

**IMPERIAL COUNTY EMPLOYEES'  
RETIREMENT SYSTEM**

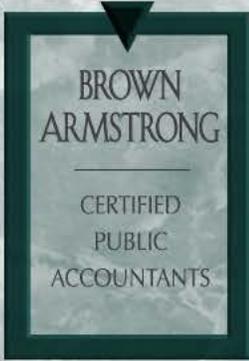
**FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITOR'S REPORT**

**FOR THE FISCAL YEARS  
ENDED JUNE 30, 2015 AND 2014**

**IMPERIAL COUNTY EMPLOYEES'  
RETIREMENT SYSTEM  
JUNE 30, 2015 AND 2014**

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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, 2015 and 2014, 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 Schedules of Employer Contributions Allocated by Cost Sharing Plan, Net Pension Liability Allocated by Cost Sharing Plan, and Schedule of Employer Pension Amounts Allocated by Cost Sharing Plan total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (specified column totals), listed as other supplemental information 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.

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## 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, 2015 and 2014, and its changes in plan net position for the years then ended, the Schedules of Employer Contributions Allocated by Cost Sharing Plan, Net Pension Liability Allocated by Cost Sharing Plan, and Schedule of Employer Pension Amounts Allocated by Cost Sharing Plan total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (specified column totals) in conformity with accounting principles generally accepted in the United States of America.

## Emphasis of a Matter

As discussed in Note 10 to the financial statements, the net pension liability of the participating employers as of June 30, 2015, was \$88,608,296. The fiduciary net position as a percentage of the total liability as of June 30, 2015, was 88.78%. The actuarial valuations are very sensitive to the underlying actuarial assumptions, including a discount rate of 7.5%, which represents the long-term expected rate of return. Our opinion is not modified with respect to this 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 (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.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2016, 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  
January 28, 2016

**IMPERIAL COUNTY EMPLOYEES'  
RETIREMENT SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015 AND 2014**

This Management's Discussion and Analysis (MD&A) of the financial activities of the Imperial County Employees' Retirement System (ICERS) is an overview of its fiscal operations for the year ended June 30, 2015. 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, 2015. 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, 2015, was \$700,889,930. 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 \$7,901,082, primarily due to an increase in the net appreciation in the fair value of investments and a decrease in the plan's liabilities.
- Total additions, as reflected in the Statement of Changes in Plan Net Position decreased \$82,242,148, primarily as a result of the decline in the net increase in investment income.
- Deductions from plan net position increased from \$32,958,737 to \$34,697,548 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, 2015, the date of the last funding actuarial valuation, the funded ratio for all ICERS agencies was 90.0%. In general, this indicates that for every dollar of benefits due, ICERS had approximately \$.90 of assets available for payment as of that date. The funding ratios of the employer entities that participate in ICERS were 100%.

### **Overview of the Financial Statements**

This MD&A serves as an introduction to the basic financial statements. ICERS has two basic financial statements, the notes to the financial statements, and 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 to or Deductions from the plan. The trend of Additions to versus Deductions from 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 Statement No. 67 are also included in this section.

The Required Supplemental Information follows the notes and includes several new GASB Statement No. 67 schedules. The newly added Schedule of Changes in Net Pension Liability and Related Ratios provides 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 Plan, 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 Statement No. 68 requirements. GASB Statement No. 68 governs the specifics of accounting for public pension plan obligations for plan sponsors. Plan sponsors are required to implement GASB Statement No. 68 for fiscal years beginning after June 15, 2014. GASB Statement No. 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, 2015, totaled \$700,889,930, an increase of \$7,901,082 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:

	2015	2014	Increase (Decrease) 2015/2014
Investments at Fair Value	\$ 693,036,996	\$ 684,176,471	\$ 8,860,525
Cash and Short-Term Investments	1,669,483	2,755,474	(1,085,991)
Capital Assets (Net of Accumulated Depreciation)	4,151,640	4,470,625	(318,985)
Collateral Held for Securities Loaned	30,175,665	40,841,699	(10,666,034)
Receivables and Other Assets	6,659,773	8,437,701	(1,777,928)
<b>Total Assets</b>	<b>735,693,557</b>	<b>740,681,970</b>	<b>(4,988,413)</b>
<b>Total Liabilities</b>	<b>34,803,627</b>	<b>47,693,122</b>	<b>(12,889,495)</b>
<b>Net Position</b>	<b>\$ 700,889,930</b>	<b>\$ 692,988,848</b>	<b>\$ 7,901,082</b>

	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
<b>Total Assets</b>	<b>740,681,970</b>	<b>641,888,689</b>	<b>98,793,281</b>
<b>Total Liabilities</b>	<b>47,693,122</b>	<b>39,336,730</b>	<b>8,356,392</b>
<b>Net Position</b>	<b>\$ 692,988,848</b>	<b>\$ 602,551,959</b>	<b>\$ 90,436,889</b>

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, 2015, and determined that the funded ratio of the actuarial assets to the actuarial accrued liability is 90.0%. The actuarial valuation as of June 30, 2014, determined the funded ratio to be 88.9%.

