

**IMPERIAL COUNTY EMPLOYEES'
RETIREMENT SYSTEM**

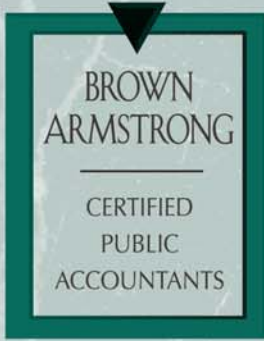
**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT**

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2018 AND 2017**

**IMPERIAL COUNTY EMPLOYEES'
RETIREMENT SYSTEM
JUNE 30, 2018 AND 2017**

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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, 2018 and 2017, and the related statements of changes in plan net position for the fiscal 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 schedule of net pension liability allocated by cost sharing plan, 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 (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.

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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, 2018 and 2017, and its changes in plan net position for the fiscal years then ended and the schedule of net pension liability allocated by cost sharing plan, total of all entities of the columns titles 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 in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental 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 supplemental 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 7, 2019, 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

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive style and is positioned below the printed name of the firm.

Bakersfield, California
January 7, 2019

**IMPERIAL COUNTY EMPLOYEES'
RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

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 fiscal year ended June 30, 2018. 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 fiscal year ended June 30, 2018. 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, 2018, was \$831,483,648. 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 \$52,408,812; primarily due to an increase in the net appreciation in the fair value of investments.
- Total additions, as reflected in the Statement of Changes in Plan Net Position decreased \$24,502,164 from the prior year; consisting mainly of a decline in net investment income.
- Deductions in plan net position increased from \$40,076,589 to \$43,170,966 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, 2018, the date of the last funding actuarial valuation, the funded ratio for all ICERS agencies was 88.35%. In general, this indicates that for every dollar of benefits due, ICERS had approximately \$.88 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 Statements of Plan Net Position and the Statements 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 fiscal 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 GASB Statement No. 67 schedules. The 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 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 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 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, 2018, totaled \$831,483,648, an increase of \$52,408,812 from the prior year. ICERS' assets exceeded its liabilities at the end of the fiscal 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 Statements of Plan Net Position.

Below is a comparison of current and prior year balances:

	2018	2017	Increase (Decrease) 2018/2017
Investments at Fair Value	\$ 814,360,067	\$ 770,625,393	\$ 43,734,674
Cash and Short-term Investments	5,083,669	4,501,046	582,623
Capital Assets (Net of Accumulated Depreciation)	3,074,569	3,586,998	(512,429)
Collateral Held for Securities Loaned	3,987,353	19,940,249	(15,952,896)
Receivables and Other Assets	10,430,923	4,285,732	6,145,191
Total Assets	836,936,581	802,939,418	33,997,163
Total Liabilities	5,452,933	23,864,582	(18,411,649)
Net Assets	\$ 831,483,648	\$ 779,074,836	\$ 52,408,812

	2017	2016	Increase (Decrease) 2017/2016
Investments at Fair Value	\$ 770,625,393	\$ 689,492,693	\$ 81,132,700
Cash and Short-term Investments	4,501,046	1,657,434	2,843,612
Capital Assets (Net of Accumulated Depreciation)	3,586,998	4,099,426	(512,428)
Collateral Held for Securities Loaned	19,940,249	4,742,533	15,197,716
Receivables and Other Assets	4,285,732	6,905,055	(2,619,323)
Total Assets	802,939,418	706,897,141	96,042,277
Total Liabilities	23,864,582	7,827,658	16,036,924
Net Assets	\$ 779,074,836	\$ 699,069,483	\$ 80,005,353

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, Segal Consulting, performed an actuarial valuation as of June 30, 2018, and determined that the funded ratio of the actuarial assets to the actuarial accrued liability is 88.35%. The actuarial valuation as of June 30, 2017, determined the funded ratio to be 86.10%.

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, 2018 and 2017, totaled \$95,579,778 and \$120,081,942 respectively.

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

	<u>2018</u>	<u>2017</u>	Increase (Decrease) 2018/2017
Employer Contributions	\$ 21,014,523	\$ 21,009,400	\$ 5,123
Plan Member Contributions	13,405,766	13,299,670	106,096
Net Investment Income (Loss)	61,149,858	85,761,157	(24,611,299)
Miscellaneous Income	<u>9,631</u>	<u>11,715</u>	<u>(2,084)</u>
Total	<u>\$ 95,579,778</u>	<u>\$ 120,081,942</u>	<u>\$ (24,502,164)</u>

	<u>2017</u>	<u>2016</u>	Increase (Decrease) 2017/2016
Employer Contributions	\$ 21,009,400	\$ 20,506,786	\$ 502,614
Plan Member Contributions	13,299,670	12,918,809	380,861
Net Investment Income (Loss)	85,761,157	1,715,583	84,045,574
Miscellaneous Income	<u>11,715</u>	<u>10,600</u>	<u>1,115</u>
Total	<u>\$ 120,081,942</u>	<u>\$ 35,151,778</u>	<u>\$ 84,930,164</u>

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:

	2018	2017	Increase (Decrease) 2018/2017
Retirement Benefits	\$ 39,951,343	\$ 36,525,724	\$ 3,425,619
Refund of Contributions	906,659	934,947	(28,288)
Lump Sum Death Benefits	88,750	174,310	(85,560)
Administrative	1,204,487	1,410,591	(206,104)
Technology Expense	713,503	669,507	43,996
Legal Expenses	148,112	235,530	(87,418)
Actuarial Expenses	158,112	125,980	32,132
Total Expenses	\$ 43,170,966	\$ 40,076,589	\$ 3,094,377

