IMPERIAL COUNTY EMPLOYEES' RETIREMENT SYSTEM

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT

FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013

IMPERIAL COUNTY EMPLOYEES' RETIREMENT SYSTEM JUNE 30, 2014 AND 2013

TABLE OF CONTENTS

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BROWN ARMSTRONG
Certified Public Accountants

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, 2014 and 2013, 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. We have also audited the June 30, 2014 total of all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense ($58,723,504, $18,098,575, $40,411,097, $13,341,041, respectively) included in the Governmental Accounting Standards Board (GASB) Statement No. 67 schedules listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 ICERS' 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 ICERS' internal control over financial reporting (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, 2014 and 2013, 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.

Emphasis of a Matter

As discussed in Note 2 to the financial statements, during the year ended June 30, 2014, ICERS implemented GASB Statement No. 67, *Financial Reporting for Pension Plans*, 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 GASB, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise ICERS' basic financial statements. The other supplemental information, as noted in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplemental information, as noted in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, other supplemental information, as noted in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2014, on our consideration of ICERS' internal control 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 and compliance and the results of that testing, and not to provide an opinion on the internal control 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
December 16, 2014

IMPERIAL COUNTY EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013

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, 2014. 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, 2014. 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, 2014, was $692,988,848. 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 $90,436,889; primarily due to positive investment performance.

- Total additions, as reflected in the Statement of Changes in Plan Net Position increased $34,662,812, primarily as a result of the net appreciation in the fair value of investments.

- Deductions in plan net position increased from $30,841,837 to $32,958,737 versus the prior year. The increase was primarily 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, 2014, the date of the last funding actuarial valuation, the funded ratio for all ICERS agencies was 88.92%. 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 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 required and other supplemental information 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 (GASB), 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 all applicable GASB pronouncements. These pronouncements require certain disclosures and also require state and local governments to report using the full accrual basis 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 provide additional information that is essential to a full understanding of the data provided in the financial statements. The Notes provide detailed discussion of key policies, programs, and activities that occurred during the year. Asset allocation, the long-term expected rate of return, discount rate, key actuarial assumptions, and the Schedule of Net Pension Liability based on GASB 67 are also included in this section.

The Required Supplemental Information follows the notes and includes several new GASB 67 schedules. The newly added Schedule of Changes in Net Pension Liability and Related Ratios provide an up-to-date financial indication of the extent to which the total pension liability is covered by the fiduciary net position of the Pension Plan. This information will improve the financial statements users' ability to compare the total pension liability for similar types of pension plans. Please note that liabilities on these schedules are calculated solely for financial reporting purposes and are not intended to provide information about the funding of ICERS' benefits.

Another new schedule, the Schedule of Employer Contributions, helps the reader determine if plan sponsors are meeting the actuarially determined contributions over a period of time. New information about rates of return on pension plan investments, taking account of monetary flows into and out of the market is also provided. The Schedule of Investment Returns includes a money-weighted return performance calculation which is net of investment expenses.

The Other Supplemental Information section includes the Schedule of Funding Progress for Funding Purposes. This section also includes the Schedule of Employer Contributions Allocated by Cost Sharing, Schedule of Net Pension Liability Allocated by Cost Sharing Plan, and the Schedule of Employer Pension Amounts Allocated by Cost Sharing Plan. These three schedules address GASB 68 requirements. GASB 68 governs the specifics of accounting for public pension plan obligations for plan sponsors. Plan sponsors are required to implement GASB 68 for fiscal years beginning after June 15, 2014. GASB 68 requires a liability for pension obligations, known as the Net Pension Liability, to be recognized on the balance sheets of participating employers. Changes in the Net Pension Liability will be immediately recognized as Pension Expense on the income statement or reported as deferred inflows/outflows of resources depending on the nature of the change.

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, 2014, totaled $692,988,848, an increase of $90,436,889 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:

	2014	2013	Increase (Decrease) 2014/2013
Investments at Fair Value	$ 684,176,471	$ 593,640,078	$ 90,536,393
Cash and Short-term Investments	2,755,474	4,942,881	(2,187,407)
Capital Assets (Net of Accumulated Depreciation)	4,470,625	3,987,714	482,911
Collateral Held for Securities Loaned	40,841,699	31,975,499	8,866,200
Receivables and Other Assets	8,437,701	7,342,517	1,095,184
Total Assets	740,681,970	641,888,689	98,793,281
Total Liabilities	47,693,122	39,336,730	8,356,392
Net Assets	$ 692,988,848	$ 602,551,959	$ 90,436,889

	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 Assets	$ 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, 2014, and determined that the funded ratio of the actuarial assets to the actuarial accrued liability is 88.92%. The actuarial valuation as of June 30, 2013, determined the funded ratio to be 89.43%.

Additions to Plan Net Position

There are three primary sources of funding for ICERS retirement benefits: earnings (losses) on investments of assets, employer contributions, and employee contributions. Income sources for the fiscal years June 30, 2014 and 2013, totaled $123,395,626 and $88,732,814, respectively.

