IMPERIAL COUNTY EMPLOYEES' RETIREMENT SYSTEM

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT

FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

IMPERIAL COUNTY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2013 AND 2012

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying statements of plan net position of the Imperial County Employees' Retirement System (ICERS) as of June 30, 2013 and 2012, and the related statements of changes in plan net position for the years then ended, and the related notes to the financial statements, which collectively comprise ICERS' basic financial statements as listed in the table contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net position of ICERS as of June 30, 2013 and 2012, and its changes in plan net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, during the year ended June 30, 2013, ICERS implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which modified the current financial reporting of those elements. Our opinion is not modified with respect to the matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplemental information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2014, 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 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* in considering ICERS' internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
January 3, 2014

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, 2013. 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, 2013. 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 position as of June 30, 2013, was $602,551,959. The plan net position is held in trust for payment of pension benefits to participants and their beneficiaries and all of the net position is available to meet ICERS' ongoing obligations.

- Net position increased by $57,890,977; primarily due to positive investment performance.

- Total additions, as reflected in the Statement of Changes in Plan Net Position increased $68,426,596, primarily as a result of the net appreciation in the fair value of investments.

- Deductions in plan net position increased from $27,852,426 to $30,841,837 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, 2013, the date of the last actuarial valuation, the funded ratio for all ICERS agencies was 89.43%. In general, this indicates that for every dollar of benefits due, ICERS had approximately $.89 of assets available for payment as of that date. The contribution 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 supplemental 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 Position 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 Position Held in Trust for Pension Benefits, which is the assets less the liabilities, reflects the funds available for future use.

The Statement of Changes in Plan Net Position 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 (GASB) Statements No. 25, 26, 28, 33, 34, 40, 44, 50, 55, 56, and 63. 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 Position and the Statement of Changes in Plan Net Position 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 position held in trust for pension benefits (net position) – the difference between assets and liabilities – as one way to measure ICERS financial position. Over time, increases and decreases in ICERS' net position 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 supplemental 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 supplemental 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 position as of June 30, 2013, totaled $602,551,959, an increase of $57,890,977 over the prior year. ICERS' assets exceeded its liabilities at the end of the year. The Total Plan Net Position represents 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 Position. Below is a comparison of current and prior year balances:

	2013	2012	Increase (Decrease) 2013/2012
Investments at Fair Value	$ 593,640,078	$ 533,558,994	$ 60,081,084
Cash and Short-Term Investments	4,942,881	5,811,525	(868,644)
Capital Assets (Net of Accumulated Depreciation)	3,987,714	3,757,566	230,148
Collateral Held for Securities Loaned	31,975,499	24,177,868	7,797,631
Receivables and Other Assets	7,342,517	10,861,813	(3,519,296)
Total Assets	641,888,689	578,167,766	63,720,923
Total Liabilities	39,336,730	33,506,784	5,829,946
Net Position	$ 602,551,959	$ 544,660,982	$ 57,890,977

In order to determine whether Plan Net Position 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, 2013, and determined that the funded ratio of the actuarial assets to the actuarial accrued liability is 89.43%. The actuarial valuation as of June 30, 2012, determined the funded ratio to be 89.81%.

	2012	2011	Increase (Decrease) 2012/2011
Investments at Fair Value	$ 533,558,994	$ 542,643,728	$ (9,084,734)
Cash and Short-term Investments	5,811,525	6,142,113	(330,588)
Capital Assets (Net of Accumulated Depreciation)	3,757,566	3,222,078	535,488
Collateral Held for Securities Loaned	24,177,868	20,481,944	3,695,924
Receivables and Other Assets	10,861,813	4,415,225	6,446,588
Total Assets	578,167,766	576,905,088	1,262,678
Total Liabilities	33,506,784	24,697,898	8,808,886
Net Assets	$ 544,660,982	$ 552,207,190	$ (7,546,208)

Additions to Plan Net Position

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, 2013 and 2012, totaled $88,732,814 and $20,306,218, respectively.

