deductions to the plan. The trend of Additions versus Deductions to the plan will indicate the condition of ICERS' financial position over time.

Both statements are in compliance with Governmental Accounting Standard Board Statements (GASB) Pronouncements 25, 26, 28, 33, 34, 40, 44, 50, 55, and 56. These pronouncements require certain disclosures and also require the state and local governments to report using the full accrual method of accounting. ICERS complies with all material requirements of these pronouncements.

The Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets report information about ICERS' activities. These statements include all assets and liabilities using the full accrual basis of accounting as practiced by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Investment gains and losses are reported on a trade-date basis and both realized and unrealized gains and losses on investments are shown.

These two statements report ICERS' net assets held in trust for pension benefits (net assets) – the difference between assets and liabilities – as one way to measure ICERS' financial position. Over time, increases and decreases in ICERS' net assets are one indicator of whether its financial health is improving or deteriorating. Other factors, such as market conditions, should also be considered in measuring ICERS' overall health.

The Notes to the Financial Statements (notes) are an integral part of the financial reports. The notes provide detailed discussion of key policies, programs and activities that occurred during the year.

The *Schedule of Funding Progress* required supplementary schedule includes historical trend information about the actuarially funded status of ICERS, and the progress made in accumulating sufficient assets to pay benefits when due. The other required supplementary schedule, the *Schedule of Employer Contributions*, presents historical trend information about the annual required contributions of the employer and the actual contributions made. These schedules provide information to help promote understanding of the changes in the funded status of ICERS over time.

Financial Analysis

The reserves needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through earnings on investment income (net of investment expense). Net assets as of June 30, 2011, totaled $552,207,190, an increase of $96,382,147 over the prior year. ICERS' assets exceeded its liabilities at the end of the year. The Total Plan Net Assets represent funds available for future payments. However, of importance, is the fact that unlike private pension funds, public pension funds are not required to report the future liability of obligations owed to retirees. Only current liabilities are reported in the Statement of Plan Net Assets. Below is a comparison of current and prior year balances:

	2011	2010	Increase (Decrease) 2011/2010
Investments at Fair Value	$ 542,643,728	$ 451,177,048	$ 91,466,680
Cash and Short-term Investments	6,142,113	2,045,595	4,096,518
Capital Assets (Net of Accumulated Depreciation)	3,222,078	2,397,962	824,116
Collateral Held for Securities Loaned	21,058,815	39,523,814	(18,464,999)
Receivables and Other Assets	4,415,225	11,531,140	(7,115,915)
Total Assets	577,481,959	506,675,559	70,806,400
Total Liabilities	25,274,769	50,850,516	(25,575,747)
Net Assets	$ 552,207,190	$ 455,825,043	$ 96,382,147

In order to determine whether Plan Net Assets will be sufficient to meet future obligations, the actuarial funded status needs to be calculated. An actuarial valuation is similar to an inventory process. On the valuation date, the assets available for the payment of retirement benefits are appraised. These assets are compared with the actuarial liabilities, which are the actuarial present value of all future benefits expected to be paid for each member. The purpose of the valuation is to determine what future contributions by the members and Imperial County are needed to pay all expected future benefits.

ICERS' independent actuary, The Segal Company, performed an actuarial valuation as of June 30, 2011, and determined that the funded ratio of the actuarial assets to the actuarial accrued liability is 90%. The actuarial valuation as of June 30, 2010, determined the funded ratio to be 96%.

Additions to Plan Net Assets

There are three primary sources of funding for ICERS retirement benefits: earnings (losses) on investments of assets and employer and employee contributions. Income sources for the fiscal years June 30, 2011 and 2010, totaled $121,613,108 and $76,982,381, respectively.

	2011	2010	Increase (Decrease) 2011/2010
Employer Contributions	$ 12,982,633	$ 12,362,022	$ 620,611
Plan Member Contributions	8,460,354	8,233,664	226,690
Net Investment Income	100,136,757	56,310,244	43,826,513
Miscellaneous Income	33,364	76,451	(43,087)
Total Additions	$ 121,613,108	$ 76,982,381	$ 44,630,727

Deductions from Plan Net Assets

ICERS was created to provide lifetime retirement annuities, survivor benefits, and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments, as designated by the plan, refund of contributions to terminated employees, and the cost of administering ICERS. Below is a comparison of selected current and prior year balances:

	2011	2010	Increase (Decrease) 2011/2010
Retirement Benefits	$ 23,504,532	$ 21,265,193	$ 2,239,339
Refund of Contributions	606,411	747,047	(140,636)
Lump Sum Death Benefits	129,802	90,000	39,802
Administrative Expenses	820,588	901,837	(81,249)
Legal Expenses	74,695	21,773	52,922
Actuarial Expenses	94,933	90,300	4,633
Total Deductions	$ 25,230,961	$ 23,116,150	$ 2,114,811

The Retirement Fund as a Whole

Despite variations in the stock market, Management believes that ICERS is in reasonably sound financial position to meet its obligations to the retired and current employees. The current financial position results from a diversified investment program that prudently manages risk to minimize loss, an effective system of cost control and strategic planning. Management believes there will continue to be sufficient assets to meet all benefit obligations.