#### **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, 2015 and 2014, totaled \$41,153,478 and \$123,395,626, respectively.

	2015	2014	Increase (Decrease) 2015/2014
Employer Contributions	\$ 18,458,585	\$ 17,045,429	\$ 1,413,156
Plan Member Contributions	11,328,165	10,519,020	809,145
Net Investment Income	11,305,171	95,773,731	(84,468,560)
Miscellaneous Income	61,557	57,446	4,111
<b>Total</b>	<b>\$ 41,153,478</b>	<b>\$ 123,395,626</b>	<b>\$ (82,242,148)</b>

	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	95,773,731	62,492,935	33,280,796
Miscellaneous Income	57,446	63,555	(6,109)
<b>Total</b>	<b>\$ 123,395,626</b>	<b>\$ 88,732,814</b>	<b>\$ 34,662,812</b>

#### **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:

	2015	2014	Increase (Decrease) 2015/2014
Retirement Benefits	\$ 31,652,991	\$ 30,226,787	\$ 1,426,204
Refund of Contributions	810,930	695,957	114,973
Lump Sum Death Benefits	154,016	145,519	8,497
Administrative	1,860,851	1,669,335	191,516
Legal Expenses	52,644	63,891	(11,247)
Actuarial Expenses	166,116	157,248	8,868
<b>Total Expenses</b>	<b>\$ 34,697,548</b>	<b>\$ 32,958,737</b>	<b>\$ 1,738,811</b>

	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
<b>Total Expenses</b>	<b>\$ 32,958,737</b>	<b>\$ 30,841,837</b>	<b>\$ 2,116,900</b>

## **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 No. 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

Respectfully 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, 2015 AND 2014**

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,669,483	\$ 2,755,474
Securities lending cash collateral	<u>30,175,665</u>	<u>40,841,699</u>
Total Cash	31,845,148	43,597,173
Receivables		
Contributions receivable	1,743,544	1,479,282
Accounts receivable - sale of investments	2,783,694	2,538,100
Accrued interest and dividends	503,575	570,835
Forward currency contracts receivable	1,622,464	3,774,330
Accounts receivable - other	<u>6,496</u>	<u>75,154</u>
Total Receivables	6,659,773	8,437,701
Investments at fair value		
Fixed income	203,819,482	195,217,912
Domestic equities	222,430,348	245,255,776
International equities	170,951,385	145,660,124
Alternative investments	40,446,492	50,228,501
Real estate	<u>55,389,289</u>	<u>47,814,158</u>
Total Investments	693,036,996	684,176,471
Capital assets (net of accumulated depreciation)	<u>4,151,640</u>	<u>4,470,625</u>
Total Assets	<u>735,693,557</u>	<u>740,681,970</u>
<b>Liabilities</b>		
Accounts payable - purchase of investments	3,026,982	2,608,016
Collateral payable for securities lending	30,175,665	40,841,699
Forward currency contracts payable	1,559,929	3,819,676
Accounts payable - other	<u>41,051</u>	<u>423,731</u>
Total Liabilities	<u>34,803,627</u>	<u>47,693,122</u>
<b>Net Position Held in Trust for Employees' Pension Benefits</b>	<u>\$ 700,889,930</u>	<u>\$ 692,988,848</u>

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

**IMPERIAL COUNTY EMPLOYEES' RETIREMENT SYSTEM  
STATEMENTS OF CHANGES IN PLAN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