	2014	2013	Increase (Decrease) 2014/2013
Employer Contributions	$ 17,045,429	$ 16,082,961	$ 962,468
Plan Member Contributions	10,519,020	10,093,363	425,657
Net Investment Income (Loss)	95,773,731	62,492,935	33,280,796
Miscellaneous Income	57,446	63,555	(6,109)
Total	$ 123,395,626	$ 88,732,814	$ 34,662,812

	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	$ 88,732,814	$ 20,306,218	$ 68,426,596

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:

	2014	2013	Increase (Decrease) 2014/2013
Retirement Benefits	$ 30,226,787	$ 28,173,021	$ 2,053,766
Refund of Contributions	695,957	885,321	(189,364)
Lump Sum Death Benefits	145,519	262,248	(116,729)
Administrative	1,669,335	1,364,235	305,100
Legal Expenses	63,891	58,353	5,538
Actuarial Expenses	157,248	98,659	58,589
Total Expenses	$ 32,958,737	$ 30,841,837	$ 2,116,900

	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	1,364,235	887,446	476,789
Legal Expenses	58,353	52,086	6,267
Actuarial Expenses	98,659	86,277	12,382
Total Expenses	$ 30,841,837	$ 27,852,426	$ 2,989,411

New Accounting Standards

In June 2012, the 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, GASB 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.

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,

Scott W. Jarvis
Accountant/Auditor

BASIC FINANCIAL STATEMENTS

IMPERIAL COUNTY EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF PLAN NET POSITION
AS OF JUNE 30, 2014 AND 2013

	June 30, 2014	June 30, 2013
Assets		
Cash and cash equivalents	$ 2,755,474	$ 4,942,881
Security lending cash collateral	40,841,699	31,975,499
Total Cash	43,597,173	36,918,380
Receivables		
Contributions receivable	1,479,282	1,306,112
Accounts receivable - sale of investments	2,538,100	976,335
Accrued interest and dividends	570,835	603,653
Forward currency contracts receivable	3,774,330	4,448,701
Accounts receivable - other	75,154	7,716
Total Receivables	8,437,701	7,342,517
Investments at fair value		
Fixed income	195,217,912	188,189,911
Domestic equities	245,255,776	209,510,450
International equities	145,660,124	112,199,067
Alternative investments	50,228,501	42,114,093
Real estate	47,814,158	41,626,557
Total Investments	684,176,471	593,640,078
Capital assets (net of accumulated depreciation)	4,470,625	3,987,714
Total Assets	740,681,970	641,888,689
Liabilities		
Accounts payable - purchase of investments	2,608,016	2,456,043
Collateral payable for securites lending	40,841,699	31,975,499
Forward currency contracts payable	3,819,676	4,254,855
Accounts payable - other	423,731	650,333
Total Liabilities	47,693,122	39,336,730
Net Position Held in Trust for Pension Benefits	$ 692,988,848	$ 602,551,959

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, 2014 AND 2013

	June 30, 2014	June 30, 2013
Additions		
Contributions		
Employer	$ 17,045,429	$ 16,082,961
Plan member	10,519,020	10,093,363
Total Contributions	27,564,449	26,176,324
Investment income		
Net appreciation in fair value of investments	85,778,133	52,132,020
Interest and dividends	7,526,356	9,685,684
Real estate operating income, net	1,769,474	1,769,934
Alternative income	4,062,782	1,709,092
Total investment income	99,136,745	65,296,730
Less investment expenses	(3,363,014)	(2,893,552)
Net Investment Income	95,773,731	62,403,178
Securities lending activities		
Securities lending income	54,343	239,718
Less expenses from securities lending activities	(54,343)	(149,961)
Net Securities Lending Income	-	89,757
Total Net Investment Income	95,773,731	62,492,935
Miscellaneous	57,446	63,555
Total Additions	123,395,626	88,732,814
Deductions		
Retirement benefits	30,226,787	28,173,021
Refunds of contributions	695,957	885,321
Lump sum death benefits	145,519	262,248
Administrative expenses	1,669,335	1,364,235
Legal expenses	63,891	58,353
Actuarial expenses	157,248	98,659
Total Deductions	32,958,737	30,841,837
Net Increase	90,436,889	57,890,977
Net Position Held in Trust for Employees' Pension Benefits, Beginning of Year	602,551,959	544,660,982
Net Position Held in Trust for Employees' Pension Benefits, End of Year	$ 692,988,848	$ 602,551,959

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

NOTE 1 – PENSION PLAN DESCRIPTION

Plan Administration. The Imperial County Employees' Retirement Association (ICERS) was established by the County of Imperial in 1951. ICERS is administered by the Board of Retirement and governed by the County Employees' Retirement Law of 1937 (California Government Code Section 31450 et. seq.). ICERS is a cost-sharing multiple employer public employee retirement system whose main function is to provide service retirement, disability, death and survivor benefits to the Safety and General members employed by the County of Imperial. ICERS also provides retirement benefits to the employee members of the Imperial County Courts, Local Agency Formation Commission (LAFCO), and the Imperial County Transit Commission (ICTC), who became participants of the system on January 1, 2006, September 20, 2006 and November 16, 2011, respectively.