	2017	2016	Increase (Decrease) 2017/2016
Retirement Benefits	\$ 36,525,724	\$ 33,908,946	\$ 2,616,778
Refund of Contributions	934,947	650,225	284,722
Lump Sum Death Benefits	174,310	109,471	64,839
Administrative	1,410,591	1,331,396	79,195
Technology Expense	669,507	728,853	(59,346)
Legal Expenses	235,530	141,322	94,208
Actuarial Expenses	125,980	102,012	23,968
Total Expenses	\$ 40,076,589	\$ 36,972,225	\$ 3,104,364

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 Board of Retirement, 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,

Scott W. Jarvis
Retirement Administrator

BASIC FINANCIAL STATEMENTS

IMPERIAL COUNTY EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF FIDUCIARY NET POSITION
AS OF JUNE 30, 2018 AND 2017

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Assets		
Cash and cash equivalents	\$ 5,083,669	\$ 4,501,046
Security lending cash collateral	3,987,353	19,940,249
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Total Cash	9,071,022	24,441,295
Receivables		
Contributions receivable	1,112,595	1,054,433
Accounts receivable - sale of investments	8,585,517	1,104,270
Accrued interest and dividends	663,326	567,943
Forward currency contracts receivable	-	1,547,837
Accounts receivable - other	69,485	11,249
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Total Receivables	10,430,923	4,285,732
Investments at fair value		
Fixed income	220,843,540	226,745,952
Domestic equities	264,717,808	253,648,843
International equities	210,691,397	205,088,787
Alternative investments	41,611,794	19,717,404
Real estate	76,495,528	65,424,407
	<hr/>	<hr/>
Total Investments	814,360,067	770,625,393
Capital assets (net of accumulated depreciation)	3,074,569	3,586,998
	<hr/>	<hr/>
Total Assets	836,936,581	802,939,418
	<hr/>	<hr/>
Liabilities		
Accounts payable - purchase of investments	1,406,579	2,294,388
Collateral payable for securities lending	3,987,353	19,940,249
Forward currency contracts payable	-	1,569,753
Accounts payable - other	59,001	60,192
	<hr/>	<hr/>
Total Liabilities	5,452,933	23,864,582
	<hr/>	<hr/>
Net Position Held in Trust for Pension Benefits	<u>\$ 831,483,648</u>	<u>\$ 779,074,836</u>

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

**IMPERIAL COUNTY EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Additions		
Contributions		
Employer	\$ 21,014,523	\$ 21,009,400
Plan member	13,405,766	13,299,670
Total Contributions	<u>34,420,289</u>	<u>34,309,070</u>
Investment income		
Net realized and unrealized gains of investments	56,659,080	80,098,387
Interest and dividends	4,422,236	5,776,710
Real estate operating income, net	2,634,220	2,438,106
Alternative income	634,847	214,288
Total investment income	64,350,383	88,527,491
Less investment expenses	<u>(3,200,525)</u>	<u>(2,766,334)</u>
Net Investment Income	<u>61,149,858</u>	<u>85,761,157</u>
Securities lending activities		
Securities lending income	41,932	60,225
Less expenses from securities lending activities	<u>(41,932)</u>	<u>(60,225)</u>
Total Net Investment Income	61,149,858	85,761,157
Miscellaneous	<u>9,631</u>	<u>11,715</u>
Total Additions	<u>95,579,778</u>	<u>120,081,942</u>
Deductions		
Retirement benefits	39,951,343	36,525,724
Refunds of contributions	906,659	934,947
Lump sum death benefits	88,750	174,310
Administrative expenses	1,204,487	1,410,591
Technology expenses	713,503	669,507
Legal expenses	148,112	235,530
Actuarial expenses	158,112	125,980
Total Deductions	43,170,966	40,076,589
Net Increase	52,408,812	80,005,353
Net Position Held in Trust for Employees' Pension Benefits, Beginning of Year	<u>779,074,836</u>	<u>699,069,483</u>
Net Position Held in Trust for Employees' Pension Benefits, End of Year	<u><u>\$ 831,483,648</u></u>	<u><u>\$ 779,074,836</u></u>

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

**IMPERIAL COUNTY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 – PENSION PLAN DESCRIPTION

Plan Administration. The Imperial County Employees' Retirement Association (ICERS) was established by the County of Imperial (the County) in 1951. ICERS is administered by the Board of Retirement (the Board) and governed by the County Employees' Retirement Law of 1937 (CERL) (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. 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
Patricia Lizarraga, General Member Employee	6/30/2019
Suzanne Bermudez, General Member Employee	6/30/2020
Luis Plancarte, County Supervisor	12/31/2019
Norma Jauregui, Public Member	6/30/2020
David West, Public Member	12/31/2020
Thomas Garcia., Safety Member Employee	12/31/2020
David H. Prince, Retiree Member	12/31/2020
Becky Flammang, Public Member	12/31/2020
Seat Vacant, Alternate Safety Member	12/31/2020
Terry Huskey, Alternate Retiree Member	12/31/2020
Karen Vogel, Ex-Officio Member	Ex-Officio
Charles L. Jernigan, Retiree Member - Retired	
Herbert Bumgart, Alternate Safety Member - Retired	
Margaret Castro, Alternate Retiree Member - Unseated by Election	

Plan Membership. ICERS' membership consisted of the following as reported in the most recent actuarial valuations dated June 30, 2018 and 2017:

	June 30, 2018	June 30, 2017
Active Members (Vested and Non-Vested)	2,161	2,186
Retired Members and Beneficiaries	1,193	1,121
Terminated Vested (Deferred)	500	451
Total Membership	3,854	3,758

NOTE 1 – PENSION PLAN DESCRIPTION (Continued)

Benefits Provided. ICERS provides service retirement, disability, death and survivor benefits to eligible employees. All regular full-time employees of the County 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.