	2013	2012	Increase (Decrease) 2013/2012
Employer Contributions	$ 16,082,961	$ 12,673,236	$ 3,409,725
Plan Member Contributions	10,093,363	8,297,628	1,795,735
Net Investment Income (Loss)	62,492,935	(694,258)	63,187,193
Miscellaneous Income	63,555	29,612	33,943
Total Additions	$ 88,732,814	$ 20,306,218	$ 68,426,596

	2012	2011	Increase (Decrease) 2012/2011
Employer Contributions	$ 12,673,236	$ 12,982,633	$ (309,397)
Plan Member Contributions	8,297,628	8,460,354	(162,726)
Net Investment Income (Loss)	(694,258)	100,136,757	(100,831,015)
Miscellaneous Income	29,612	33,364	(3,752)
Total Additions	$ 20,306,218	$ 121,613,108	$ (101,306,890)

Deductions from Plan Net Position

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 administration. Below is a comparison of selected current and prior year balances:

	2013	2012	Increase (Decrease) 2013/2012
Retirement Benefits	$ 28,173,021	$ 25,998,698	$ 2,174,323
Refund of Contributions	885,321	564,854	320,467
Lump Sum Death Benefits	262,248	263,065	(817)
Administrative Expenses	1,364,235	887,444	476,791
Legal Expenses	58,353	52,088	6,265
Actuarial Expenses	98,659	86,277	12,382
Total Deductions	$ 30,841,837	$ 27,852,426	$ 2,989,411

	2012	2011	Increase (Decrease) 2012/2011
Retirement Benefits	$ 25,998,698	$ 23,504,532	$ 2,494,166
Refund of Contributions	564,854	606,411	(41,557)
Lump Sum Death Benefits	263,065	129,802	133,263
Administrative Expenses	887,446	820,588	66,858
Legal Expenses	52,086	74,695	(22,609)
Actuarial Expenses	86,277	94,933	(8,656)
Total Deductions	$ 27,852,426	$ 25,230,961	$ 2,621,465

New Accounting Standards

In June 2012, the Governmental Accounting Standards Board (GASB), which sets accounting principles generally accepted in the United States of America (GAAP) for governments, including ICERS, approved major changes to the pension accounting and reporting framework. These new pension accounting and financial reporting standards, Statements No. 67 and 68, represent the most significant fundamental changes in reporting requirements for pension plans and plan sponsors in over a decade. The standards require plan sponsors to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The standards also enhance accountability and transparency through revised and new note disclosures and required supplemental information. For plans, the standards build upon the existing framework for financial reports, enhance the note disclosures and required supplemental information, and require the presentation of new information about annual money-weighted rates of return in the notes to the financial statements. The provisions for plans are effective for financial statements for periods beginning after June 15, 2013, and for plan sponsors, are effective for fiscal years beginning after June 15, 2014. ICERS' board and management, working with professional consultants, has begun the process of evaluating and implementing these new requirements as prescribed.

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
STATEMENTS OF PLAN NET POSITION
AS OF JUNE 30, 2013 AND 2012

	June 30, 2013	June 30, 2012
Assets		
Cash and cash equivalents	$ 4,942,881	$ 5,811,525
Securities lending cash collateral	31,975,499	24,177,868
Total Cash	36,918,380	29,989,393
Receivables		
Contributions receivable	1,306,112	1,016,154
Accounts receivable - sale of investments	976,335	3,317,003
Accrued interest and dividends	603,653	1,481,317
Forward currency contracts receivable	4,448,701	5,036,136
Accounts receivable - other	7,716	11,203
Total Receivables	7,342,517	10,861,813
Investments at fair value		
Fixed income	188,189,911	171,132,203
Domestic equities	209,510,450	190,490,953
International equities	112,199,067	98,493,795
Private equity	42,114,093	42,217,104
Real estate	41,626,557	31,224,939
Total Investments	593,640,078	533,558,994
Capital assets (net of accumulated depreciation)	3,987,714	3,757,566
Total Assets	641,888,689	578,167,766
Liabilities		
Accounts payable - purchase of investments	2,456,043	3,387,926
Collateral payable for securities lending	31,975,499	24,177,868
Forward currency contracts payable	4,254,855	5,180,237
Accounts payable - other	650,333	760,753
Total Liabilities	39,336,730	33,506,784
Net Position Held in Trust for Employees' Pension Benefits	$ 602,551,959	$ 544,660,982