The management of ICERS is vested with the Imperial County Board of Retirement. The Board consists of nine members and two alternates. The County Treasurer is a member of the Board of Retirement by law. Four members are appointed by the Board of Supervisors, one of whom may be a County Supervisor. Two members are elected by the General membership; one member and one alternate are elected by the Safety membership, one member and one alternate are elected by the retired members of the Association. All members of the Board of Retirement serve terms of three years except for the County Treasurer whose term runs concurrent with her term as County Treasurer. The current Board of Retirement roster is listed below:

	Term Expires
Kathleen Lang, General Member Employee	6/30/2016
Geoff Holbrook, General Member Employee	6/30/2017
Jack Terrazas, County Supervisor	12/31/2014
Norma Jauregui, Public Member	6/30/2017
Robert Williams, Public Member	12/31/2017
Pompeyo Tabarez, Jr., Safety Member Employee	12/31/2014
Barbara McFetridge, Retiree Member	12/31/2014
James E. Rhodes, Public Member	12/31/2017
Herbert Bumgart, Alternate Safety Member	12/31/2014
Charles L. Jernigan, Alternate Retiree Member	12/31/2014
Karen Vogel, Ex-Officio Member	Ex-Officio

Plan Membership. ICERS' membership consisted of the following as reported in the most recent actuarial valuations dated June 30, 2014 and 2013:

	June 30, 2014	June 30, 2013
Active Members (Vested and Non-Vested)	1,987	1,919
Retired Members and Beneficiaries	1,007	975
Terminated Vested (Deferred)	374	354
Total Membership	3,368	3,248

Benefits Provided. ICERS provides service retirement, disability, death and survivor benefits to eligible employees. All regular full-time employees of the County of Imperial or contracting districts who work a minimum of 30 hours per week become members of ICERS effective on the first day of the first full pay period after employment. There are separate retirement plans for General and Safety member employees. Safety membership is extended to those involved in active law enforcement, fire suppression, and certain probation officers. Any new Safety Member who becomes a member on or after January 1, 2013, is designated California Public Employees' Pension Reform Act of 2013 (PEPRA) Safety and is subject to the provisions of PEPRA, California Government Code 7522 et seq. and Assembly Bill (AB) 197. All other employees are classified as General members. New General Members employed after January 1, 2013 are designated as PEPRA General subject to the provisions of California Government Code 7522 et seq. and AB 197.

NOTE 1 – PENSION PLAN DESCRIPTION (Continued)

General Members prior to January 1, 2013, are eligible to retire once they attain the age of 50 and have acquired 10 or more years of retirement service credit. A member with 30 years of service is eligible to retire regardless of age. General members who are first hired on or after January 1, 2013, are eligible to retire once they have attained the age of 52, and have acquired five years of retirement service credit.

Safety members prior to January 1, 2013, are eligible to retire once they attain the age of 50 and have acquired 10 or more years of retirement service credit. A member with 20 years of service is eligible to retire regardless of age. Safety members who are first hired on or after January 1, 2013, are eligible to retire once they have attained the age of 50, and have acquired five years of retirement service credit.

The retirement benefit the member will receive is based upon age at retirement, final average compensation, years of retirement service credit and retirement plan and tier.

General member benefits are calculated pursuant to the provisions of Sections 31676.11 and 31676.14 for Regular and Regular plus Supplemental Benefits, respectively. The monthly allowance is equal to 1/60th of final compensation for Regular and Regular plus Supplemental Benefits, times years of accrued retirement service credit times age factor from either section 31676.11 (Regular Benefit) or 31676.14 (Regular plus Supplemental Benefit). General member benefits for those who are first hired on or after January 1, 2013, are calculated pursuant to the provision California Government Code Section 7522.25(d). The monthly allowance is equal to the final compensation multiplied by years of accrued retirement credit multiplied by the age factor from section 7522.20(a).

Safety member benefits are calculated pursuant to the provisions of California Government Code Sections 31664 and 31664.1 for Regular and Regular plus Supplemental Benefits, respectively. The monthly allowance is equal to 1/50th (or 2%) of final compensation times years of accrued retirement service credit times age factor from Section 31664 (Regular Benefit) or 3% of final compensation times years of accrued retirement service credit times age factor from 31664.1 (Regular plus Supplemental Benefit). For those Safety member benefits first hired on or after January 1, 2013, are calculated pursuant to the provision California Government Code Section 7522.25(d). The monthly allowance is equal to the final compensation multiplied by years of accrued retirement credit multiplied by the age factor from section 7522.25(d).

For members with membership dates before January 1, 2013, the maximum monthly retirement allowance is 100% of final compensation.

Final average compensation consists of the highest 12 consecutive months for a General or Safety member and the highest 36 consecutive months for a PEPRA General and PEPRA Safety member.

The member may elect an unmodified retirement allowance, or choose an optional retirement allowance. The unmodified retirement allowance provides the highest monthly benefit and a 60% continuance to an eligible surviving spouse or domestic partner. An eligible surviving spouse or domestic partner is one married to or registered with the member one year prior to the effective retirement date. Certain surviving spouses or domestic partners may also be eligible if marriage or domestic partnership was at least two years prior to the date of death and the surviving spouse or domestic partner has attained age 55. There are four optional retirement allowances the member may choose. Each of the optional retirement allowances requires a reduction in the unmodified retirement allowance in order to allow the member the ability to provide certain benefits to a surviving spouse, domestic partner, or named beneficiary having an insurable interest in the life of the member.