	June 30, 2015	June 30, 2014
<b>Additions</b>		
Contributions		
Employer	\$ 18,458,585	\$ 17,045,429
Plan member	11,328,165	10,519,020
	29,786,750	27,564,449
Total Contributions		
Investment income (loss)		
Net appreciation in		
fair value of investments	5,119,102	85,778,133
Interest and dividends	8,884,903	7,526,356
Real estate operating income, net	2,062,623	1,769,474
Alternative income (loss)	(1,464,744)	4,062,782
	14,601,884	99,136,745
Total investment income (loss)		
Less investment expenses	(3,296,713)	(3,363,014)
	11,305,171	95,773,731
Net Investment Income (Loss)		
Securities lending activities		
Securities lending income	56,593	54,343
Less expenses from securities		
lending activities	(56,593)	(54,343)
	-	-
Net Securities Lending Income (Loss)		
Total Net Investment Income (Loss)	11,305,171	95,773,731
Miscellaneous	61,557	57,446
	41,153,478	123,395,626
Total Additions		
<b>Deductions</b>		
Retirement benefits	31,652,991	30,226,787
Refunds of contributions	810,930	695,957
Lump sum death benefits	154,016	145,519
Administrative expenses	1,860,851	1,669,335
Legal expenses	52,644	63,891
Actuarial expenses	166,116	157,248
	34,697,548	32,958,737
Total Deductions		
Net Increase	6,455,930	90,436,889
Net Position Held in Trust for Employees' Pension Benefits, Beginning of Year	692,988,848	602,551,959
Prior Period Adjustment	1,445,152	-
	694,434,000	602,551,959
Net Position Held in Trust for Employees' Pension Benefits, As Restated		
<b>Net Position Held in Trust for Employees' Pension Benefits, End of Year</b>	<b>\$ 700,889,930</b>	<b>\$ 692,988,848</b>

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

**IMPERIAL COUNTY EMPLOYEES' RETIREMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**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 Act of 1937 (California Government Code Section 31450 et. seq.) (CERL). 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 (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 of Retirement 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 ICERS. 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
Patricia Lizarraga, General Member Employee	6/30/2016
Geoff Holbrook, General Member Employee	6/30/2017
Jack Terrazas, County Supervisor	12/31/2017
Norma Jauregui, Public Member	6/30/2017
Robert Williams, Public Member	12/31/2017
Thomas Garcia., Safety Member Employee	12/31/2017
Charles L. Jernigan, Retiree Member	12/31/2017
James E. Rhodes, Public Member	12/31/2017
Herbert Bumgart, Alternate Safety Member	12/31/2017
Vacant, Alternate Retiree Member	-
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, 2015 and 2014:

	June 30, 2015	June 30, 2014
Active Members (Vested and Non-Vested)	2,057	1,987
Retired Members and Beneficiaries	1,027	1,007
Terminated Vested (Deferred)	404	374
<b>Total Membership</b>	<b>3,488</b>	<b>3,368</b>

*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 Section 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 provisions 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 Section 31664.1 (Regular plus Supplemental Benefit). For those Safety member benefits for those who are first hired on or after January 1, 2013, are calculated pursuant to the provisions 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, 2015, for 2014-2015 (based on the June 30, 2013 valuation) was 18.06% 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, 2015, for 2014-2015 (based on the June 30, 2013 valuation) was 11.08% 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 of Imperial (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, 2015 and 2014.

### 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 CERL to absorb possible future losses on investments. The reserve balance, per the 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, 2015 and 2014, 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:

<u>Asset Class</u>	<u>June 30, 2015</u>	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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%
<b>Total</b>	<b>100.00%</b>	

Rate of Return

For the year ended June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 1.8%. 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

During the fiscal year ending June 30, 2015, ICERS implemented the following standards:

**GASB Statement No. 68** – *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. The provisions of GASB Statement No. 68 are effective for financial statements beginning after June 15, 2014. ICERS has implemented the provisions of GASB Statement No. 68 in the current year.

**GASB Statement No. 69** – *Government Combinations and Disposals of Government Operations*. The provisions of GASB Statement No. 69 are effective for financial statements beginning after December 15, 2013. There was no effect on ICERS' accounting or financial reporting as a result of implementing this standard.

## **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

### Implementation of New Accounting Pronouncements (Continued)

**GASB Statement No. 71** – *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68.* The provisions of this statement will be applied simultaneously with the provisions of GASB Statement No. 68. There was no effect on ICERS' accounting or financial reporting as a result of implementing this standard.

### New Accounting Pronouncements

Recently released standards by GASB affecting future fiscal years are as follows:

**GASB Statement No. 72** – *Fair Value Measurement and Application.* The provisions of this statement are effective for financial statements for reporting periods beginning after June 15, 2015. ICERS has not fully judged the effect of the implementation of GASB Statement No. 72 as of the date of the basic financial statements.

**GASB Statement No. 73** – *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68.* The provisions of this statement are effective for fiscal years beginning after June 15, 2015 – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2016. ICERS has not fully judged the effect of the implementation of GASB Statement No. 73 as of the date of the basic financial statements.

**GASB Statement No. 74** – *Financial Reporting for Postemployment Benefits Other than Pension Plans.* The provisions of this statement are effective for fiscal years beginning after June 15, 2016. ICERS has not fully judged the effect of the implementation of GASB Statement No. 74 as of the date of the basic financial statements.