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

NOTE 1 – PENSION PLAN DESCRIPTION (Continued)

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 (COLA), based upon the Consumer Price Index for the Western Region, is capped at 2.0%.

Contributions. The County and contracting districts contribute to the retirement plan based upon actuarially determined contribution rates adopted by the Board. 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, 2018 for 2017-2018 (based on the June 30, 2016 valuation) was 18.60% of compensation.

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, 2018 for 2017-2018 (based on the June 30, 2016 valuation) was 11.86% 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 and Cash Equivalents

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, 2018 and 2017.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2018 and 2017, respectively.

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 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 expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns 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, adding expected inflation and subtracting expected investment expenses and a risk margin.

The target allocation and projected geometric real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following tables:

<u>Asset Class</u>	<u>June 30, 2018</u>	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large Cap U.S. Equity	23.00%	2.40%
Small Cap U.S. Equity	6.00%	2.30%
Developed International Equity	17.00%	6.50%
Emerging Markets Equity	7.00%	5.20%
U.S. Core Fixed Income	22.00%	0.80%
TIPS	5.00%	0.50%
Real Estate	10.00%	3.90%
Private Equity	5.00%	4.30%
Private Credit	5.00%	4.80%
Total	100.00%	

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Asset Allocation Policy and Expected Long-term Rate of Return by Asset Class (Continued)

<u>Asset Class</u>	<u>June 30, 2017</u>	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large Cap U.S. Equity	23.00%	2.60%
Small Cap U.S. Equity	6.00%	2.70%
Developed International Equity	17.00%	7.60%
Emerging Markets Equity	7.00%	6.50%
U.S. Core Fixed Income	22.00%	1.20%
TIPS	5.00%	0.50%
Real Estate	10.00%	2.50%
Private Equity	5.00%	5.70%
Private Credit	5.00%	4.40%
Total	100.00%	

Rate of Return

For the fiscal years ended June 30, 2018 and 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 8.0% and 13.9% respectively. The money-weighted rates of return express investment performance, net of investment expense, adjusted for the changing amounts actually invested.

New Accounting Pronouncements

GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The requirements of this statement are effective for reporting periods beginning after June 15, 2018. This statement is not applicable to ICERS.

GASB Statement No. 83 – *Certain Asset Retirement Obligations*, was issued in November 2016. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The requirements of this statement are effective for reporting periods beginning after June 15, 2018. This statement is not applicable to ICERS.

GASB Statement No. 84 – *Fiduciary Activities*, was issued in January 17. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. This guidance is not applicable to ICERS.

GASB Statement No. 85 – *Omnibus 2017*, was issued in March 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The provisions of this statement are effective for reporting periods beginning after June 15, 2017. This statement is not applicable to ICERS.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements (Continued)

GASB Statement No. 86 – *Certain Debt Extinguishment Issues*, was issued in May 2017. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this statement are effective for reporting periods beginning after June 15, 2017. This statement is not applicable to ICERS.

GASB Statement No. 87 – *Leases*. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. ICERS has not fully judged the impact of implementation of GASB Statement No. 87 on the financial statements.

GASB Statement No. 88 – *Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements*. The requirements of this statement are effective for reporting periods beginning after June 15, 2018. ICERS has not fully judged the impact of implementation of GASB Statement No. 88 on the financial statements.

GASB Statement No. 89 – *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. ICERS has not fully judged the impact of implementation of GASB Statement No. 89 on the financial statements.

GASB Statement No. 90 – *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. ICERS has not fully judged the impact of implementation of GASB Statement No. 90 on the financial statements.

NOTE 3 – DEPOSIT AND INVESTMENT RISK DISCLOSURE

CERL vests the Board 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 members exercise authority and control over the management of ICERS' assets (the Plan) by setting policy which the Investment Staff executes either internally, or through the use of external prudent experts. The Board oversees and guides the Plan subject to the following basic fiduciary responsibilities:

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

The Investment Policy Statement encompasses the following:

- Criteria for Selecting 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

NOTE 3 – DEPOSIT AND INVESTMENT RISK DISCLOSURE (Continued)

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, 2018 and 2017, are as follows:

Quality Ratings	Fair Value	
	2018	2017
Aaa	\$ 128,903,613	\$ 113,951,775
Aa	6,626,918	14,381,561
A	23,597,227	20,228,874
Baa	45,633,367	57,966,266
Ba	10,937,332	15,056,598
B	5,145,083	4,892,046
Caa and Lower	-	268,832
Total Investments in Fixed Income Securities	\$ 220,843,540	\$ 226,745,952

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.