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

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

IMPERIAL COUNTY EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN PLAN NET POSITION
FOR YEARS ENDED JUNE 30, 2013 AND JUNE 30, 2012

	June 30, 2013	June 30, 2012
Additions		
Contributions		
Employer	$ 16,082,961	$ 12,673,236
Plan member	10,093,363	8,297,628
Total Contributions	26,176,324	20,970,864
Investment income		
Net appreciation (depreciation) in fair value of investments	52,132,020	(13,084,157)
Interest and dividends	9,685,684	9,959,385
Real estate operating income, net	1,769,934	4,143,654
Alternative income	1,709,092	1,136,975
Total investment income	65,296,730	2,155,857
Less investment expenses	2,893,552	2,910,637
Net Investment Income (Loss)	62,403,178	(754,780)
Securities lending activities		
Securities lending income	239,718	170,875
Less expenses from securities lending activities	149,961	110,353
Net Securities Lending Income	89,757	60,522
Total Net Investment Income	62,492,935	(694,258)
Miscellaneous	63,555	29,612
Total Additions	88,732,814	20,306,218
Deductions		
Retirement benefits	28,173,021	25,998,698
Refunds of contributions	885,321	564,854
Lump sum death benefits	262,248	263,065
Administrative expenses	1,364,235	887,444
Legal expenses	58,353	52,088
Actuarial expenses	98,659	86,277
Total Deductions	30,841,837	27,852,426
Net Increase (Decrease)	57,890,977	(7,546,208)
Net Position Held in Trust for Employees' Pension Benefits, Beginning of Year	544,660,982	552,207,190
Net Position Held in Trust for Employees' Pension Benefits, End of Year	$ 602,551,959	$ 544,660,982

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 §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 board, 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, June 20, 2006, and November 16, 2011, the Superior Court of California County of Imperial, the Local Agency Formation Commission, and the Imperial County Transit Commission became participants in the program, respectively.

ICERS 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
Geoff Holbrook, General Member Employee	6/30/2014
Jack Terrazas, County Supervisor	12/31/2014
Norma Jauregui, Public Member	6/30/2014
Robert Williams, Public Member	12/31/2014
Pompeyo Tabarez, Jr., Safety Member Employee	12/31/2014
Barbara McFetridge	12/31/2014
James E. Rhodes, Public Member	12/31/2014
Herbert Bumgart, Alternate Safety Member	12/31/2014
Charles L. Jernigan, Alternate Retiree Member	12/31/2014
Karen Vogel, Ex-Officio Member	Ex-Officio

ICERS' membership consisted of the following as reported in the most recent actuarial valuations dated June 30, 2013 and 2012:

	June 30, 2013	June 30, 2012
Active Members (Vested and Non-Vested)	1,919	1,921
Retired Members and Beneficiaries	975	977
Terminated Vested (Deferred)	354	332
Total Membership	3,248	3,230

ICERS' currently has 3 tiers. General and Safety Members hired on or before December 31, 2012, are considered Tier 1 and Tier 2, respectively. Beginning January 1, 2013, The California Public Employees' Pension Reform Act (PEPRA) was drafted into law and subsequently all new members, except those qualified for either Tier 1 or 2, General and Safety are classified by ICERS as Tier 3 members. The membership tier provisions are outlined below.

NOTE 1 – PENSION PLAN DESCRIPTION (Continued)

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 §31552. Under the provisions of the County's pension plan, pension benefits vest after five years of credited service. Employees in Tiers 1 and 2 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). Tier 3 General Members are eligible to receive benefits at age 52 with five years of credited service while Safety Members are eligible at age 50 with five 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 compensation earnable for members in Tiers 1 and 2 and is not limited to 100% of pensionable compensation for members of Tier 3. Also, the pension plan provides for death benefits and disability benefits. All pension, death, and disability benefits are determined in accordance with state statutes.

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 these benefits is determined by the County and is outlined in ICERS Benefit Booklets for all members. Premiums are collected by ICERS and forwarded to the County.