**GASB Statement No. 75** – *Accounting and Financial Reporting for Postemployment Benefits Other than Pension Plans.* The provisions of this statement are effective for fiscal years beginning after June 15, 2017. ICERS has not fully judged the effect of the implementation of GASB Statement No. 75 as of the date of the basic financial statements.

**GASB Statement No. 76** – *Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The provisions of this statement are effective for fiscal years beginning after June 15, 2015. ICERS has not fully judged the effect of the implementation of GASB Statement No. 76 as of the date of the basic financial statements.

**GASB Statement No. 77** – *Tax Abatement Disclosures.* The requirements of this statement are effective for reporting periods beginning after December 15, 2015. ICERS has not fully judged the effect of the implementation of GASB Statement No. 77 as of the date of the basic financial statements.

**GASB Statement No. 78** – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans.* The requirements of this statement are effective for reporting periods beginning after December 15, 2015. ICERS has not fully judged the effect of the implementation of GASB Statement No. 78 as of the date of the basic financial statements.

## **NOTE 3 – DEPOSIT AND INVESTMENT RISK DISCLOSURE**

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:

**NOTE 3 – DEPOSIT AND INVESTMENT RISK DISCLOSURE** (Continued)

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

The Investment Policy Statement encompasses the following:

- Criteria for Selecting 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 collateralized mortgage obligations (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.

### NOTE 3 – DEPOSIT AND INVESTMENT RISK DISCLOSURE (Continued)

#### Credit Quality Ratings of Investments in Fixed Income Securities

The credit quality of investments in fixed income securities as rated by nationally recognized ratings organizations as of June 30, 2015 and 2014, are as follows:

Quality Ratings	Fair Value	
	2015	2014
Aaa	\$ 79,718,847	\$ 21,220,861
Aa	8,260,769	5,044,644
A	20,540,188	6,441,788
Baa	51,667,721	22,952,763
Ba	14,271,968	6,186,461
B	11,873,918	1,689,343
Caa and Lower	2,200,348	141,750
N/R	596,687	3,961,786
N/A*	14,689,036	127,578,516
<b>Total Investments in Fixed Income Securities</b>	<b>\$ 203,819,482</b>	<b>\$ 195,217,912</b>

N/R represents securities that are not rated.

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

#### Credit Risk

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

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

#### Custodial Credit Risk

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

### NOTE 3 – DEPOSIT AND INVESTMENT RISK DISCLOSURE (Continued)

#### Concentration of Credit Risk

As of June 30, 2015 and 2014, 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, 2015, ICERS' Core Fixed Income manager had an effective duration of 5.61 years, while ICERS' Core Plus Fixed Income manager had an effective duration of 4.9 years.

#### Fixed Income Securities - Duration

As of June 30, 2015 and 2014, ICERS had the following securities:

Investment Type	2015		2014	
	Market Value	Effective Duration (in years)	Market Value	Effective Duration (in years)
Asset-Backed Securities	\$ 9,517,181	4.30	\$ 6,259,160	4.45
Cash and Equivalents	17,261,748	0.00	15,237,071	0.00
Collateralized Mortgage Backed Securities	7,255,685	8.22	7,416,853	4.88
CMO Corporate	1,192,366	0.03	2,180,130	0.01
Corporates and Other Credit	34,263,025	5.95	41,437,819	5.79
Government	11,247,395	7.22	3,210,197	15.31
Mortgage Backed-Agency	20,720,068	15.44	15,940,651	14.87
Government (Non-U.S.)	3,044,194	7.04	4,687,347	4.42
Sub-total	104,501,662	5.61	96,369,228	5.56
Core Plus Fixed Income Fund <sup>1</sup>	84,628,784	4.90	83,912,617	5.68
Treasury Inflation Protected Securities <sup>1</sup>	14,689,036	7.80	14,936,067	7.72
Other Securities	-	-	-	-
Total	<u>\$ 203,819,482</u>		<u>\$ 195,217,912</u>	

<sup>1</sup> Investments in Commingled Funds

#### Foreign Currency Risk

Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or 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, 2015, is as follows:

Currency Type	Equity	Fixed Income	Cash	Total
Australian Dollar	\$ 4,440,163	\$ 1,305,759	\$ -	\$ 5,745,922
Brazilian Real	4,658,408	-	-	4,658,408
British Pound	28,314,018	-	-	28,314,018
Canadian Dollar	483,977	-	-	483,977
Chilean Peso	335,814	-	-	335,814
Chinese RNB	11,134,343	-	-	11,134,343
Colombian Peso	31,483	-	-	31,483
Czech Republic Koruna	52,471	-	-	52,471
Danish Krone	1,076,208	-	-	1,076,208
Euro Currency Unit	43,922,101	-	-	43,922,101
Hong Kong Dollar	5,709,144	-	-	5,709,144
Hungarian Forint	94,448	-	-	94,448
Indian Rupee	8,140,703	-	-	8,140,703
Indonesian Rupiah	1,709,864	-	-	1,709,864
Israeli Shekel	1,472,747	-	-	1,472,747
Japanese Yen	18,916,734	-	-	18,916,734
Malaysian Ringgit	1,443,014	-	-	1,443,014
Mexican Peso	3,153,627	798,629	-	3,952,257
New Zealand Dollar	83,777	1,261,517	-	1,345,294
Norwegian Krone	1,870,814	-	-	1,870,814
Pakistan Rupee	161,950	-	-	161,950
Philippine Peso	272,849	-	-	272,849
Polish Zloty	461,745	-	-	461,745
Russian Ruble	527,464	-	-	527,464
Singapore Dollar	3,391,642	-	-	3,391,642
South African Rand	2,974,269	-	-	2,974,269
South Korean Won	7,301,197	-	-	7,301,197
Swedish Krona	2,596,266	-	-	2,596,266
Swiss Franc	10,271,234	-	-	10,271,234
Taiwan Dollar	4,618,235	-	-	4,618,235
Thailand Baht	2,011,828	-	-	2,011,828
Turkish Lira	377,791	-	-	377,791
Total Securities Subject to Foreign Currency Risk	\$ 172,010,327	\$ 3,365,906	\$ -	\$ 175,376,233
U.S. Dollar (Securities held by International Managers)	1,258,547	-	-	1,258,547
Total International Investment Securities	\$ 173,268,874	\$ 3,365,906	\$ -	\$ 176,634,780

**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, 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
Malaysian 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	\$ 146,676,605	\$ 5,552,334	\$ 60	\$ 152,228,999
U.S. Dollar (Securities held by International Managers)	815,094	-	-	815,094
Total International Investment Securities	\$ 147,491,699	\$ 5,552,334	\$ 60	\$ 153,044,093

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 option contracts.

#### 1. Futures Contracts

A futures contract represents an agreement to buy (long position) or sell (short position) an 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 decides 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.

Derivative Type	2015		2014		Change in Fair Value
	Notional Value	Fair Value	Notional Value	Fair Value	
Bond Index Futures	\$ -	\$ -	\$ -	\$ -	\$ -
Forward Currency Contracts	-	62,535	-	(45,347)	107,882
Total	\$ -	\$ 62,535	\$ -	\$ (45,347)	\$ 107,882

### **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, 2015, ICERS collateral was slightly above the 102% requirement. ICERS had no losses on securities lending transactions resulting from the default of a borrower for the years ended June 30, 2015 and 2014. As of June 30, 2015, the fair value of securities on loan was \$33,512,834 with the value of cash collateral received of \$30,175,665 and non-cash collateral of \$4,090,374. 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. ICERS’ income, net of expenses from securities lending, was \$0 and \$0 for the years ended June 30, 2015 and 2014, 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, 2015 and 2014, ICERS had the following securities lending (dollars in thousands):

Securities on Loan	2015		2014	
	Fair Value of Securities on Loan	Collateral Received	Fair Value of Securities on Loan	Collateral Received
U.S. Government, Agencies, and Mortgage-Backed Securities	\$ 3,002,852	\$ 3,059,634	\$ 1,539,856	\$ 1,568,848
U.S. Equities	26,998,646	27,586,774	35,036,368	35,734,135
U.S. Corporate Fixed-Income	3,511,336	3,619,631	4,561,862	4,652,510
Total	<u>\$ 33,512,834</u>	<u>\$ 34,266,039</u>	<u>\$ 41,138,086</u>	<u>\$ 41,955,493</u>

**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	
	2015	2014
Separate Properties:		
ICERS El Centro Inc	<u>\$ 1,392,291</u>	<u>\$ 1,349,643</u>
Clarion Partners (formerly ING Clarion)	26,713,683	23,018,710
ASB-Allegiance Real Estate Fund	<u>27,283,315</u>	<u>23,445,805</u>
Total Properties	<u>53,996,998</u>	<u>46,464,515</u>
Total Real Estate	<u>\$ 55,389,289</u>	<u>\$ 47,814,158</u>