Requests for Information

This financial report is designed to provide the Retirement Board, our membership, taxpayers, and investment managers with a general overview of ICERS finances and to demonstrate ICERS' accountability for the funds under its stewardship

Please address any questions about this report or requests for additional financial information to:

Imperial County Employees' Retirement System
1221 State Street
El Centro, CA 92243

Respectively submitted,

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Scott W. Jarvis
Accountant/Auditor

BASIC FINANCIAL STATEMENTS

IMPERIAL COUNTY EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF PLAN NET ASSETS
AS OF JUNE 30, 2011 AND 2010

	June 30, 2011	June 30, 2010
Assets		
Cash and cash equivalents	$ 6,142,113	$ 2,045,595
Security lending cash collateral	21,058,815	39,523,814
Total Cash	27,200,928	41,569,409
Receivables		
Contributions receivable	982,265	855,249
Accounts receivable - sale of investments	2,724,980	4,275,722
Accrued interest and dividends	688,086	607,440
Forward currency contracts receivable	-	5,689,613
Accounts receivable - other	19,894	103,116
Total Receivables	4,415,225	11,531,140
Investments at fair value		
Fixed income	165,207,991	150,382,898
Domestic equities	188,528,771	161,577,174
International equities	118,443,272	91,881,029
Private equity	41,909,592	32,152,787
Real estate	28,554,102	15,183,160
Total Investments	542,643,728	451,177,048
Capital assets (net of accumulated depreciation)	3,222,078	2,397,962
Total Assets	577,481,959	506,675,559
Liabilities		
Accounts payable - purchase of investments	3,845,964	5,242,718
Collateral payable for securities lending	21,058,815	39,523,814
Forward currency contracts payable	-	5,677,024
Accounts payable - other	369,990	406,960
Total Liabilities	25,274,769	50,850,516
Net Assets Held in Trust for Employees' Pension Benefits	$ 552,207,190	$ 455,825,043

A schedule of funding progress is presented in the Required Supplementary Information in this Financial Section.

The accompanying notes are an integral part of these financial statements.

IMPERIAL COUNTY EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR YEARS ENDED JUNE 30, 2011 AND JUNE 30, 2010

	June 30, 2011	June 30, 2010
Additions		
Contributions		
Employer	$ 12,982,633	$ 12,362,022
Plan member	8,460,354	8,233,664
Total Contributions	21,442,987	20,595,686
Investment income		
Net Appreciation in fair value of investments	88,896,423	47,190,735
Interest and dividends	10,689,031	9,536,348
Real estate operating income, net	2,363,293	800,081
Alternative income	782,970	949,026
Total investment income	102,731,717	58,476,190
Less investment expenses	2,652,613	2,230,855
Net Investment Income	100,079,104	56,245,335
Securities lending activities		
Securities lending income	161,220	145,388
Less expenses from securities lending activities	103,567	80,479
Net Securities Lending Income	57,653	64,909
Total Net Investment Income	100,136,757	56,310,244
Miscellaneous	33,364	76,451
Total Additions	121,613,108	76,982,381
Deductions		
Retirement benefits	23,504,532	21,265,193
Refunds of contributions	606,411	747,047
Lump sum death benefits	129,802	90,000
Administrative expenses	820,588	901,837
Legal expenses	74,695	21,773
Actuarial expenses	94,933	90,300
Total Deductions	25,230,961	23,116,150
Net Increase	96,382,147	53,866,231
Net Assets Held in Trust for Employees' Pension Benefits, Beginning of Year	455,825,043	401,483,959
Prior Period Adjustment	-	474,853
Net Assets Held in Trust for Employees' Pension Benefits, as Restated	455,825,043	401,958,812
Net Assets Held in Trust for Employees' Pension Benefits, End of Year	$ 552,207,190	$ 455,825,043

The accompanying notes are an integral part of these financial statements.

NOTE 1 – PENSION PLAN DESCRIPTION

The Imperial County Employees' Retirement System (ICERS) was formed July 1, 1951, by the adoption of the County Employees' Retirement Law of 1937 (State of California Government Code Section §31502) by the Imperial County Board of Supervisors pursuant to a vote of the people of Imperial County to provide retirement benefits to the employees of Imperial County and various special districts. ICERS, with its' own governing boards, is an independent governmental entity separate and distinct from the County of Imperial (County). ICERS' Annual Financial Statements are included in the County's Annual Financial Report as a pension trust fund. Maintaining appropriate controls and preparing the financial statements are the responsibility of ICERS management. On January 1, 2006 and June 20, 2006 the Superior Court of California County of Imperial and the Local Agency Formation Commission became participants in the program, respectively.

The Plan is an agent multiple-employer public employee retirement system (PERS). Such plans cover employees of more than one employer and pool administrative and investment functions as a common investment and administrative agent for each employer. Administrative costs of ICERS are financed through investment earnings and paid by ICERS. As required under California Government Code Section §31520.1, ICERS is governed by the following Board of Retirement:

	Term Expires
Ann McDonald, General Member Employee	6/30/2013
Julie Villeneueve, General Member Employee	6/30/2014
Jack Terrazas, County Supervisor	6/30/2012
Norma Jauregui, Public Member	6/30/2014
Robert Williams, Public Member	12/31/2014
Herbert Bumgart, Safety Member Employee	12/31/2011
Terry Huskey, Retiree	12/31/2011
James E. Rhodes, Public Member	12/31/2014
Pompeyo Tabarez, Jr., Alternate Safety Member	12/31/2011
Charles L. Jernigan, Alternate Retiree Member	12/31/2011
Karen Vogel, Ex-Officio Member	Ex-Officio

ICERS' membership consisted of the following as reported in the most recent actuarial valuation dated June 30, 2011 and 2010:

	June 30, 2011	June 30, 2010
Active Members (Vested and Non-Vested)	1,947	1,944
Retired Members and Beneficiaries	924	877
Terminated Vested (Deferred)	247	247
Total Membership	3,118	3,068

As required by state statutes and ICERS by-laws, all regular-hire employees considered at least three-quarter time must participate in the County's pension plan, except for elected officials and those members over 60 years of age as outlined under Government Code Section §31552. Under the provisions of the County's pension plan, pension benefits vest after five years of credited service. Employees are eligible to

receive benefits upon reaching the age of 50 and 10 years of credited service or after 30 years of service (Safety, 20 years of service). Pension benefit amounts vary based on the individual's age and number of years in the retirement system. The maximum pension benefit is 100% of final compensation. Also, the pension plan provides for death benefits and disability benefits. All pension, death and disability benefits are determined in accordance with state statutes.