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 County Board of Supervisors makes the necessary changes in County contribution rates and interest rates based upon the valuations and recommendations of the retirement system's actuary. According to the June 30, 2013 actuarial valuation, depending on the age and classification at hire date for Tier 1 and 2 members (classification only for Tier 3 members), the employees' weighted contributions are 11.03% 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, 2013 and 2012.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and office space forty years, and twelve years for the Pension Administration System (PAS), which is currently being created.

Use of Estimates

The preparation of ICERS' 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.

Reclassifications

Comparative data for the prior year has been presented in the selected sections of the accompanying Statements of Plan Net Position and Changes in Plan Net Position. 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.

Reserves

The reserves represent the components of ICERS' net position. 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 of 1937 to absorb possible future losses on investments. The reserve balance, per the County Employees' Retirement Law of 1937, is 1% of the total fair value of assets if excess earnings exist. ICERS' policy sets the targeted rate at 2%. The Contingency Reserve is 0% and 0% of the fair value of total assets at June 30, 2013 and 2012, respectively. During fiscal year 2013, still recovering from the severe financial crisis, ICERS did not have excess earnings to fund the Contingency Reserve.

Implementation of New Accounting Pronouncements

GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* was implemented for the year ended June 30, 2013. The statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The primary change was renaming previous net assets as net position in the financial statements. ICERS does not have any deferred inflows or outflows to report.

New Accounting Pronouncements

GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities* establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2012. ICERS has not yet determined its effect on the financial statements.

GASB Statement No. 66 – *Technical Corrections—2012—an Amendment of GASB Statements No. 10 and No. 62* is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2012. ICERS has not yet determined its effect on the financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 67 – *Financial Reporting for Pension Plans—an Amendment of GASB Statement No. 25* improves financial reporting by state and local governmental pension plans. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2013. ICERS expects the implementation of this statement to have a significant effect on the financial statements.

GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27* improves accounting and financial reporting by state and local governments for pensions. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2014. ICERS expects the implementation of this statement to have a significant effect on the financial statements.

GASB Statement No. 69 – *Government Combinations and Disposals of Government Operations* provides specific accounting and financial reporting guidance for combinations in the governmental environment. This statement also improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2013. ICERS has not yet determined its effect on the financial statements.

GASB Statement No. 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees* will enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees. This statement also will enhance the information disclosed about a government's obligations and risk exposure from extending nonexchange financial guarantees. This statement also will augment the ability of financial statement users to assess the probability that governments will repay obligation holders by requiring disclosures about obligations that are issued with this type of financial guarantee. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2013. ICERS has not yet determined its effect on the financial statements.

NOTE 3 – DEPOSIT AND INVESTMENT RISK DISCLOSURE

The County Employees' Retirement Law of 1937 (CERL) vests the Board of Retirement with exclusive control over ICERS' investment portfolio. The Board of Retirement 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 of Retirement 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.

NOTE 3 – DEPOSIT AND INVESTMENT RISK DISCLOSURE (Continued)

The Investment Policy Statement encompasses the following:

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

The Fixed Income Portfolio includes the following components:

- U.S. Core Income – This portion of the portfolio will provide exposure to the U.S. 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.
- U.S. Core Plus Fixed Income – This portfolio will provide exposure to the U.S. 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.

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, 2013 and 2012, are as follows:

Quality Ratings	Fair Value 2013	Fair Value 2012
AAA	$ 17,451,538	$ 13,026,918
AA+	1,499,011	1,856,927
AA	1,348,507	307,407
AA-	574,989	177,713
A+	2,357,941	1,860,470
A	1,726,897	794,404
A-	3,172,766	5,073,890
BBB+	5,444,780	2,729,106
BBB	6,608,056	5,772,826
BBB-	8,764,469	6,036,583
BB+	2,043,634	2,351,132
BB	2,150,103	2,039,540
BB-	1,564,045	1,156,901
B+	1,687,584	1,154,675
B	620,400	694,359
B-	314,988	621,960
<CCC+	174,951	-
N/R	3,988,853	2,317,023
N/A*	126,696,399	123,160,369
Total Investments in Fixed Income Securities	$ 188,189,911	$ 171,132,203

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.

NOTE 3 – DEPOSIT AND INVESTMENT RISK DISCLOSURE (Continued)

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.