**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, 2015, are shown below.

	Balance June 30, 2014	Additions	Deductions	Balance June 30, 2015
Equipment	\$ 107,193	\$ -	\$ -	\$ 107,193
Work-in-Progress	5,280,208	142,308	-	5,422,516
	<u>5,387,401</u>	<u>142,308</u>	<u>-</u>	<u>5,529,709</u>
<u>Less: Accumulated Depreciation</u>				
Equipment	107,194	-	-	107,194
Work-in-Progress	809,582	461,293	-	1,270,875
	<u>916,776</u>	<u>461,293</u>	<u>-</u>	<u>1,378,069</u>
Capital Assets-Net	<u>\$ 4,470,625</u>	<u>\$ (318,985)</u>	<u>\$ -</u>	<u>\$ 4,151,640</u>

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
	<u>4,457,427</u>	<u>929,974</u>	<u>-</u>	<u>5,387,401</u>
<u>Less: Accumulated Depreciation</u>				
Equipment	107,194	-	-	107,194
Work-in-Progress	362,519	447,063	-	809,582
	<u>469,713</u>	<u>447,063</u>	<u>-</u>	<u>916,776</u>
Capital Assets-Net	<u>\$ 3,987,714</u>	<u>\$ 482,911</u>	<u>\$ -</u>	<u>\$ 4,470,625</u>

## **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, 2015 and 2014, was approximately \$691,644,706 and \$683,282,401, respectively.

The following firms professionally manage ICERS' investments:

	Value of Investments	
	2015	2014
BlackRock	\$ 250,027,269	\$ 242,697,141
Bradford & Marzec	91,084,015	84,977,938
MacKay Shields, LLC	84,628,784	-
Clifton Group	1,391,756	6,391,756
Dimensional	20,988,405	35,317,122
Franklin Templeton Institutional	62,048,320	66,267,919
Vontobel	23,471,080	-
Gresham	11,879,493	15,476,786
HarbourVest Partners, LLC	10,306,039	6,657,915
KKR	7,295,702	6,968,075
PIMCO	5,619,387	98,032,237
T. Rowe Price	28,021,643	33,732,699
TimesSquare Capital	30,462,526	37,202,421
Clarion Partners	26,713,683	23,018,710
ASB Capital Management, LLC	27,283,315	23,445,805
JP Morgan	10,423,289	3,095,877
Total Investments	<u>\$ 691,644,706</u>	<u>\$ 683,282,401</u>

## **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 a current annual limit of \$2,132,116. For the years ended June 30, 2015 and 2014, administrative expenses were \$1,860,851 and \$1,669,335, 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  
1<sup>st</sup> Layer: \$200,000 - \$10,000,000

**NOTE 9 – RISK MANAGEMENT** (Continued)

2<sup>nd</sup> Layer: \$10,000,000 - \$25,000,000  
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 carry 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 Statement No. 67 less the fiduciary net position) is shown below:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Total Pension Liability	\$ 789,498,226	\$ 751,712,352
Plan Fiduciary Net Position	<u>(700,889,930)</u>	<u>(692,988,848)</u>
Employers' Net Pension Liability	<u>\$ 88,608,296</u>	<u>\$ 58,723,504</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	88.78%	92.19%

The Net Pension Liability was measured as of June 30, 2015 and 2014, and determined based upon rolling forward the Total Pension Liability from actuarial valuations as of June 30, 2014 and 2013, 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 as of June 30, 2015, 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 Statement No. 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 Safety: 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)

Administrative expenses	1.20% of payroll allocated to both the employer and member based on the components of the total contribution rate (before expense) for the employer and member.
Other assumptions	See analysis of actuarial experience during the period July 1, 2010 through June 30, 2013

**Discount Rate**

The discount rates used to measure the total pension liability were 7.50% and 7.50% as of June 30, 2015 and June 30, 2014, 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, 2015 and June 30, 2014.

**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, 2015, 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, 2015	\$ 195,726,858	\$ 88,608,296	\$ (9,142)

**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)
6/30/2015	\$ 704,758	\$ 782,840	\$ 78,082	90.03%	\$ 112,465	69.43%

**NOTE 11 – ACTUARIAL VALUATIONS** (Continued)

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

Valuation date	June 30, 2015
Actuarial cost method	Entry age actuarial cost method
Amortization method	Level percentage of payroll for total UAAL
Asset valuation method	<p>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.</p>
Annual inflation rate	3.25%
Investment rate of return	7.50%
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	<p>16 years (declining) as of June 30, 2015, 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.</p>