NOTE 1 – PENSION PLAN DESCRIPTION (Continued)

Contributions are determined based on a percentage of compensation for each entry age so as to provide a lifetime annuity commencing at age 50.

All retirees and survivors are eligible for health insurance benefits. Eligibility for payment of these premiums is outlined on pages 23-24 of the Retirement System's Benefit Booklet. Premiums are collected by ICERS and forwarded to the County of Imperial.

Employer and employee contributions are based on actuarial valuations that cover the mortality, service, and compensation experience of the members and beneficiaries, and the evaluation of the assets and liabilities of the retirement fund. The Board of Supervisors makes the necessary changes in County contribution rates and interest rates based upon the valuations and recommendations of the actuary. According to the June 30, 2011, actuarial valuation, depending on the age and classification at hire date, employees' weighted contributions are 10.89% of covered payroll for the County.

Retiree and survivor benefits are adjusted annually for cost of living by the annual increase or decrease in the Consumer Price Index (CPI). In years when the CPI either increases or decreases more than the specified limit, the positive or negative excess is accumulated and applied to future years when the change in the CPI is outside those limits. The following limits are currently in effect: maximum benefit/deficit is +/- 2%.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ICERS follows the accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board (GASB).

The financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Investments are reported at fair value, except that short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates or by various outside pricing sources. The fair value of real
estate investments is based on independent appraisals.

Cash

Cash includes deposits with various financial institutions, the County trust fund, and international currency holdings, which have original maturities of less than 90 days, translated to U.S. dollars using the exchange rates in effect at June 30, 2011 and 2010.

Capital Assets

Capital assets are valued at historical cost less accumulated depreciation. Capital assets with an initial cost of more than $7,500 and an estimated useful life in excess of one year are depreciated. Depreciation is calculated using the straight-line method over the estimated useful lives of the depreciable assets. Equipment has a useful life of five years, leasehold improvements to office space forty years, and twelve years for the Pension Administration System (PAS), which is currently being created.

<u>Use of Estimates</u>

The preparation of the Plan's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

<u>Reclassifications</u>

Comparative data for the prior year has been presented in the selected sections of the accompanying Statements of Plan Net Assets and Changes in Plan Net Assets. Also, certain accounts presented in the prior year's data may have been reclassified in order to be consistent with the current year's presentation.

<u>Reserves</u>

The reserves represent the components of ICERS' net assets. Reserves are established from member and employer contributions and the accumulation of investment income after satisfying investment and administrative expenses. The reserves do not represent the present value of assets needed, as determined by actuarial valuation, to satisfy requirements and other benefits as they become due.

The Contingency Reserve is established as required by the County Employees Retirement Law to absorb possible future losses on investments. The reserve balance, per the County Employees Retirement Law, is 1% of the total market value of assets if excess earnings exist. ICERS' policy sets the targeted rate at 2%. The Contingency Reserve is 0% and 2% of the market value of total assets at June 30, 2011 and 2010, respectively. During fiscal year 2011, still recovering from the severe financial crisis, ICERS did not have excess earnings to fund the Contingency Reserve.

<u>New Accounting Pronouncements</u>

GASB Statement No. 60 - *Accounting and Financial Reporting for Service Concession Arrangements* addresses accounting and financial reporting issues related to public - private and public - public partnerships. The statement is effective for periods beginning after December 15, 2011. GASB Statement No. 60 will not have an effect on ICERS.

GASB Statement No. 61 - *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34* modifies a number of provisions with regard to reporting of component units within a financial reporting entity. The statement is effective for periods beginning after June 15, 2012. ICERS has elected to not early implement GASB Statement No. 61 and has not determined its effect on the financial statements.

GASB Statement No. 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included In the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements - Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. The statement is effective for periods beginning after December 15, 2011. However, as the statement codifies what is in current practice, there is no net effect on the ICERS' accounting or financial reporting upon the statement's implementation.

GASB Statement No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* modifies current financial reporting of those elements. The largest change will be the replacement of the current Statement of Net Plan Assets with a Statement of Net Plan Position upon implementation for periods beginning after December 15, 2011. ICERS has not yet determined its effect on the financial statements.

NOTE 2 – <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u> (Continued)

<u>New Accounting Pronouncements</u> (Continued)

GASB Statement No. 64 - *Derivative Instruments: Application of Hedge Accounting Termination Provisions* amends current accounting and financial reporting related to terminations of swap agreements due to default or other termination events. In certain instances where swap counterparties or credit support providers are replaced, hedge accounting may continue, rather than cease. The provisions of GASB Statement No. 64 are effective for financial statements beginning after June 15, 2011. ICERS has not yet determined its effect on the financial statements.