ICERS provides an annual cost-of-living benefit to all retirees. The cost-of-living adjustment, based upon the Consumer Price Index for the Western Region, is capped at 2.0%.

Contributions. The County of Imperial and contracting districts contribute to the retirement plan based upon actuarially determined contribution rates adopted by the Board of Retirement. Employer contribution rates are adopted annually based upon recommendations received from ICERS' actuary after the completion of the annual actuarial valuation. The average employer contribution rate as of June 30, 2014 for 2013-2014 (based on the June 30, 2012 valuation) was 17.68% of compensation.

NOTE 1 – PENSION PLAN DESCRIPTION (Continued)

All members are required to make contributions to ICERS regardless of the retirement plan or tier in which they are included. The average member contribution rate as of June 30, 2014 for 2013-2014 (based on the June 30, 2012 valuation) was 10.92% of compensation.

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, 2014 and 2013.

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).

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 (CERL), 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, 2014 and 2013, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Asset Allocation Policy and Expected Long-term Rate of Return by Asset Class

The allocation of investment assets within the Defined Benefit portfolio is approved by ICERS' Board of Retirement as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the Plan. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and long-term expected investment rate of return for each major asset class are summarized in the following table:

	June 30, 2014	
Asset Class	**Target Allocation**	**Long-Term Expected Real Rate of Return**
Cash and Short Term	---	---
Large Cap U.S. Equity	24.00%	6.03%
Small Cap U.S. Equity	10.00%	6.66%
Developed International Equity	16.00%	6.87%
Emerging Markets Equity	5.00%	8.13%
U.S. Core Fixed Income	23.00%	0.89%
High Yield Bonds	2.00%	2.87%
TIPS	5.00%	0.19%
Real Estate	5.00%	5.08%
Commodities	5.00%	4.16%
Private Equity	5.00%	8.10%
Total	**100.00%**	

Rate of Return

For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 16.4%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Implementation of New Accounting Pronouncements

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 implemented this statement in the current year.

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

<u>New Accounting Pronouncements</u>

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 plan sponsors' financial statements for periods beginning after June 15, 2014.

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 determined its effect on the financial statements is not significant.

GASB Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date* amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. This Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of GASB Statement No. 68 in the accrual basis financial statements of employers and nonemployer contributing entities. The provisions of this statement should be applied simultaneously with the provisions of Statement No. 68 and therefore are effective for financial periods beginning after June 15, 2014.

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

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, 2014 and 2013, are as follows:

Quality Ratings	Fair Value 2014	Fair Value 2013
AAA	$ 21,220,861	$ 17,451,538
AA+	1,745,872	1,499,011
AA	1,098,546	1,348,507
AA-	2,200,226	574,990
A+	2,034,667	2,357,941
A	2,125,187	1,726,897
A-	2,281,934	3,172,766
BBB+	7,581,003	5,444,780
BBB	8,472,106	6,608,056
BBB-	6,899,654	8,764,469
BB+	2,883,487	2,043,634
BB	1,722,418	2,150,103
BB-	1,580,555	1,564,045
B+	1,142,693	1,687,584
B	321,900	620,400
B-	224,750	314,988
<CCC+	141,750	174,951
N/R	3,961,786	3,988,853
N/A*	127,578,516	126,696,399
Total Investments in Fixed Income Securities	$ 195,217,912	$ 188,189,911

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 Federal Deposit Insurance Corporation (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, 2014 and 2013, 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, 2014, ICERS' Core Fixed Income manager had an effective duration of 5.6 years, while ICERS' Core Plus Fixed Income manager had an effective duration of 5.7 years.

NOTE 3 – DEPOSIT AND INVESTMENT RISK DISCLOSURE (Continued)

Fixed Income Securities - Duration

As of June 30, 2014 and 2013, ICERS had the following securities:

	2014		2013	
Investment Type	Fair Value	Effective Duration (in years)	Fair Value	Effective Duration (in years)
Asset Backed Securities	$ 6,259,160	4.45	$ 4,390,123	5.60
CMBS	7,416,853	4.88	7,639,836	6.03
CMO Corporate	2,180,130	0.01	3,745,828	1.61
Corporates and Other Credit	41,437,819	5.79	34,327,008	5.60
Government	18,447,268	15.31	21,639,256	7.08
Mortgage Backed-Agency	15,940,651	14.87	18,846,827	16.68
Government (Non U.S.)	4,687,347	4.42	3,318,168	3.66
Sub-total	96,369,228		93,907,046	
High Yield Fixed Income Fund[1]	83,912,617	5.68	80,006,530	3.13
Treasury Inflation Protected Securities[1]	14,936,067	7.72	14,276,335	7.72
Other Securities	-		-	
Total	$ 195,217,912		$ 188,189,911	

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, 2014, is as follows:

Currency Type	Equity	Fixed Income	Cash	Total
Australian Dollar	$ 3,415,819	$ 1,776,303	$ -	$ 5,192,122
Brazilian Real	4,538,907	-	-	4,538,907
British Pound	21,667,345	843,384	60	22,510,789
Canadian Dollar	1,199,449	-	-	1,199,449
Chilean Peso	494,440	-	-	494,440
Chinese RNB	8,224,504	-	-	8,224,504
Colombian Peso	70,634	-	-	70,634
Czech Republic Koruna	70,634	-	-	70,634
Danish Krone	665,534	-	-	665,534
Euro Currency Unit	41,604,091	466,074	-	42,070,165
Hong Kong Dollar	3,542,383	-	-	3,542,383
Hungarian Forint	141,268	-	-	141,268
Indian Rupee	3,213,858	-	-	3,213,858
Indonesian Rupiah	918,245	-	-	918,245
Israeli Shekel	233,598	-	-	233,598
Japanese Yen	12,424,119	-	-	12,424,119
Malysian Ringgit	1,412,685	-	-	1,412,685
Mexican Peso	2,542,833	619,159	-	3,161,992
New Zealand Dollar	57,298	1,459,487	-	1,516,785
Norwegian Krone	2,435,539	387,927	-	2,823,466
Philippine Peso	388,488	-	-	388,488
Polish Zloty	671,025	-	-	671,025
Russian Ruble	1,130,148	-	-	1,130,148
Singapore Dollar	2,653,665	-	-	2,653,665
South African Rand	3,585,345	-	-	3,585,345
South Korean Won	10,428,811	-	-	10,428,811
Swedish Krona	2,227,842	-	-	2,227,842
Swiss Franc	8,925,879	-	-	8,925,879
Taiwan Dollar	5,955,726	-	-	5,955,726
Thailand Baht	988,879	-	-	988,879
Turkish Lira	847,611	-	-	847,611
Total Securities Subject to Foreign Currency Risk	$ 146,676,604	$ 5,552,334	$ 60	$ 152,228,998
U.S. Dollar (Securities held by International Managers)	815,095			815,095
Total International Investment Securities	$ 147,491,699	$ 5,552,334	$ 60	$ 153,044,093

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, 2013, is as follows:

Currency Type	Equity	Fixed Income	Cash	Total
Australian Dollar	$ 2,171,807	$ 1,170,440	$ -	$ 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	-	-	302,166
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
Malysian 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	-	-	917,313
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

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.

	2014		2013		
Derivative Type	Notional Value	Fair Value	Notional Value	Fair Value	Change in Fair Value
Bond Index Futures	$ -	$ -	$ -	$ -	$ -
Equity Index Futures	-	-	-	-	-
Forward Currency Contracts	-	(45,347)	-	193,846	(239,193)
Total	$ -	$ (45,347)	$ -	$ 193,846	$ (239,193)

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 – <u>SECURITIES LENDING PROGRAM</u> (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, 2014 and 2013, ICERS collateral was slightly below the 102 percent (102%) requirement, however, ICERS had no losses on securities lending transactions resulting from the default of a borrower for the years ended June 30, 2014 and 2013. As of June 30, 2014, the fair value of securities on loan was $41,138,086 with the value of cash collateral received of $40,841,699 and non-cash collateral of $1,113,794. 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. ICERS' income, net of expenses from securities lending, was $0 and $89,757 for the years ended June 30, 2014 and 2013, 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, 2014 and 2013, ICERS had the following securities lending (dollars in thousands):

	2014		2013	
Securities on Loan	Fair Value of Securities on Loan	Collateral Received	Fair Value of Securities on Loan	Collateral Received
U.S. Government, Agencies, and Mortgage-Backed Securities	$ 1,539,857	$ 1,568,848	$ 2,685,663	$ 2,735,625
U.S. Equities	35,036,368	35,734,135	25,337,832	26,020,937
U.S. Corporate Fixed-Income	4,561,862	4,652,510	4,514,507	4,602,758
Total	$ 41,138,086	$ 41,955,493	$ 32,538,002	$ 33,359,319

NOTE 5 – <u>REAL ESTATE</u>

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

	Appraised Value	
Location	2014	2013
Separate Properites:		
ICERS El Centro Inc	$ 1,349,643	$ 1,309,811
Clarion Partners (formerly ING Clarion)	23,018,710	20,971,973
ASB-Allegiance Real Estate Fund	23,445,805	19,344,773
Total Properties	46,464,515	40,316,746
Total Real Estate	$ 47,814,158	$ 41,626,557

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, 2014, are shown below.