NOTE 3 – DEPOSIT AND INVESTMENT RISK DISCLOSURE (Continued)

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

Concentration of Credit Risk

As of June 30, 2018 and 2017, 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, 2018, ICERS' Core Fixed Income manager had an effective duration of 5.05 years, while ICERS' Core Plus Fixed Income manager had an effective duration of 5.8 years.

NOTE 3 – DEPOSIT AND INVESTMENT RISK DISCLOSURE (Continued)Fixed Income Securities - Duration

As of June 30, 2018 and 2017, ICERS had the following securities:

<u>Investment Type</u>	<u>2018</u>		<u>2017</u>	
	<u>Market Value</u>	<u>Effective Duration (in years)</u>	<u>Market Value</u>	<u>Effective Duration (in years)</u>
Asset Backed Securities	\$ 15,205,480	3.49	\$ 16,592,461	5.52
Cash & Equivalents	16,699,383	0.00	10,087,875	0.00
CMBS	5,538,664	6.13	4,732,831	6.88
CMO Corporate	4,214,968	4.87	280,289	0.00
Corporates and Other Credit	30,165,356	5.07	40,337,576	5.78
Government	19,420,749	10.32	25,770,371	6.61
Mortgage Backed-Agency	16,718,457	16.17	16,265,602	16.01
Government (Non U.S.)	<u>1,802,471</u>	3.43	<u>1,876,859</u>	4.46
Sub-total	109,765,528	5.05	115,943,864	5.42
Core Plus Fixed Income Fund ¹	89,398,519	5.80	89,610,949	5.80
Treasury Inflation Protected Securities ¹	<u>21,679,493</u>	7.66	<u>21,191,139</u>	7.76
Total	<u>\$ 220,843,540</u>		<u>\$ 226,745,952</u>	

¹ Investments in Commingled FundsForeign 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 24% of the investment portfolio with a maximum investment of 34%.

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, 2018, is as follows:

Currency Type	Equity	Fixed Income	Cash	Total
Argentine Peso	\$ 210,867	\$ -	\$ -	\$ 210,867
Australian Dollar	10,021,977	-	-	10,021,977
Brazilian Real	4,364,827	-	-	4,364,827
British Pound	26,682,048	-	-	26,682,048
Chilean Peso	881,684	-	-	881,684
Chinese RNB	15,190,400	-	-	15,190,400
Colombian Peso	483,117	-	-	483,117
Czech Republic Koruna	419,948	-	-	419,948
Danish Krone	2,397,188	-	-	2,397,188
Euro Currency Unit	50,818,497	-	-	50,818,497
Egyptian Pound	210,867	-	-	210,867
Hong Kong Dollar	7,315,565	-	-	7,315,565
Hungarian Forint	259,795	-	-	259,795
Indian Rupee	5,530,698	-	-	5,530,698
Indonesian Rupiah	1,838,120	-	-	1,838,120
Israeli Shekel	779,808	-	-	779,808
Japanese Yen	34,788,102	-	-	34,788,102
Kenyan Shilling	492,022	-	-	492,022
Malysian Ringgit	924,800	-	-	924,800
Mexican Peso	2,640,630	432,348	-	3,072,978
New Zealand Dollar	303,259	1,485,814	108	1,789,181
Norwegian Krone	1,068,626	-	-	1,068,626
Panamanian Balboa	281,156	-	-	281,156
Peruvian Sol	527,167	-	-	527,167
Philippine Peso	302,039	-	-	302,039
Polish Zloty	414,136	-	-	414,136
Russian Ruble	3,063,297	-	-	3,063,297
Singapore Dollar	1,848,434	-	-	1,848,434
South African Rand	4,290,552	-	-	4,290,552
South Korean Won	8,163,752	-	-	8,163,752
Swedish Krona	3,783,513	-	-	3,783,513
Swiss Franc	11,018,398	-	-	11,018,398
Taiwan Dollar	8,335,447	-	-	8,335,447
Thailand Baht	1,373,665	-	-	1,373,665
Turkish Lira	732,221	-	-	732,221
Emirati Dirham	632,600	-	-	632,600
Total Securities Subject to Foreign Currency Risk	\$ 212,389,222	\$ 1,918,162	\$ 108	\$ 214,307,493
U.S. Dollar (Securities held by International Managers)	1,476,067	-	-	1,476,067
Total International Investment Securities	\$ 213,865,289	\$ 1,918,162	\$ 108	\$ 215,783,560

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, 2017, is as follows:

Currency Type	Equity	Fixed Income	Cash	Total
Australian Dollar	\$ 10,115,762	\$ -	\$ -	\$ 10,115,762
Brazilian Real	4,080,120	-	-	4,080,120
British Pound	26,193,964	-	-	26,193,964
Chilean Peso	737,877	-	-	737,877
Chinese RNB	11,065,570	-	-	11,065,570
Colombian Peso	446,515	-	-	446,515
Czech Republic Koruna	479,076	-	-	479,076
Danish Krone	2,589,750	-	-	2,589,750
Euro Currency Unit	49,543,334	-	-	49,543,334
Egyptian Pound	195,367	-	-	195,367
Hong Kong Dollar	6,892,404	-	-	6,892,404
Hungarian Forint	606,207	-	-	606,207
Indian Rupee	5,947,770	-	-	5,947,770
Indonesian Rupiah	1,863,374	-	-	1,863,374
Israeli Shekel	958,637	-	-	958,637
Japanese Yen	33,623,821	-	-	33,623,821
Kenyan Shilling	293,050	-	-	293,050
Malysian Ringgit	942,322	-	-	942,322
Mexican Peso	3,142,337	275,577	-	3,417,914
New Zealand Dollar	257,544	1,601,282	117	1,858,943
Norwegian Krone	901,405	-	-	901,405
Peruvian Sol	358,172	-	-	358,172
Philippine Peso	454,168	-	-	454,168
Polish Zloty	891,342	-	-	891,342
Qatari Riyal	195,367	-	-	195,367
Russian Ruble	1,803,054	-	-	1,803,054
Singapore Dollar	1,888,657	-	-	1,888,657
South African Rand	3,601,043	-	-	3,601,043
South Korean Won	8,962,976	-	-	8,962,976
Swedish Krona	4,206,555	-	-	4,206,555
Swiss Franc	12,061,652	-	-	12,061,652
Taiwan Dollar	8,454,452	-	-	8,454,452
Thailand Baht	1,283,501	-	-	1,283,501
Turkish Lira	930,130	-	-	930,130
Emirati Dirham	716,345	-	-	716,345
Ukraine Hryvnia	97,683	-	-	97,683
Total Securities Subject to Foreign Currency Risk	\$ 206,781,303	\$ 1,876,859	\$ 117	\$ 208,658,279
U.S. Dollar (Securities held by International Managers)	1,302,445	-	-	1,302,445
Total International Investment Securities	\$ 208,083,748	\$ 1,876,859	\$ 117	\$ 209,960,724

NOTE 3 – DEPOSIT AND INVESTMENT RISK DISCLOSURE (Continued)

Derivatives

The Board'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.

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) 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 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.

Derivative Type	2018		2017		Change in Fair Value
	Notional Value	Fair Value	Notional Value	Fair Value	
Forward Currency Contracts	\$ -	\$ -	\$ -	\$ (21,916)	\$ 21,916
Total	\$ -	\$ -	\$ -	\$ (21,916)	\$ 21,916

NOTE 4 – SECURITIES LENDING PROGRAM

The Board'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 or non-cash 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.

NOTE 4 – SECURITIES LENDING PROGRAM (Continued)

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%).

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, 2018 and 2017, 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 fiscal years ended June 30, 2018 and 2017. As of June 30, 2018, the fair value of securities on loan was \$4,026,064 with the value of cash collateral received of \$3,987,353 and non-cash collateral of \$125,306. As of June 30, 2017, the fair value of securities on loan was \$25,314,766 with the value of cash collateral received of \$19,940,249 and non-cash collateral of \$5,902,002. ICERS' income, net of expenses from securities lending, was \$0 and \$0 for the fiscal years ended June 30, 2018 and 2017, respectively. 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, 2018 and 2017, ICERS had the following securities lending (dollars in thousands):

Securities on Loan	2018		2017	
	Fair Value of Securities on Loan	Collateral Received	Fair Value of Securities on Loan	Collateral Received
U.S. Government, Agencies, and Mortgage-Backed Securities	\$ 120,421	\$ 125,306	\$ 5,783,368	\$ 5,902,002
U.S. Corporate Fixed-Income	3,905,643	3,987,353	19,531,398	19,940,249
Total	<u>\$ 4,026,064</u>	<u>\$ 4,112,659</u>	<u>\$ 25,314,766</u>	<u>\$ 25,842,251</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	
	2018	2017
Separate Properties:		
ICERS EI Centro Inc	<u>\$ 1,714,585</u>	<u>\$ 1,679,205</u>
Clarion Partners (formerly ING Clarion)	34,638,781	31,879,497
ASB-Allegiance Real Estate Fund	34,098,127	31,865,705
ARA-American Strategic Value Realty Fund	6,044,035	-
Total Properties	<u>74,780,943</u>	<u>63,745,202</u>
Total Real Estate	<u>\$ 76,495,528</u>	<u>\$ 65,424,407</u>

NOTE 5 – REAL ESTATE (Continued)

ICERS, like all who invest in the real estate arena, has continued to experience substantial growth in its real estate portfolio. While the trend has continued to progress, it is a slow process due to the lag period between appraisals of properties in the various portfolios.

ICERS' outlook in its real estate portfolio remains cautiously optimistic and we will continue to closely monitor its movement into what is considered a mature stage of this current expansion cycle.

NOTE 6 – CAPITAL ASSETS

The changes in capital assets for the fiscal year ended June 30, 2018, are shown below.

	Balance June 30, 2017	Additions	Deductions	Balance June 30, 2018
Equipment	\$ 107,193	\$ -	\$ -	\$ 107,193
Pension Administration System	5,882,730	-	-	5,882,730
Totals	<u>5,989,923</u>	<u>-</u>	<u>-</u>	<u>5,989,923</u>
<u>Less: Accumulated Depreciation</u>				
Equipment	107,193	1	-	107,194
Pension Administration System	2,295,732	512,428	-	2,808,160
Totals	<u>2,402,925</u>	<u>512,429</u>	<u>-</u>	<u>2,915,354</u>
Capital Assets-Net	<u>\$ 3,586,998</u>	<u>\$ (512,429)</u>	<u>\$ -</u>	<u>\$ 3,074,569</u>

The changes in capital assets for the fiscal year ended June 30, 2017, are shown below.