## **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, 2015, outstanding capital commitments consisted of:

<u>Investment Manager</u>	<u>Investment Type</u>	<u>Total Capital Commitment</u>	<u>Outstanding Capital Commitment</u>
HarbourVest	Private Equity	\$ 20,000,000	\$ 9,808,253
KKR	Private Equity	10,000,000	1,606,613
PIMCO	Private Equity	10,000,000	-

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

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

**NOTE 14 – PRIOR PERIOD ADJUSTMENT**

Information obtained after closing the 2014 fiscal year required restatement to the June 30, 2014 net position. This restatement is fully described as follows:

Net Position Held in Trust for Employees' Pension Benefits, Beginning of Year	\$ 692,988,848
Adjustment to Correct Investment - IRS Tax Withholding	1,445,452
Investment profile change error with Franklin Templeton prompted federal tax withholding. Amount listed is total amount withheld by IRS and due to ICERS.	<hr/>
Net Position Held in Trust for Employees' Pension Benefits, as Restated	<u><u>\$ 694,434,000</u></u>

**NOTE 15 – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through January 28, 2016, 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**

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
<b>Total Pension Liability</b>			
Service cost	\$ 24,654,181	\$ 23,272,227	\$ 22,802,375
Interest	56,219,107	53,633,171	50,488,475
Change of benefit terms	-	-	-
Differences between expected and actual experience	(10,469,477)	(2,989,546)	(14,764,733)
Changes of assumptions	-	21,572,390	-
Benefit payments, including refunds of employee contributions	(32,617,937)	(31,068,263)	(29,320,590)
<b>Net change in total pension liability</b>	37,785,874	64,419,979	29,205,527
<b>Total pension liability – beginning</b>	751,712,352	687,292,373	658,086,846
<b>Total pension liability – ending (a)</b>	<u>\$ 789,498,226</u>	<u>\$ 751,712,352</u>	<u>\$ 687,292,373</u>
<b>Plan Fiduciary Net Position</b>			
Contributions – employer	\$ 18,458,585	\$ 17,045,429	\$ 16,082,961
Contributions – employee	11,328,165	10,519,020	10,093,363
Net investment income	12,811,880	95,831,177	62,556,490
Benefit payments, including refunds of employee contributions	(32,617,937)	(31,068,263)	(29,320,590)
Administrative expense	(2,079,611)	(1,890,474)	(1,521,247)
Other	-	-	-
<b>Net change in plan fiduciary net position</b>	7,901,082	90,436,889	57,890,977
<b>Plan fiduciary net position – beginning</b>	692,988,848	602,551,959	544,660,982
<b>Plan fiduciary net position – ending (b)</b>	<u>\$ 700,889,930</u>	<u>\$ 692,988,848</u>	<u>\$ 602,551,959</u>
<b>ICERS' net pension liability (a)-(b)</b>	<u>\$ 88,608,296</u>	<u>\$ 58,723,504</u>	<u>\$ 84,740,414</u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	88.78%	92.19%	87.67%
<b>Covered employee payroll</b>	\$ 102,235,000	\$ 96,300,000	\$ 100,356,000
<b>Plan net pension liability as percentage of covered employee payroll</b>	86.67%	60.98%	84.44%

Notes to Schedule:

Benefit Changes: None

*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 Statements No. 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)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
2015	\$ 18	\$ 18	-	\$ 102	18.06%
2014	17	17	-	96	17.68%
2013	16	16	-	92	17.41%
2012	13	13	-	96	13.60%
2011	13	13	-	94	13.84%
2010	12	12	-	88	13.56%
2009	11	11	-	85	12.88%
2008	9	9	-	79	11.44%
2007	8	8	-	N/A	N/A
2006	5	5	-	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 (UAAL).

**Remaining amortization period**

UAAL established as of June 30, 2012, is amortized over a declining period (with 18 years remaining as of the June 30, 2013 valuation which set the rates for the 2014/2015 fiscal year). 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.

**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.

**Actuarial assumptions:**

June 30, 2013 valuation  
(for year ended 2015 Actuarially Determined  
Contributions)

*Investment rate of return*

7.75%, net of pension plan investment expense, including inflation

*Inflation rate*

3.50%

*Projected salary increases*

General: 4.75% to 8.00% and Safety: 4.75% to 11.50%, vary by service, including inflation

*Cost-of-living adjustments*

2.00% of retirement income

*Other assumptions*

Same as those used in the June 30, 2013 funding actuarial valuation.