	Balance June 30, 2013	Additions	Deductions	Balance June 30, 2014
Equipment	$ 107,193	$ -	$ -	$ 107,193
Work-in-Progress	4,350,234	929,974	-	5,280,208
Totals	4,457,427	929,974	-	5,387,401
Less: Accumulated Depreciation				
Equipment	107,194	-	-	107,194
Work-in-Progress	362,519	447,063	-	809,582
Totals	469,713	447,063	-	916,776
Capital Assets-Net	$ 3,987,714	$ 482,911	$ -	$ 4,470,625

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	$ -	$ -	$ 107,193
Work-in-Progress	3,740,912	609,322	-	4,350,234
Totals	3,848,105	609,322	-	4,457,427
Less: Accumulated Depreciation				
Equipment	90,539	16,654	-	107,194
Work-in-Progress	-	362,519	-	362,519
Totals	90,539	379,174	-	469,713
Capital Assets-Net	$ 3,757,566	$ 230,148	$ -	$ 3,987,714

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, 2014 and 2013, was approximately $683,282,401 and $592,330,267, respectively.

The following firms professionally manage ICERS' investments:

	Value of Investments	
	2014	2013
BlackRock	$ 242,697,141	$ 213,932,516
Bradford & Marzec	84,977,938	79,596,720
Clifton Group	6,391,756	6,391,110
Dimensional	35,317,122	30,577,046
Franklin Templeton Institutional	66,267,919	54,643,048
Gresham	15,476,786	-
HarbourVest Partners, LLC	6,657,915	3,581,686
KKR	6,968,075	3,883,425
PIMCO	98,032,237	93,848,519
T. Rowe Price	33,732,699	27,561,013
TimesSquare Capital	37,202,421	31,850,687
Clarion Partners	23,018,710	20,971,973
ASB Capital Management, LLC	23,445,805	19,344,773
JP Morgan	3,095,876	6,147,751
Total Investments	$ 683,282,401	$ 592,330,267

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, 2014 and 2013, administrative expenses were $1,669,335 and $1,364,235 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 – NET PENSION LIABILITY

Net Pension Liability of Employers

The net pension liability (i.e., the Plan's liability determined in accordance with GASB No. 67 less the fiduciary net position) is shown below:

	June 30, 2014	June 30, 2013
Total Pension Liability	$ 751,712,352	$ 687,292,373
Plan Fiduciary Net Position	(692,988,848)	(602,551,959)
Employers' Net Pension Liability	$ 58,723,504	$ 84,740,414
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	92.19%	87.67%

The Net Pension Liability was measured as of June 30, 2014 and 2013 and determined based upon rolling forward the Total Pension Liability from actuarial valuations as of June 30, 2013 and 2012, respectively.

Actuarial Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 67. Key methods and assumptions used in the latest actuarial valuations are presented below:

Inflation	3.25%
Salary increases	General: 4.75% to 7.75% and Satety: 4.75% to 11.75%, vary by service, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

NOTE 10 – NET PENSION LIABILITY (Continued)

Discount Rate

The discount rates used to measure the total pension liability were 7.50% and 7.75% as of June 30, 2014 and June 30, 2013, respectively. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of both June 30, 2014 and June 30, 2013.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the ICERS as of June 30, 2014, calculated using the discount rate of 7.50%, as well as what the ICERS' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
ICERS Net Pension Liability As of June 30, 2014	$ 161,361,529	$ 58,723,504	$ (26,145,380)

NOTE 11 – ACTUARIAL VALUATIONS

Pursuant to provisions in the CERL, ICERS engages an independent actuarial firm to perform an annual funding actuarial 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 funding actuarial valuation.

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)
6/30/2014	$ 659,148	$ 741,242	$ 82,094	88.92%	$ 105,731	77.64%

NOTE 11 – ACTUARIAL VALUATIONS (Continued)

Additional information as of the latest funding actuarial valuation is as follows:

Valuation date	June 30, 2014
Actuarial cost method	Entry age actuarial cost method
Amortization method	Level percentage of payroll for total unfunded actuarial accrued liability
Asset valuation method	The Actuarial Value of Assets is determined by recognizing any difference between the actual and the expected market return over 5 years or 10 six month interest crediting periods. The Actuarial Value of Assets is further adjusted, if necessary, to be within 30% of the Market Value of Assets. Deferred gains and losses as of June 30, 2011 have been combined and will be recognized in equal amounts over the next nine six-month interest crediting periods from July 1, 2011. The Valuation Value of Assets is the Actuarial Value of Assets reduced by the value of the non-valuation reserves.
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 7.75% Safety: 4.75% to 11.75%
Remaining amortization period	17 years (declining) as of June 30, 2014 for the outstanding balance of the June 30, 2012 UAAL. Effective with the June 30, 2013 valuation, any change in UAAL that arises due to actuarial gains or losses will be amortized over a 15-year closed period. Any change in UAAL as a result of a change in actuarial assumptions or methods will be amortized over a 20-year closed period. Any change in UAAL that arises due to plan amendments will be amortized over a 15-year closed period and any change in UAAL due to temporary retirement incentive programs will be amortized over a 5-year closed period. If ICERS becomes overfunded, such surplus and any subsequent surpluses will be amortized over an open amortization period of 30 years.

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.