NOTE 3 – <u>DEPOSIT AND INVESTMENT RISK DISCLOSURE</u>

The County Employees Retirement Law of 1937 (Retirement Law) vests the Board of Retirement with exclusive control over ICERS' investment portfolio. The Board established an Investment Policy Statement in accordance with applicable local, State, and Federal laws. The Board of Retirement members exercise authority and control over the management of ICERS' assets (the Plan) by setting policy which the Investment Staff executes either internally, or through the use of external prudent experts. The Board oversees and guides the Plan subject to the following basic fiduciary responsibilities:

- Solely in the interest of, and for the exclusive purpose of, providing economic benefits to participants and their beneficiaries.
- With the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character with like objectives.
- Diversify the investments of the Plan so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances, it is clearly prudent not to do so. Diversification is applicable to the deployment of the assets as a whole.

The Investment Policy Statement encompasses the following:

- Criteria for Selecting & Terminating Investment Managers
- Investment Objective & Guidelines by Asset Class
- Duties & Responsibilities of ICERS' Board of Retirement
- Duties & Responsibilities of Staff, Investment Managers, Custodian & Investment Consultant
- Proxy Voting
- Statement of Objectives, Guidelines & Procedures for each Investment Manager

The Fixed Income Portfolio includes the following components:

- US Core Income – This portion of the portfolio will provide exposure to the US fixed income market (maturities greater than 1 year) including, but not limited to, Treasury and government agency bonds, corporate debt, mortgage bonds (including CMOs), Yankees and asset-backed securities. The portfolio will be comprised predominantly of investment grade issues.
- US Core Plus Fixed Income – This portfolio will provide exposure to the US fixed income market (maturities greater than 1 year) including, but not limited to, Treasury and government agency bonds, corporate debt, mortgage bonds (including CMOs), Yankees, asset-backed securities, Eurodollar bonds, private placements and emerging market bonds. The portfolio will be comprised of both investment grade and below-investment grade issues.

NOTE 3 – DEPOSIT AND INVESTMENT RISK DISCLOSURE (Continued)

Credit Quality Ratings of Investments in Fixed Income Securities

The credit quality of investments in fixed income securities as rated by nationally recognized ratings organizations as of June 30, 2011 and 2010, are as follows:

Quality Ratings	Fair Value 2011	Fair Value 2010
AAA	$ 15,920,341	$ 10,929,269
AA+	343,276	245,142
AA	417,578	-
AA-	390,154	488,812
A+	1,737,788	1,379,766
A	3,551,945	4,081,716
A-	2,392,558	2,261,034
BBB+	3,175,736	1,259,333
BBB	5,966,377	4,317,059
BBB-	6,308,894	6,397,093
BB+	2,396,419	1,139,768
BB	2,324,211	1,826,656
BB-	1,911,867	1,298,837
B+	1,634,606	1,322,710
B	744,980	827,009
B-	546,733	513,700
<CCC+	352,901	-
N/R	7,617,351	5,077,996
N/A*	107,474,276	107,016,998
Total Investments in Fixed Income Securities	$ 165,207,991	$ 150,382,898

N/R represents securities that are not rated

N/A* represents securities that are not applicable to the rating disclosure requirements and partially consist of securities within commingled funds.

Credit Risk

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. ICERS seeks to maintain a diversified portfolio of fixed income instruments in order to obtain the highest total return for the fund at an acceptable level of risk within this asset class.

ICERS has adopted policies specific to each investment manager (asset class) to manage credit risk. In general, fixed income securities should be well diversified to avoid undue exposure to any single economic sector, industry or individual security. In addition, the portfolio's average risk level, as measured by quality ratings of recognized rating services, is expected to approximate AA or its equivalent.

Custodial Credit Risk

Custodial Credit Risk for deposits is the risk that in the event of a financial institution's failure, ICERS would not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not insured or not collateralized. ICERS' deposits are not exposed to custodial credit risk as its deposits are eligible for and covered by "pass-through insurance" in accordance with applicable law and FDIC rules and regulations. Additional insurance against loss and theft is provided through a Financial Institution Bond.

NOTE 3 – DEPOSIT AND INVESTMENT RISK DISCLOSURE (Continued)

Custodial Credit Risk (Continued)

Custodial Credit Risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, ICERS would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in ICERS' name, and held by the counterparty. ICERS' investment securities are not exposed to custodial credit risk because all securities are held by ICERS' custodial bank in ICERS' name. ICERS has investments in commingled funds that are not held by ICERS' custodial bank. However, investments in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. ICERS has no general policy on custodial credit risk for deposits.

Concentration of Credit Risk

As of June 30, 2011, ICERS did not hold any investments in any one issuer that would represent five percent (5%) or more of total investments. Investments issued or explicitly guaranteed by the U.S. government and pooled investments are excluded from this requirement.

Interest Rate Risk

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of the price sensitivity of a fixed income portfolio to changes in interest rates. It is calculated as the weighted average time to receive a bond's coupon and principal payments. The longer the duration of a portfolio, the greater its price sensitivity to changes in interest rates.

ICERS does not have a general policy to manage interest rate risk. To manage Interest Rate Risk, the modified adjusted duration of the Domestic Fixed Income Core and Core Plus Portfolios are restricted to +/- 25% of the Barclays Capital Aggregate Bond Index's modified adjusted duration. Deviations from any of the stated guidelines require prior written authorization from ICERS.

As of June 30, 2011, ICERS' Core fixed income manager had an effective duration of 4.76 years, while ICERS' Core Plus Fixed Income manager had an effective duration of 4.4 years.