**IMPERIAL COUNTY EMPLOYEES' RETIREMENT SYSTEM  
SCHEDULE OF INVESTMENT RETURNS**

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Annual money-weighted rate of return, net of investment expense	1.8%	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 EMPLOYER CONTRIBUTIONS  
ALLOCATED BY COST SHARING PLAN  
AS OF JUNE 30, 2015**

<u>Employer</u>	<u>General</u>	<u>Safety</u>	<u>Total Contributions</u>	<u>Total %</u>
County	\$ 19,959,736	\$ 8,079,973	\$ 28,039,709	94.135%
Courts	1,598,787	-	1,598,787	5.367%
ICTC	118,787	-	118,787	0.399%
LAFCO	29,467	-	29,467	0.099%
<b>Total</b>	<u>\$ 21,706,777</u>	<u>\$ 8,079,973</u>	<u>\$ 29,786,750</u>	<u>100.000%</u>

**IMPERIAL COUNTY EMPLOYEES' RETIREMENT SYSTEM  
SCHEDULE OF NET PENSION LIABILITY (NPL)  
ALLOCATED BY COST SHARING PLAN  
AS OF JUNE 30, 2015**

<u>Employer</u>	<u>General</u>	<u>Safety</u>	<u>Total NPL</u>	<u>Total %</u>
County	\$ 53,345,756	\$ 30,593,279	\$ 83,939,035	94.730%
Courts	4,273,027	-	4,273,027	4.822%
ICTC	317,478	-	317,478	0.358%
LAFCO	78,756	-	78,756	0.089%
<b>Total</b>	<b><u>\$ 58,015,017</u></b>	<b><u>\$ 30,593,279</u></b>	<b><u>\$ 88,608,296</u></b>	<b><u>100.000%</u></b>

Notes to Schedule:

Based on July 1, 2014 through June 30, 2015 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  
AS OF JUNE 30, 2015**

	<u>County</u>	<u>Courts</u>	<u>ICTC</u>	<u>LAFCO</u>	<u>Total for All Employers</u>
<b>Net Pension Liability</b>	\$ 83,939,035	\$ 4,273,027	\$ 317,478	\$ 78,756	\$ 88,608,296
<b>Deferred Outflows of Resources</b>					
Differences Between Expected and Actual Plan Experience	\$ -	\$ -	\$ -	\$ -	\$ -
Differences Between Projected and Actual Investment Earnings on Pension Plan Investments	29,350,131	1,676,877	124,589	30,906	31,182,503
Changes of Assumptions	13,992,787	578,344	42,970	10,659	14,624,760
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	70,704	64,540	26,907	1,767	163,918
<b>Total Deferred Outflows of Resources</b>	<u>\$ 43,413,622</u>	<u>\$ 2,319,761</u>	<u>\$ 194,466</u>	<u>\$ 43,332</u>	<u>\$ 45,971,181</u>
<b>Deferred Inflows of Resources</b>					
Differences Between Expected and Actual Plan Experience	\$ 10,213,554	\$ 543,619	\$ 40,390	\$ 10,019	\$ 10,807,582
Differences Between Projected and Actual Investment Earnings on Pension Plan Investments	26,757,121	1,528,374	113,555	28,169	28,427,219
Changes of Assumptions	-	-	-	-	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	55,610	99,378	2,587	6,343	163,918
<b>Total Deferred Inflows of Resources</b>	<u>\$ 37,026,285</u>	<u>\$ 2,171,371</u>	<u>\$ 156,532</u>	<u>\$ 44,531</u>	<u>\$ 39,398,719</u>
<b>Pension Expense</b>					
Proportionate Share of Plan Pension Expense	\$ 18,380,687	\$ 984,321	\$ 75,084	\$ 18,301	\$ 19,458,393
Net Amortization of Deferred Amounts from Changes in Proportion and Proportionate Share of Pension Expense	6,100	(11,193)	5,893	(800)	-
<b>Total Employer Pension Expense</b>	<u>\$ 18,386,787</u>	<u>\$ 973,128</u>	<u>\$ 80,977</u>	<u>\$ 17,501</u>	<u>\$ 19,458,393</u>

Notes to Schedule:

Amounts shown in this schedule were allocated by employer based on the Contributions Allocation Percentage Calculated in the Schedule of Employer Contributions Allocated by Cost Sharing Plan (above).

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, 2014 (the beginning of the measurement period ending June 30, 2015) and is 6.21 years.

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

- Calculating each active employee's 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 member.
- Dividing the sum of the above amounts by the total number of active employees, nonactive, and retired members.

ICERS' Actuary did not attempt to determine the beginning balances for deferred inflows of resources or deferred outflows of resources as of the beginning of the period for the 2014/15 fiscal year. Per paragraph 137 of GASB Statement No. 68, these balances are assumed to be zero.