	Balance June 30, 2016	Additions	Deductions	Balance June 30, 2017
Equipment	\$ 107,193	\$ -	\$ -	\$ 107,193
Pension Administration System	5,882,730	-	-	5,882,730
Totals	<u>5,989,923</u>	<u>-</u>	<u>-</u>	<u>5,989,923</u>
<u>Less: Accumulated Depreciation</u>				
Equipment	107,194	(1)	-	107,193
Pension Administration System	1,783,303	512,429	-	2,295,732
Totals	<u>1,890,497</u>	<u>512,428</u>	<u>-</u>	<u>2,402,925</u>
Capital Assets-Net	<u>\$ 4,099,426</u>	<u>\$ (512,428)</u>	<u>\$ -</u>	<u>\$ 3,586,998</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, 2018 and 2017, was approximately \$812,645,482 and \$768,946,188, respectively.

The following firms professionally manage ICERS' investments:

	Value of Investments	
	2018	2017
ASB Capital Management, LLC	\$ 34,098,127	\$ 31,865,705
American Realty Advisors	6,044,035	-
Audax Group	(7,238)	-
BlackRock	430,806,191	417,920,072
Bradford & Marzec	103,630,474	111,447,270
Clarion Partners	34,638,781	31,879,497
Crescent Capital	1,673,607	-
Dimensional	31,138,055	29,447,561
Harding Loevner	35,144,452	32,561,136
HarbourVest Partners, LLC	25,642,695	14,960,329
KKR	2,203,908	4,133,669
Mackay Shields, LLC	89,398,519	89,610,949
PIMCO	477,241	623,406
Portfolio Advisors	11,621,581	-
JP Morgan	6,135,054	4,496,594
Total Investments	<u>\$ 812,645,482</u>	<u>\$ 768,946,188</u>

NOTE 8 – FAIR VALUE MEASUREMENT

In fiscal year 2016, ICERS adopted GASB Statement No. 72, *Fair Value Measurement and Application*. This statement establishes a fair value hierarchy based on three types of input to develop the fair value measurements for investment.

Level 1 — reflects prices quoted in active markets.

Level 2 — reflects prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active.

Level 3 — reflects prices based upon unobservable sources.

The categorization of ICERS' investments within the fair value hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk.

Assets classified in Level 1 of the fair value hierarchy are valued directly from a predetermined primary external pricing vendor. Assets classified in Level 2 are subject to pricing by an alternative pricing source due to lack of information available by the primary vendor. As of June 30, 2018, ICERS did not hold any investments classified in Level 3.

Derivative instruments are valued using a market approach that considers benchmark interest rates and foreign exchange rates.

NOTE 8 – FAIR VALUE MEASUREMENT (Continued)

The following table represents the Fair Value Measurement of ICERS' investments as of June 30, 2018:

	June 30, 2018	Fair Value Measurements Using	
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Investments by Fair Value Level			
Debt Securities			
Asset Backed Securities	\$ 15,205,480	\$ -	\$ 15,205,480
CMBS	5,538,664	-	5,538,664
CMO Corporate	4,214,968	-	4,214,968
Corporates and Other Credit	30,165,356	-	30,165,356
Mortgage Backed-Agency	16,718,457	-	16,718,457
Government	19,420,749	-	19,420,749
Government (Non U.S.)	1,802,471	-	1,802,471
Short Term & Equivalents	16,699,383	-	16,699,383
Total Debt Securities	109,765,528	-	109,765,528
Commingled Funds			
Domestic Bond Funds	111,078,012	-	111,078,012
Domestic Equity Funds	264,717,808	-	264,717,808
International Equity Funds	210,691,397	31,138,055	179,553,342
Total Commingled Funds	586,487,217	31,138,055	555,349,162
Total Investments by Fair Value Level	\$ 696,252,745	\$ 31,138,055	\$ 665,114,690
Investments Measured at the Net Asset Value (NAV)			
Real Estate Funds	\$ 76,495,528		
Private Equity Funds	41,611,794		
Total Investments Measured at NAV	118,107,322		
Total Investments by Fair Value Level	\$ 814,360,067		
Investment Derivative Instruments			
Forward Currency Contracts (Liabilities)	\$ -		
Total Investment Derivative Instruments	\$ -		
Securities Lending Collateral			\$ 3,987,353

NOTE 8 – FAIR VALUE MEASUREMENT (Continued)

The following table represents the Fair Value Measurement of ICERS' investments as of June 30, 2017:

	June 30, 2017	Fair Value Measurements Using	
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Investments by Fair Value Level			
Debt Securities			
Asset Backed Securities	\$ 16,592,461	\$ -	\$ 16,592,461
CMBS	4,732,831	-	4,732,831
CMO Corporate	280,290	-	280,290
Corporates and Other Credit	40,337,576	-	40,337,576
Mortgage Backed-Agency	16,265,602	-	16,265,602
Government	25,770,371	-	25,770,371
Government (Non U.S.)	1,876,859	-	1,876,859
Short Term & Equivalents	10,087,875	-	10,087,875
Total Debt Securities	115,943,865	-	115,943,865
Commingled Funds			
Domestic Bond Funds	110,802,087	-	110,802,087
Domestic Equity Funds	253,648,843	-	253,648,843
International Equity Funds	205,088,787	29,447,561	175,641,226
Total Commingled Funds	569,539,717	29,447,561	540,092,156
Total Investments by Fair Value Level	\$ 685,483,582	\$ 29,447,561	\$ 656,036,021
Investments Measured at the Net Asset Value (NAV)			
Real Estate Funds	\$ 65,424,407		
Private Equity Funds	19,717,404		
Total Investments Measured at NAV	85,141,811		
Total Investments by Fair Value Level	\$ 770,625,393		
Investment Derivative Instruments			
Forward Currency Contracts (Liabilities)	\$ (22)		
Total Investment Derivative Instruments	\$ (22)		
Securities Lending Collateral			\$ 19,940,249

NOTE 8 – FAIR VALUE MEASUREMENT (Continued)

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented on the following table.