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, 2013 and 2012, 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, 2013, ICERS' Core Fixed Income manager had an effective duration of 5.55 years, while ICERS' Core Plus Fixed Income manager had an effective duration of 3.1 years.

NOTE 3 – DEPOSIT AND INVESTMENT RISK DISCLOSURE (Continued)

Fixed Income Securities - Duration

As of June 30, 2013 and 2012, ICERS had the following securities:

	2013		2012	
Investment Type	Fair Value	Effective Duration (in years)	Fair Value	Effective Duration (in years)
Asset-Backed Securities	$ 4,390,123	5.60	$ 2,881,934	6.78
Commercial Mortgage-Backed Securities	7,639,836	6.03	3,338,230	10.21
Collateralized Mortgage Obligation Corporate	3,745,828	1.61	2,317,122	3.5
Corporate and Other Credit	34,327,008	5.60	29,671,718	5.42
Government	21,639,256	7.08	18,887,050	5.25
Mortgage Backed-Agency	18,846,827	16.68	20,774,342	17.31
Non U.S.	3,318,168	3.66	3,991,796	4.48
Sub-total	93,907,046		81,862,192	
High Yield Fixed Income Fund[1]	80,006,530	3.13	74,277,565	4.82
Treasury Inflation Protected Securities[1]	14,276,335	7.72	14,992,446	8.14
Total	$ 188,189,911		$ 171,132,203	

[1] Investment in Commingled Bond Fund

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-U.S. equity investments are targeted at 21% of the investment portfolio with a maximum investment of 30%.

NOTE 3 – DEPOSIT AND INVESTMENT RISK DISCLOSURE (Continued)

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, 2013, is as follows:

Currency Type	Equity	Fixed Income	Cash	Total
Australian Dollar	$ 2,171,807	$ 1,170,441	$ -	$ 3,342,248
Brazilian Real	4,089,411	-	-	4,089,411
British Pound	16,051,789	-	54	16,051,843
Canadian Dollar	1,420,719	1,182,454	-	2,603,173
Chilean Peso	519,810	-	-	519,810
Chinese RNB	6,717,636	-	-	6,717,636
Colombian Peso	30,577	-	-	30,577
Czech Republic Koruna	61,154	-	-	61,154
Danish Krone	302,165	-	-	302,165
Euro Currency Unit	28,784,051	-	-	28,784,051
Hong Kong Dollar	2,399,413	-	-	2,399,413
Hungarian Forint	183,462	-	-	183,462
Indian Rupee	2,929,462	-	-	2,929,462
Indonesian Rupiah	1,100,774	-	-	1,100,774
Israeli Shekel	140,291	-	-	140,291
Japanese Yen	9,916,865	-	-	9,916,865
Malaysian Ringgit	1,253,659	-	-	1,253,659
Mexican Peso	2,262,701	-	-	2,262,701
New Zealand Dollar	35,073	1,736,642	-	1,771,715
Norwegian Krone	2,357,702	-	-	2,357,702
Philippine Peso	397,502	-	-	397,502
Polish Zloty	458,656	-	-	458,656
Russian Ruble	1,284,236	-	-	1,284,236
Singapore Dollar	2,040,593	-	-	2,040,593
South African Rand	2,079,239	-	-	2,079,239
South Korean Won	7,482,638	-	-	7,482,638
Swedish Krona	1,669,483	-	-	1,669,483
Swiss Franc	7,282,560	-	-	7,282,560
Taiwan Dollar	5,170,075	-	-	5,170,075
Thailand Baht	1,070,197	-	-	1,070,197
Turkish Lira	917,312	-	-	917,312
Total Securities Subject to Foreign Currency Risk	112,581,012	4,089,537	54	116,670,603
U.S. Dollar (Securities held by International Managers)	546,430	-	-	546,430
Total International Investment Securities	$ 113,127,442	$ 4,089,537	$ 54	$ 117,217,033

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, 2012, is as follows:

Currency Type	Equity	Fixed Income	Cash	Total
Australian Dollar	$ 1,983,784	$ 2,347,223	$ -	$ 4,331,007
Brazilian Real	4,457,886	-	-	4,457,886
British Pound	13,295,126	-	56	13,295,182
Canadian Dollar	871,415	1,193,297	-	2,064,712
Chilean Peso	539,244	-	-	539,244
Chinese RNB	6,926,345	-	-	6,926,345
Czech Republic Koruna	89,874	-	-	89,874
Danish Krone	265,260	-	-	265,260
Euro Currency Unit	23,581,471	-	17,132	23,598,603
Hong Kong Dollar	2,377,122	-	-	2,377,122
Hungarian Forint	149,790	-	-	149,790
Indian Rupee	3,589,103	-	-	3,589,103
Indonesian Rupiah	1,078,488	-	-	1,078,488
Israeli Shekel	133,764	-	-	133,764
Japanese Yen	6,352,904	-	-	6,352,904
Malaysian Ringgit	1,078,488	-	-	1,078,488
Mexican Peso	2,097,060	-	-	2,097,060
New Zealand Dollar	29,473	1,250,510	-	1,279,983
Norwegian Krone	2,089,004	-	-	2,089,004
Philippine Peso	359,496	-	-	359,496
Polish Zloty	449,370	-	-	449,370
Russian Ruble	1,497,900	-	-	1,497,900
Singapore Dollar	2,164,527	-	-	2,164,527
South African Rand	2,546,430	-	-	2,546,430
South Korean Won	7,048,031	-	-	7,048,031
Swedish Krona	1,257,728	-	-	1,257,728
Swiss Franc	5,493,159	-	-	5,493,159
Taiwan Dollar	5,222,742	-	-	5,222,742
Thailand Baht	838,825	-	-	838,825
Turkish Lira	748,950	-	-	748,950
Total Securities Subject to Foreign Currency Risk	98,612,759	4,791,030	17,188	103,420,974
U.S. Dollar (Securities held by International Managers)	412,776	-	-	412,776
Total International Investment Securities	$ 99,025,535	$ 4,791,030	$ 17,188	$ 103,833,750

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, forward currency 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.

	2013		2012		
Derivative Type	Notional Value	Fair Value	Notional Value	Fair Value	Change in Fair Value
Bond Index Futures	$ -	$ -	$ 5,123,024	$ 5,121,812	$ (5,121,812)
Equity Index Futures	-	-	12,204,920	12,686,505	(12,686,505)
Forward Currency Contracts	-	193,846	-	(144,101)	337,947
Total	$ -	$ 193,846	$ 17,327,944	$ 17,664,216	$ (17,470,370)

NOTE 4 – SECURITIES LENDING PROGRAM

The Board of Retirement's 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 percent (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, 2013 and 2012, ICERS collateral was slightly above the 102% requirement, and ICERS had no losses on securities lending transactions resulting from the default of a borrower for the years ended June 30, 2013 and 2012. As of June 30, 2013, the fair value of securities on loan was $32,538,002 with the value of cash collateral received of $31,975,499 and non-cash collateral of $1,383,820. As of June 30, 2012, the fair value of securities on loan was $28,032,326 with the value of cash collateral received of $24,177,868 and non-cash collateral of $4,542,175. ICERS' income, net of expenses from securities lending, was $89,757 and $60,522 for the years ended June 30, 2013 and 2012, respectively. Non-cash collateral, and related repayment obligation, is not recorded on the books of ICERS, as there is no ability to pledge or sell the collateral absent borrower default.

As of June 30, 2013 and 2012, ICERS had the following securities lending (dollars in thousands):

Securities on Loan	2013 Fair Value of Securities on Loan	2013 Collateral Received	2012 Fair Value of Securities on Loan	2012 Collateral Received
U.S. Government, Agencies, and Mortgage-Backed Securities	$ 2,685,663	$ 2,735,625	$ 4,410,593	$ 4,542,030
U.S. Equities	25,337,832	26,020,937	16,483,566	16,887,786
U.S. Corporate Fixed-Income	4,514,507	4,602,757	7,138,167	7,290,082
Total	$ 32,538,002	$ 33,359,319	$ 28,032,326	$ 28,719,898

NOTE 5 – REAL ESTATE

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

Location	Appraised Value 2013	Appraised Value 2012
Separate Properties:		
ICERS El Centro Inc	$ 1,309,811	$ 1,526,012
Clarion Partners (formerly ING Clarion)	20,971,973	14,289,705
RREEF American REIT II	19,344,773	15,409,222
Total Properties	40,316,746	29,698,927
Total Real Estate	$ 41,626,557	$ 31,224,939

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.