Fixed Income Securities - Duration

As of June 30, 2011 and 2010, ICERS had the following securities:

	2011		2010	
Investment Type	Market Value	Effective Duration (in years)	Market Value	Effective Duration (in years)
Asset Backed Securities	$ 1,797,059	6.51	$ 4,353,545	0.68
CMBS	7,574,384	5.32	5,373,512	7.46
CMO Corporate	3,749,322	2.81	2,703,760	2.45
Corporates and Other Credit	31,509,832	4.88	26,853,705	5.13
Government	14,080,554	0.47	14,816,593	4.62
Mortgage Backed-Agency	12,278,269	14.19	13,409,076	10.26
Non U.S.	3,819,726	6.16	3,638,386	6.84
Sub-total	74,809,146		71,148,577	
High Yield Fixed Income Fund[1]	62,894,588	4.37	53,730,444	5.01
Treasury Inflation Protected Securities[1]	27,504,257	7.63	25,503,877	3.54
Other Securities	-		-	
Total	$ 165,207,991		$ 150,382,898	

[1] Investment in Commingled Bond Fund

NOTE 3 – DEPOSIT AND INVESTMENT RISK DISCLOSURE (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 deposit. Although ICERS does not have a specific policy regarding foreign currency risk, ICERS seeks to mitigate this risk through its investment policy constraints. ICERS' international equity managers are permitted to invest in authorized countries. Forward currency contracts and currency futures (maturity ranging from at least 30 days and not to exceed one year for either instrument) are permitted for defensive currency hedging. Non-US equity investments are targeted at 25% of the investment portfolio with a maximum investment of 35%.

International Investment Securities at Fair Value

ICERS' exposure to Foreign Currency Risk in U.S. dollars for equity and fixed income investments as of June 30, 2011 is as follows:

Currency Type	Equity	Fixed Income	Cash	Total
Australian Dollar	$ 2,269,703	$ 1,601,222		$ 3,870,925
Brazilian Real	6,412,044			6,412,044
British Pound	14,028,753	605,046	$ 57	14,633,856
Canadian Dollar	1,245,664	816,446		2,062,110
Chilean Peso	799,574			799,574
Chinese RNB	7,600,911			7,600,911
Czech Republic Koruna	114,225			114,225
Danish Krone	272,574			272,574
Euro Currency Unit	30,879,388			30,879,388
Hong Kong Dollar	2,554,301			2,554,301
Hungarian Forint	342,675			342,675
Indian Rupee	5,230,086			5,230,086
Indonesian Rupiah	1,294,548			1,294,548
Israeli Shekel	186,084			186,084
Japanese Yen	7,106,811			7,106,811
Malysian Ringgit	1,256,473			1,256,473
Mexican Peso	2,094,122			2,094,122
New Zealand Dollar	34,072	1,134,391		1,168,463
Norwegian Krone	2,023,138			2,023,138
Philippine Peso	304,600			304,600
Polish Zloty	761,499			761,499
Russian Ruble	2,017,972			2,017,972
Singapore Dollar	2,238,052			2,238,052
South African Rand	3,045,996			3,045,996
South Korean Won	7,855,623			7,855,623
Swedish Krona	1,635,353			1,635,353
Swiss Franc	6,737,835			6,737,835
Taiwan Dollar	6,141,247			6,141,247
Thailand Baht	799,574			799,574
Turkish Lira	723,424			723,424
Total Securities Subject to Foreign Currency Risk	118,006,321	4,157,105	57	122,163,483
U.S. Dollar (Securities held by International Managers)	649,911			649,911
Total International Investment Securities	$ 118,656,232	$ 4,157,105	$ 57	$ 122,813,394

NOTE 3 – DEPOSIT AND INVESTMENT RISK DISCLOSURE (Continued)

International Investment Securities at Fair Value (Continued)

ICERS' exposure to Foreign Currency Risk in U.S. dollars for equity and fixed income investments as of June 30, 2010, is as follows:

Currency Type	Equity	Fixed Income	Cash	Total
Australian Dollar	$ 1,630,368	$ 1,583,738		$ 3,214,106
Brazilian Real	4,707,227			4,707,227
British Pound	11,061,885	576,489	$ 61	11,638,435
Canadian Dollar	757,743	585,444		1,343,187
Chilean Peso	862,898			862,898
Chinese RNB	5,276,971			5,276,971
Czech Republic Koruna	119,020			119,020
Danish Krone	202,294			202,294
Euro Currency Unit	23,559,897			23,559,897
Hong Kong Dollar	1,488,984			1,488,984
Hungarian Forint	357,061			357,061
Indian Rupee	4,882,884			4,882,884
Indonesian Rupiah	892,653			892,653
Israeli Shekel	342,769			342,769
Japanese Yen	5,813,407			5,813,407
Malysian Ringgit	1,190,204			1,190,204
Mexican Peso	1,874,571			1,874,571
New Zealand Dollar	22,032	1,373,722		1,395,754
Norwegian Krone	1,280,824			1,280,824
Philippine Peso	267,796			267,796
Polish Zloty	535,592			535,592
Russian Ruble	1,428,245			1,428,245
Singapore Dollar	1,725,685			1,725,685
South African Rand	2,499,428			2,499,428
South Korean Won	5,205,119			5,205,119
Swedish Krona	1,731,479			1,731,479
Swiss Franc	5,272,764			5,272,764
Taiwan Dollar	5,078,828			5,078,828
Thailand Baht	684,367			684,367
Turkish Lira	743,877			743,877
Total Securities Subject to Foreign Currency Risk	91,496,872	4,119,393	61	95,616,326
U.S. Dollar (Securities held by International Managers)	505,162			505,162
Total International Investment Securities	$ 92,002,034	$ 4,119,393	$ 61	$ 96,121,488

Derivatives

The Board of Retirement's Investment Policy Statement and Manager Guidelines allow the use of derivatives by certain investment managers. Derivatives are financial instruments that derive their value, usefulness and marketability from an underlying instrument which represents direct ownership of an asset or an obligation of an issuer whose payments are based on or "derived" from the performance of some agreed-upon benchmark. Managers are required to mark-to-market derivative positions daily. Substitution, risk control, and arbitrage are the only derivative strategies permitted: leverage is prohibited.