Investments Measured at Net Asset Value (NAV)

	<u>Fair Value June 30, 2018</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If Currently Eligible)</u>	<u>Redemption Notice Period</u>
Real Estate Funds ⁽¹⁾	\$ 76,495,528	\$ -	Daily, Quarterly	30-90 days
Private Equity Funds ⁽²⁾	<u>41,611,794</u>	<u>67,410,969</u>	Not Eligible	N/A
Total Investments Measured at NAV	<u>\$ 118,107,322</u>	<u>\$ 67,410,970</u>		

(1) Real Estate Funds. This type includes four real estate funds that invest primarily in U.S. commercial real estate (including multi-family, industrial and retail and office space). The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the Plan's ownership interest in partners' capital. Distributions from each fund will be received as the underlying investments of the funds are liquidated.

(2) Private Equity/Credit Funds. This type includes eleven funds that invest primarily in buyout, partnerships, venture capital and credit opportunities/debt funds. The fair value of these investments has been determined using a practical expedient based on the investments' NAV. It is expected that these investments will be held for the entire lives of the funds and will not be sold in the secondary market. Distributions from each fund will be received as the underlying assets are liquidated by the fund managers. Underlying assets of these funds are expected to be liquidated over the next one to 15 years, depending on the vintage year of each fund.

NOTE 9 – 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 \$2,239,589. Beginning with fiscal years 2014-2015, ICERS has reclassified its entire technology expense (with the exception of IT personnel costs) to its own designated account for more uniform adherence to code section §31580.2. Administrative costs of the plan are financed through investment plan assets.

NOTE 10 – 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
1st Layer: Up to \$300,000 each occurrence
CSAC EIA Excess of \$300,000 up to \$4,700,000
ACE American Insurance Company: Excess of \$5,000,000 up to \$45,000,000
Liberty Insurance Corporation: Statutory excess of \$50,000,000

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)
\$250,000 – Sublimit of Liability for Cap (IRS) Penalties
\$1,500,000 – 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 funds under management.

NOTE 11 – NET PENSION LIABILITY

The Net Pension Liability (NPL) (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, 2018</u>	<u>June 30, 2017</u>
Total Pension Liability	\$ 964,592,586	\$ 913,174,648
Plan Fiduciary Net Position	<u>(831,483,648)</u>	<u>(779,074,836)</u>
Employers' Net Pension Liability	<u>\$ 133,108,938</u>	<u>\$ 134,099,812</u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	86.20%	85.31%

The NPL was measured as of June 30, 2018 and 2017. ICERS Fiduciary Net Position (plan assets) was valued as of the measurement date while the Total Pension Liability (TPL) was determined based upon rolling forward the TPL from actuarial valuations as of June 30, 2016 and 2015, respectively.

Plan provisions. The Plan provisions used in the measurement of the NPL as of June 30, 2018 and 2017 are the same as those used in the ICERS actuarial valuation as of June 30, 2018 and 2017, respectively.

Actuarial assumptions. The TPL as of June 30, 2018 was remeasured by (1) revaluing the TPL as of June 30, 2016 (before the roll forward) to include the following actuarial assumptions that the Board has adopted for use in the pension funding valuation as of June 30, 2018 and (2) using this revalued TPL in rolling forward the results from June 30, 2017 to June 30, 2018:

Inflation	3.00%
Salary increases	General: 4.75% to 8.25% and Safety: 4.75% to 11.50%, vary by service, including inflation
Investment rate of return	7.25%, net of pension plan investment expense, including inflation
Administrative expenses	1.80% 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, 2013 through June 30, 2016

NOTE 11 – NET PENSION LIABILITY (Continued)

Discount rate: The discount rates used to measure the TPLs were 7.25% as of June 30, 2018. For plan member contributions, the projection of cash flows used to determine the discount rate assumed member contributions will be made at the current contribution rate for the Regular and PEPRA benefits and that the contributions will be made at rates equal to the actuarially determined contribution rates for the Supplemental benefits. For employer contributions, the projection of cash flow used to determine the discount rate assumed employer contributions will be made at rates equal to the actuarially determined contribution rates.

For this purpose, only member and employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, the Pension Plan 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 TPL as of both June 30, 2018 and June 30, 2017.

Sensitivity of the Net Pension Liability to changes in the discount rate. The following presents the NPL of ICERS as of June 30, 2018, calculated using the discount rate of 7.25%, as well as what the ICERS' NPL would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
ICERS Net Pension Liability As of June 30, 2018	<u>\$ 267,812,057</u>	<u>\$ 133,108,938</u>	<u>\$ 22,156,152</u>

NOTE 12 – ACTUARIAL VALUATIONS

Pursuant to provisions in 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.