As of June 30, 2014, outstanding capital commitments consisted of:

Investment Manager	Investment Type	Total Capital Commitment	Outstanding Capital Commitment
HarbourVest	Private Equity	$ 20,000,000	$ 13,697,737
KKR	Private Equity	10,000,000	2,909,857
PIMCO	Private Equity	10,000,000	-

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

NOTE 14 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 16, 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 CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

	June 30, 2014	June 30, 2013
Total Pension Liability		
Service cost	$ 23,272,227	$ 22,802,375
Interest	53,633,171	50,488,475
Change of benefit terms	-	-
Differences between expected and actual experience	(2,989,546)	(14,764,733)
Changes of assumptions	21,572,390	-
Benefit payments, including refunds of employee contributions	(31,068,263)	(29,320,590)
Net change in total pension liability	$ 64,419,979	$ 29,205,527
Total pension liability – beginning	687,292,373	658,086,846
Total pension liability – ending (a)	$ 751,712,352	$ 687,292,373
Plan Fiduciary Net Position		
Contributions – employer	$ 17,045,429	$ 16,082,961
Contributions – employee	10,519,020	10,093,363
Net investment income	95,831,177	62,556,490
Benefit payments, including refunds of employee contributions	(31,068,263)	(29,320,590)
Administrative expense	(1,890,474)	(1,521,247)
Other	-	-
Net change in plan fiduciary net position	$ 90,436,889	$ 57,890,977
Plan fiduciary net position – beginning	602,551,959	544,660,982
Plan fiduciary net position – ending (b)	$ 692,988,848	$ 602,551,959
System's net pension liability – ending (a)-(b)	$ 58,723,504	$ 84,740,414
Plan fiduciary net position as a percentage of the total pension liability	92.19%	87.67%
Covered employee payroll	$ 105,731,000	$ 120,548,000
Plan net pension liability as percentage of covered employee payroll	57.26%	84.44%

Notes to Schedule:

Benefit Changes: All members with membership dates on or after January 1, 2013 enter the new tiers created by the California Public Employees' Pension Reform Act of 2013 (PEPRA).

Schedule is intended to show information for 10 years. Recalculations of prior years are not required. If prior years are not reported in accordance with the standards of GASB 67/68, they should not be shown here. Therefore, we have only shown years for which the new GASB statements have been implemented.

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

Year Ended June 30	Actuarially Determined Contributions	Contributions in Relation to the Actuarially Determined Contributions	Contribution Deficiency (Excess)	Convered-Employee Payroll	Contributions as a percentage of Covered Employee Payroll
2014	17	17	0	96	17.68%
2013	16	16	0	92	17.41%
2012	13	13	0	96	13.60%
2011	13	13	0	94	13.84%
2010	12	12	0	88	13.56%
2009	11	11	0	85	12.88%
2008	9	9	0	$79	11.44%
2007	8	8	0	N/A	N/A
2006	5	5	0	N/A	N/A
2005	$6	$6	0	N/A	N/A

Notes to Schedule:

Valuation date

Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to establish "actuarially determined contributions" rates:

Actuarial cost method

Entry Age Actuarial Cost Method

Amortization method

Level percent of payroll for total unfunded actuarial accrued liability

Remaining amortization period

18 years (declining) as of June 30, 2013 for the outstanding balance of the June 30, 2012 Unfunded Actuarial Accrued Liability (UAAL) as a result of a change in actuarial assumptions or methods will be amortized over a 20-year closed period. Any change in UAAL that arises due to plan amendments will be amortized over a 15-year closed period and any change in UAAL due to temporary retirement incentive programs will be amortized over a 5-year closed period. If ICERS becomes overfunded, such surplus and any subsequent surpluses will be amortized over an open amortization period of 30 years.

Asset valuation method

The Actuarial Value of Assets is determined by recognizing any difference between the actual and the expected market return over 5 years or 10 six-month interest crediting periods. The Actuarial Value of Assets is further adjusted, if necessary, to be within 30% of the Market Value of Assets. Deferred gains and losses as of June 30, 2011 have been combined and will be recognized in equal amounts over the next nine six-month interest crediting periods from that date. The Valuation Value of Assets is the Actuarial Value of Assets reduced by the value of the non-valuation reserves.
For valuation purposes, the Valuation Value of Assets is reduced by the value of the non-valuation reserves.

Notes to Schedule (Continued):

	Before Reflection of Assumptions Approved for pension funding valuation as of June 30, 2014	After Reflection of Assumptions Approved for pension funding valuation as of June 30, 2014
Actuarial assumptions:		
Investment rate of return	7.75%	7.50%
Inflation rate	3.50%	3.25%
Real across-the-board salary increase	0.50%	0.50%
Projected salary increases*	General: 4.75% to 8.00% and Safety: 4.75% to 11.50%	General: 4.75% to 7.75% and Safety: 4.75% to 11.75%
Cost of living adjustments	2.00% of retirement income	2.00% of retirement income
Other Assumptions:	Same as those used in the June 30, 2013 funding actuarial valuation	Same as those used in the June 30, 2014 funding actuarial valuation

**included inflation at 3.25% (3.50% for June 30, 2013 valuation) plus real across-the-board salary increase of 0.50% plus merit and longevity increases.*

IMPERIAL COUNTY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF INVESTMENT RETURNS

	June 30, 2014	June 30, 2013
Annual money-weighted rate of return, net of investment expense	16.2%	11.8%

Notes to Schedule:

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

OTHER 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, 2014	$ 659,148	$ 741,242	$ 82,094	88.92%	$ 105,731	77.64%
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
ALLOCATED BY COST SHARING PLAN (UNAUDITED)
AS OF JUNE 30, 2014

Employer	General	Safety	Total Contributions	Total %
County	$ 18,425,307	$ 7,552,126	$ 25,977,433	94.243%
Courts	1,446,537	-	1,446,537	5.248%
ICTC	110,615	-	110,615	0.401%
LAFCU	29,864	-	29,864	0.108%
Total	$ 20,012,323	$ 7,552,126	$ 27,564,449	100.000%

IMPERIAL COUNTY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF NET PENSION LIABILITY (NPL)
ALLOCATED BY COST SHARING PLAN (UNAUDITED)
AS OF JUNE 30, 2014

Employer	General	Safety	Total NPL	Total %
County	$ 33,389,812	$ 22,457,747	$ 55,847,559	95.103%
Courts	2,621,373	-	2,621,373	4.464%
ICTC	200,453	-	200,453	0.341%
LAFCO	54,119	-	54,119	0.092%
Total	$ 36,265,757	$ 22,457,747	$ 58,723,504	100.000%

Notes to Schedule:

Based on July 1, 2013 through June 30, 2014 contributions as provided by ICERS.

The Net Pension Liability (NPL) for each membership class is the Total Pension Liability (TPL) minus the Plan Net Position. The Total Pension Liability for each membership class is obtained from internal valuation results. The Plan Net Position for each membership class was estimated by adjusting the valuation value of assets for each membership class by the ratio of the total ICERS Plan Net Position to total ICERS valuation value of assets. Based on this methodology, any non-valuation reserves (such as Reserve for Capital Assets) are allocated amongst the membership classes based on the valuation value of assets for each membership class.

The Safety membership class has one employer (County), so all of the NPL for Safety is allocated to the County.

For General, the NPL is allocated based on the actual contributions within the General membership class.

- First calculate ratio of employer's and member's contributions to the total contributions for the membership class.
- This ratio is multiplied by the NPL for the membership class to determine the employer's proportionate share of the NPL for the membership class.
- If the employer is in several membership classes, the employer's total allocated NPL is the sum of its allocated NPL from each membership class.
- Proportionate share of total plan NPL is then the ratio of the employer's total allocated NPL to the total NPL of all employers.

IMPERIAL COUNTY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER PENSION AMOUNTS
ALLOCATED BY COST SHARING PLAN (UNAUDITED)
AS OF JUNE 30, 2014

	County	Courts	ICTC	LAFCO	Total for All Employers
Net Pension Liability	$ 55,847,559	$ 2,621,373	$ 200,453	$ 54,119	$ 58,723,504
Deferred Outflows of Resources					
Differences Between Expected and Actual Plan Experience	-	-	-	-	-
Differences Between Projected and Actual Investment Earnings on Pension Plan Investments	-	-	-	-	-
Changes of Assumptions	17,327,972	702,391	53,711	14,501	18,098,575
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	-	-	-	-	-
Total Deferred Outflows of Resources	$ 17,327,972	$ 702,391	$ 53,711	$ 14,501	$ 18,098,575
					-
Deferred Inflows of Resources					-
Differences Between Expected and Actual Plan Experience	2,358,092	136,764	10,458	2,824	2,508,138
Differences Between Projected and Actual Investment Earnings on Pension Plan Investments	35,708,856	1,999,886	152,929	41,288	37,902,959
Changes of Assumptions	-	-	-	-	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	-	-	-	-	-
Total Deferred Inflows of Resources	$ 38,066,948	$ 2,136,650	$ 163,387	$ 44,112	$ 40,411,097
Pension Expense					
Proportionate Share of Plan Pension Expense	12,584,982	689,135	52,697	14,227	13,341,041
Net Amortization of Deferred Amounts from Changes in Proportion and Proportionate Share of Pension Expense	-	-	-	-	-
Total Employer Pension Expense	$ 12,584,982	$ 689,135	$ 52,697	$ 14,227	$ 13,341,041

Notes to Schedule:

Amounts shown in this exhibit were allocated by employer based on the Contributions Allocation Percentage Calculated in Exhibit A.

In determining the pension expense:

- Any differences between projected and actual investment earnings on pension plan investments are recognized over a period of five years beginning with the year in which they occur.
- Differences between expected and actual experience are recognized over the average of the expected remaining service lives of all employees that are provided with pensions through ICERS determined as of June 30, 2013 (the beginning of the measurement period ending June 30, 2014) and is 6.21 years.

The average of the expected remaining service lives of all employees was determined by:

- Calculating each active employees' expected remaining service life as the present value of $1 per year of future service at zero percent interest.
- Setting the remaining service life to zero for each nonactive or retired members.
- Dividing the sum of the above amounts by the total number of active employee, nonactive and retired members.

ICERS' Actuary did not attempt to determine the beginning balances for deferred inflows of resources and deferred outflows of resources as of the beginning of the period for the 2013/14 fiscal year. Per paragraph 137 of GAS 68, these balances are assumed to be zero.