NOTE 3 – DEPOSIT AND INVESTMENT RISK DISCLOSURE (Continued)

Derivatives (Continued)

Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Gains and losses from derivatives are included in net investment income. The following types of derivatives are permitted: Futures contracts, currency forward contracts and covered call options.

1. Futures Contracts

   A futures contract represents an agreement to buy (long position) or sell (short position) and underlying asset at a specified future date for a specified price. Payment for the transaction is delayed until a future date, which is referred to as the settlement or expiration date. Futures contracts are standardized contracts traded on organized exchanges.

2. Forward Currency Contracts

   A forward contract represents an agreement to buy or sell an underlying asset at a specified date in the future at a specified price. Payment for the transaction is delayed until the settlement or expiration date. A forward contract is a non-standardized contract that is tailored to each specific transaction. Forward currency contracts are used to control currency exposure and facilitate the settlement of international security purchase and sale transactions.

3. Option Contracts

   An option contract is a type of derivative security in which a buyer (purchaser) has the right, but not the obligation, to buy or sell a specified amount of an underlying security at a fixed price by exercising the option before its expiration date. The seller (writer) has an obligation to buy or sell the underlying security if the buyer decided to exercise the option.

Fair values of derivatives contracts are obtained through ICERS' custodian bank, JP Morgan. JP Morgan uses an independent third party pricing service for these price quotes.

	2011		2010		
Derivative Type	Notional Value	Fair Value	Notional Value	Fair Value	Change in Fair Value
Bond Index Futures	$ 4,823,720	$ 4,832,258	$ -	$ -	$ 4,832,258
Equity Index Futures	12,807,573	13,259,430	-	-	13,259,430
Total	$ 17,631,293	$ 18,091,688	$ -	$ -	$ 18,091,688

NOTE 4 – SECURITIES LENDING PROGRAM

The Board of Retirements' (BOR) policies authorize ICERS to participate in a securities lending program. Securities lending is an investment management activity that mirrors the fundamentals of a loan transaction. Securities are lent to brokers and dealers (borrower) and in turn, ICERS receives cash as collateral. ICERS pays the borrower interest on the collateral received and invests the collateral with the goal of earning a higher yield than the interest rate paid to the borrower. Earnings generated above and beyond the interest paid to the borrower represent the net income to ICERS from the transaction.

ICERS' securities lending program is managed by JP Morgan Cash Collateral Investment Fund (CCIF) and primarily invests collateral received from ICERS in short-term debt obligations, including but not limited to bonds, notes, asset-backed securities, repurchase agreements, annuity contracts, and money-market investments. JP Morgan CCIF loans are collateralized at 102%.

NOTE 4 – SECURITIES LENDING PROGRAM (Continued)

The collateral under the relationship with JP Morgan is marked-to-market daily and if the market value of the securities rises, ICERS receives additional collateral. The income earned from the investments made by JP Morgan is split between ICERS and JP Morgan, based on contractual agreements.

Under the terms of the lending agreement, the lending agent provides borrower default indemnification in the event a borrower does not return securities on loan. The terms of the lending agreements entitle ICERS to terminate all loans upon the occurrence of default and purchase a like amount of "replacement securities." In the event the purchase price of replacement securities exceeds the amount of collateral, the lending agent shall be liable to ICERS for the amount of such excess, with interest. Either ICERS or the borrower of the security can terminate a loan on demand.

At year-end, ICERS had no credit risk exposure to borrowers because the amount of collateral received exceeded the value of securities on loan. As of June 30, 2011, ICERS collateral was slightly below the 102% requirement, but ICERS had no losses on securities lending transactions resulting from the default of a borrower for the years ended June 30, 2011 and 2010. As of June 30, 2011, the fair value of securities on loan was $20,670,510 with the value of cash collateral received of $20,481,944 and non-cash collateral of $576,871. As of June 30, 2010, the fair value of securities on loan was $38,289,984 with the value of cash collateral received of $37,773,379 and non-cash collateral of $1,750,435. ICERS' income, net of expenses from securities lending, was $57,653 and $64,909 for the years ended June 30, 2011 and 2010, respectively.

As of June 30, 2011 and 2010, ICERS had the following securities lending (dollars in thousands):

	2011		2010	
Securities on Loan	Market Value of Securities on Loan	Collateral Received	Market Value of Securities on Loan	Collateral Received
U.S. Government, Agencies, and Mortgage-Backed Securities	$ 1,255,104	$ 1,290,253	$ 1,714,782	$ 1,750,435
U.S. Equities	11,563,279	11,763,730	28,384,492	29,391,736
U.S. Corporate Fixed-Income	7,852,127	8,004,832	8,190,710	8,381,643
Total	$ 20,670,510	$ 21,058,815	$ 38,289,984	$ 39,523,814

NOTE 5 – REAL ESTATE

The following is a listing of California real estate indirectly held through ICERS shares in the respective investment companies:

	Appraised Value	
Location	2011	2010
Separate Properties:		
ICERS El Centro Inc	$ 1,713,458	$ 1,690,016
Clarion Partners (formerly ING Clarion)	12,748,648	6,178,008
RREEF American REIT II	14,091,996	7,315,136
Total Properties	26,840,644	13,493,144
Total Real Estate	$ 28,554,102	$ 15,183,160

NOTE 5 – REAL ESTATE (Continued)

ICERS, like all who invest in the real estate arena has seen substantial losses in the real estate portfolio. While the trend has begun to recover, it is a slow process due to the lag period between appraisals of properties in the various portfolios.