ICERS continues to closely monitor the 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, 2013, are shown below.

	Balance June 30, 2012	Additions	Deductions	Balance June 30, 2013
Equipment	$ 107,193	$ 4,350,234	$ -	$ 4,457,427
Work-in-Progress	3,740,912	609,322	(4,350,234)	-
Totals	3,848,105	4,959,556	(4,350,234)	4,457,427
Less: Accumulated Depreciation				
Equipment	90,539	379,174	-	469,713
Totals	90,539	379,174	-	469,713
Capital Assets, Net	$ 3,757,566	$ 4,580,382	$ (4,350,234)	$ 3,987,714

Depreciation expense at June 30, 2013, was $379,174.

The changes in capital assets for the year ended June 30, 2012, are shown below.

	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
Equipment	$ 107,193	$ -	$ -	$ 107,193
Work-in-Progress	3,188,770	552,142	-	3,740,912
Totals	3,295,963	552,142	-	3,848,105
Less: Accumulated Depreciation				
Equipment	73,885	16,654	-	90,539
Totals	73,885	16,654	-	90,539
Capital Assets, Net	$ 3,222,078	$ 535,488	$ -	$ 3,757,566

Depreciation expense at June 30, 2012, was $16,654.

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, 2013 and 2012, was approximately $592,330,267 and $532,032,982, respectively.

The following firms professionally manage ICERS' investments:

	Value of Investments	
	2013	2012
BlackRock	$ 213,932,516	$ 201,591,204
Bradford & Marzec	79,596,720	73,344,430
Clifton Group	6,391,110	3,584,036
Dimensional	30,577,046	29,958,003
Franklin Templeton Institutional	54,643,048	45,863,970
HarbourVest Partners, LLC	3,581,686	1,463,127
KKR	3,883,425	3,727,693
PIMCO	93,848,519	88,728,844
T. Rowe Price	27,561,013	22,835,196
TimesSquare Capital	31,850,687	27,554,937
Clarion Partners	20,971,973	14,289,705
ASB Capital Management, LLC	19,344,773	-
RREEF	-	15,409,222
JP Morgan	6,147,751	3,682,615
Total Managed	$ 592,330,267	$ 532,032,982

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 (0.21%) 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 (COLA) computed in accordance with Article 16.5 (commencing with §31870).

Due to the repeal of §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, 2013 and 2012, administrative expenses were $1,364,235 and $887,444 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 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 an 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 in the Required Supplemental 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)
6/30/2013	$ 611,989	$ 684,303	$ 72,314	89.43%	$ 102,548	70.52%

NOTE 10 – ACTUARIAL VALUATIONS (Continued)

The information presented in the supplemental 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, 2013
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 – 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 12 – 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 12 – COMMITMENTS AND CONTINGENCIES (Continued)

Capital Commitments (Continued)

As of June 30, 2013, outstanding capital commitments consisted of:

Investment Manager	Investment Type	Total Capital Commitment	Outstanding Capital Commitment
HarbourVest	Private Equity	$ 20,000,000	$ 16,074,360
KKR	Private Equity	10,000,000	6,591,754
PIMCO	Private Equity	10,000,000	423,542

As of June 30, 2012, outstanding capital commitments consisted of:

Investment Manager	Investment Type	Total Capital Commitment	Outstanding Capital Commitment
HarbourVest	Private Equity	$ 20,000,000	$ 17,891,073
KKR	Private Equity	10,000,000	6,526,995
PIMCO	Private Equity	10,000,000	3,923,542

NOTE 13 – REQUIRED SUPPLEMENTAL 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 Supplemental Information.

NOTE 14 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 3, 2014, which is the date 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, 2013	$ 611,989	$ 684,303	$ 72,314	89.43%	$ 102,548	70.52%
June 30, 2012	577,753	643,322	65,569	89.81%	100,356	65.34%
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, 2013	$ 16,000	$ 16,000	100%
June 30, 2012	13,000	13,000	100%
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%