The Commercial real estate investment has suffered from a severe credit crunch for commercial sectors, sustained job losses and weak consumer spending, although the decline appears to be slowing. The national economy has begun a slow and cautious recovery, but the labor market, which often lags the broader economy, will turn around only gradually with sustained improvement. Because commercial real estate lags the labor market, it still has a ways to go before reaching its own low point.

The Association continues to closely monitor our real estate portfolio and expect improvement to assessed values later this year.

NOTE 6 – CAPITAL ASSETS

The changes in capital assets for the year ended June 30, 2011, are shown below.

	Balance June 30, 2010	Prior Period Adjustment	Restated Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
Equipment	$ 107,193	$ -	$ 107,193	$ -	$ -	$ 107,193
Work-in-Progress	2,345,800	-	2,345,800	842,970	-	3,188,770
Totals	2,452,993	-	2,452,993	842,970	-	3,295,963
Less: Accumulated Depreciation						
Equipment	55,031	-	55,031	18,854	-	73,885
Work-in-Progress	-	-	-	-	-	-
Totals	55,031	-	55,031	18,854	-	73,885
Capital Assets-Net	$ 2,397,962	$ -	$ 2,397,962	$ 824,116	$ -	$ 3,222,078

Depreciation Expense at June 30, 2011, was $18,854.

The changes in capital assets for the year ended June 30, 2010, are shown below.

The Work-in-Progress of the Pension System increased by $842,970. Planned implementation of the System is scheduled for 2012.

	Balance June 30, 2009	Prior Period Adjustment	Restated Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
Equipment	$ 107,193	$ -	$ 107,193	$ -	$ -	$ 107,193
Work-in-Progress	-	474,853	474,853	1,870,947	-	2,345,800
Totals	107,193	474,853	582,046	1,870,947	-	2,452,993
Less: Accumulated Depreciation						
Equipment	36,177	-	36,177	18,854	-	55,031
Work-in-Progress	-	-	-	-	-	-
Totals	36,177	-	36,177	18,854	-	55,031
Capital Assets-Net	$ 71,016	$ 474,853	$ 545,869	$ 1,852,093	$ -	$ 2,397,962

Depreciation Expense at June 30, 2010, was $18,854.

NOTE 7 – CONCENTRATIONS

ICERS has entered into a custodial agreement with JP Morgan. JP Morgan custodies securities, and collects income for ICERS. The value of ICERS' investments under JP Morgan's custodianship at June 30, 2011 and 2010 was approximately $540,353,489 and $448,434,972, respectively.

The following firms professionally manage ICERS' investments:

	Value of Investments	
	2011	2010
BlackRock	$ 220,615,562	$ 178,209,125
Bradford & Marzec	64,819,332	63,722,386
Clifton Group	4,004,761	-
Dimensional	38,074,947	29,755,101
Franklin Templeton Institutional	54,159,286	42,096,837
HarbourVest Partners, LLC	474,509	121,005
KKR	2,510,372	-
PIMCO	76,069,638	63,828,152
T. Rowe Price	21,980,419	30,695,586
TimesSquare Capital	27,243,786	25,155,539
Clarion Partners	12,254,613	6,178,008
RREEF	13,455,489	7,315,136
JP Morgan	4,690,775	1,358,097
Total Investments	$ 540,353,489	$ 448,434,972

NOTE 8 – ADMINISTRATIVE EXPENSES

California Government Code §31580.2 requires that the Board of Retirement may expend no more than the greater of the following:

1) Twenty-one hundredths of 1 percent (.21%) of the accrued actuarial liability of the retirement System.

2) Two million dollars ($2,000,000), as adjusted annually by the amount of the annual cost-of-living adjustment computed in accordance with Article 16.5 (commencing with Section 31870)

Due to the repeal of section 31580.3, expenditures for computer software, computer hardware, and computer technology consulting services in support of these computer products shall not be considered a cost of administration of the retirement system for purposes of this section.

Due to ICERS' limited budget needs, ICERS has chosen to adopt section 2 of the Government Code with an annual limit of $2,000,000. For the years ended June 30, 2011 and 2010, administrative expenses were $820,588 and $901,837 respectively. Administrative costs of the plan are financed through investment plan assets.

NOTE 9 – RISK MANAGEMENT

ICERS is exposed to various risks of loss related to torts, theft or damage to, or destruction of, assets, injuries to employees, and errors and omissions. To address these risk items, ICERS is covered by the following policies and programs:

Liability Coverage
Carl Warran
1st Layer: $200,000 - $10,000,000
2nd Layer: $10,000,000 - $25,000,000

NOTE 9 – RISK MANAGEMENT (Continued)

Workers Compensation
York Insurance Services Group
No cap on workman's compensation

For each of the above self-insurance coverage limits, the County maintains a separate Internal Service Fund. Funding for each fund is actuarially determined.

Fiduciary Liability Insurance
RLI Insurance Company
$10,000,000 – Aggregate Limit of Liability (Including Defense Costs)
$150,000 – Sublimit of Liability for Cap (IRS) Penalties
$100,000 – HIPAA Sublimit

In addition to the above, each investment manager and the Fund's custodian carries a separate fidelity bond as well as errors and omissions insurance at levels consistent with their total funds under management.

NOTE 10 – **ACTUARIAL VALUATIONS**

Pursuant to provisions in the County Employees Retirement Law of 1937 (CERL), ICERS engages an independent actuarial firm to perform an annual actual valuation. The economic and non-economic assumptions are updated at the time each triennial valuation is performed. Triennial valuations serve as the basis for changes in member contribution rates necessary to properly fund ICERS. ICERS also hires and independent actuarial firm to audit the results of each triennial valuation.

The information displayed below presents the funded status of the most recent actuarial valuation. The Schedule of Funding Progress – Pension Plan in the Required Supplementary Information section immediately following the notes to the financial statements presents multiyear trend information regarding whether the actual value of plan assets is increasing or decreasing over time, relative to the actuarial accrued liability of benefits.

Funded Status as of the Most Recent Actuarial Valuation Date
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Annual Covered Payroll ((b-a)/c)
6/30/2011	$ 552,209	$ 613,584	$ 61,375	90%	$ 101,610	60.40%

NOTE 10 – ACTUARIAL VALUATIONS (Continued)

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

Valuation date	June 30, 2011
Actuarial cost method	Entry age normal cost method
Amortization method	Level percentage of payroll for total unfunded actual accrued liability
Asset valuation method	5-year smoothing process
Annual inflation rate	3.50%
Investment rate of return	7.75%
Postretirement benefit increase assumptions	COLA, maximum of 2.0%
Projected salary increases	General: 4.75% to 8.0% Safety: 4.75% to 11.50%
Remaining amortization periods	20 years (declining) for UAAL over period ending June 30, 2031

NOTE 11 – PRIOR PERIOD ADJUSTMENT – JUNE 30, 2010

ICERS recognized a prior period adjustment in the June 30, 2010 fiscal year due to the implementation of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. ICERS is currently engaged with several vendors to create a new pension system. A total of $474,853 was expensed which met the capitalization criteria noted in the standard. Therefore, in the June 30, 2010 fiscal year, the prior period amount was recognized as an intangible asset with an offset to Net Assets Held in Trust for Pension Benefits.

NOTE 12 – FEDERAL INCOME TAX STATUS

ICERS currently does not have a favorable tax determination letter. ICERS has filed an application for a tax determination letter and hopes to obtain it within the near future. The plan administrator believes the plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Litigation

ICERS is a plaintiff in one lawsuit and a defendant in other claims arising in the ordinary course of its operations. ICERS' management and legal counsel estimate the ultimate outcome of such litigation will not have a material effect on ICERS' financial statements.

Capital Commitments

ICERS' real estate and private equity investment managers identify and acquire investments on a discretionary basis. Each manager's investment activity and discretion is controlled by ICERS' Investment Policy and the guidelines and limitations set forth in the contract, subscription agreement, limited partnership agreement and/or other contractual documents applicable to each manager. Such investments are further restricted by the amount of capital allocated or committed to each manager. ICERS' Investment Policy, contractual obligations, and capital commitments are subject to approval by the Board of Retirement and may be updated as often as necessary to reflect ICERS investment preferences, as well as changes in market conditions.

NOTE 13 – COMMITMENTS AND CONTINGENCIES (Continued)

Capital Commitments (Continued)

As of June 30, 2011, outstanding capital commitments consisted of:

Investment Manager	Investment Type	Total Capital Commitment	Outstanding Capital Commitment
HarbourVest	Private Equity	$ 20,000,000	$ 19,492,040
KKR	Private Equity	10,000,000	7,632,237
PIMCO	Private Equity	10,000,000	7,773,542

As of June 30, 2010, outstanding capital commitments consisted of:

Investment Manager	Investment Type	Total Capital Commitment	Outstanding Capital Commitment
HarbourVest	Private Equity	$ 20,000,000	$ 19,878,995

NOTE 14 – REQUIRED SUPPLEMANTARY INFORMATION

The schedule of ICERS' funding progress against the actuarial accrued liability and the schedule of required employer Annual Required Contribution (ARC) and the percentage of the ARC recognized by ICERS are presented, where available, on the following pages as Required Supplementary Information.

NOTE 15 – SUBSEQUENT EVENTS

Subsequent to June 30, 2011, and through January 6, 2012, the date through which management evaluated subsequent events and on which the financial statements were issued, ICERS did not identify any subsequent events that require disclosure.

REQUIRED SUPPLEMENTAL INFORMATION

IMPERIAL COUNTY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS
(AMOUNTS IN THOUSANDS)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Annual Covered Payroll ((b-a)/c)
June 30, 2011	$ 552,209	$ 613,584	$ 61,375	90.00%	$ 101,610	60.40%
June 30, 2010	524,522	546,342	21,820	96.01%	98,085	22.25%
June 30, 2009	487,411	507,631	20,220	96.02%	93,493	21.63%
June 30, 2008	449,745	466,427	16,682	96.42%	85,966	19.41%
June 30, 2007	420,938	437,816	16,878	96.14%	77,886	21.67%
June 30, 2006	390,297	401,985	11,688	97.09%	71,731	16.29%

IMPERIAL COUNTY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS
(AMOUNTS IN THOUSANDS)

Fiscal Year Ended	Annual Required Contribution	Actual Contribution	Percentage Contributed
June 30, 2011	$ 13,000	$ 13,000	100%
June 30, 2010	12,000	12,000	100%
June 30, 2009	11,000	11,000	100%
June 30, 2008	9,000	9,000	100%
June 30, 2007	8,000	8,000	100%
June 30, 2006	5,000	5,000	100%