Actuarial Methods

Actuarial cost method: Entry Age Actuarial Cost Method. Entry Age equals attained age less years of service. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are based on costs allocated as a level percentage of compensation, as if the current benefit formulas have always been in effect (i.e., “replacement life within each tier”).

Actuarial Value of Assets: The Actuarial Value of Assets is determined by phasing in any difference between actual and 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.

Valuation Value of Assets: The Actuarial Value of Assets reduced by the value of the non-valuation reserves.

NOTE 12 – ACTUARIAL VALUATIONS (Continued)

Amortization of Unfunded Actuarial Accrued Liability (Regular Legacy & Tier 3 benefits):

The Unfunded Actuarial Accrued Liability associated with the Regular Legacy Benefit as of June 30, 2012 is amortized over a declining 19-year period (with 13 years remaining as of June 30, 2018). Any new UAAL emerging after June 30, 2012 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.

Amortization of Unfunded Actuarial Accrued Liability (Safety Supplemental Benefit):

The Unfunded Actuarial Accrued Liability associated with the Supplemental UAAL relief for Safety members is amortized over a declining 19-year period (with 13 years remaining as of June 30, 2018).

Changes in Actuarial Assumptions:

The assumptions that changed from the previous valuation are as follows:

Administrative Expenses:

1.80% of payroll, 1.16% allocated to the employers and 0.64% allocated to the members based on the components of the total aggregate contribution rate (before expenses) for the employer and member.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Litigation

ICERS is subject to legal proceedings and claims arising in the ordinary course of its operations. ICERS' management and legal counsel estimate the ultimate outcome of such litigation will not have a material effect on ICERS' financial statements.

Capital Commitments

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

NOTE 13 – COMMITMENTS AND CONTINGENCIES (Continued)Capital Commitments (Continued)

As of June 30, 2018, outstanding capital commitments consisted of:

<u>Investment Manager</u>	<u>Investment Type</u>	<u>Total Capital Commitment</u>	<u>Outstanding Capital Commitment</u>
American Realty Advisors	Private Equity	\$ 35,000,000	\$ 29,102,500
Audax	Private Equity	7,000,000	7,000,000
Crescent	Private Equity	7,000,000	5,381,754
HarbourVest	Private Equity	50,000,000	24,871,997
KKR	Private Equity	10,000,000	1,054,718
PIMCO	Private Equity	10,000,000	-
Portfolio Advisors	Private Equity	11,250,000	-

As of June 30, 2017, 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	\$ 50,000,000	\$ 35,379,141
KKR	Private Equity	10,000,000	1,054,718
PIMCO	Private Equity	10,000,000	-

NOTE 14 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 7, 2019, 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, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Total Pension Liability						
Service cost	\$ 28,632,241	\$ 25,909,942	\$ 25,771,056	\$ 24,654,181	\$ 23,272,227	\$ 22,802,375
Interest	66,589,540	61,765,040	59,345,608	56,219,107	53,633,171	50,488,475
Change of benefit terms	-	-	-	-	-	-
Differences between expected and actual experience	(2,857,091)	(16,844,635)	(6,660,193)	(10,469,477)	(2,989,546)	(14,764,733)
Changes of assumptions	-	46,693,228	-	-	21,572,390	-
Benefit payments, including refunds of employee contributions	(40,946,752)	(37,634,982)	(34,668,642)	(32,617,937)	(31,068,263)	(29,320,590)
Net change in total pension liability	<u>51,417,938</u>	<u>79,888,593</u>	<u>43,787,829</u>	<u>37,785,874</u>	<u>64,419,979</u>	<u>29,205,527</u>
Total pension liability – beginning	<u>913,174,648</u>	<u>833,286,055</u>	<u>789,498,226</u>	<u>751,712,352</u>	<u>687,292,373</u>	<u>658,086,846</u>
Total pension liability – ending (a)	<u>964,592,586</u>	<u>913,174,648</u>	<u>833,286,055</u>	<u>789,498,226</u>	<u>751,712,352</u>	<u>687,292,373</u>
Plan Fiduciary Net Position						
Contributions – employer	21,014,523	21,009,400	20,506,786	18,458,585	17,045,429	16,082,961
Contributions – employee	13,405,766	13,299,670	12,918,809	11,328,165	10,519,020	10,093,363
Net investment income	61,159,489	85,772,872	1,726,183	12,811,880	95,831,177	62,556,490
Benefit payments, including refunds of employee contributions	(40,946,752)	(37,634,981)	(34,668,642)	(32,617,937)	(31,068,263)	(29,320,590)
Administrative expense	(2,224,214)	(2,441,608)	(2,303,583)	(2,079,611)	(1,890,474)	(1,521,247)
Other	-	-	-	-	-	-
Net change in plan fiduciary net position	<u>52,408,812</u>	<u>80,005,353</u>	<u>(1,820,447)</u>	<u>7,901,082</u>	<u>90,436,889</u>	<u>57,890,977</u>
Plan fiduciary net position – beginning	<u>779,074,836</u>	<u>699,069,483</u>	<u>700,889,930</u>	<u>692,988,848</u>	<u>602,551,959</u>	<u>544,660,982</u>
Plan fiduciary net position – ending (b)	<u>831,483,648</u>	<u>779,074,836</u>	<u>699,069,483</u>	<u>700,889,930</u>	<u>692,988,848</u>	<u>602,551,959</u>
System's net pension liability – ending (a)-(b)	<u>\$ 133,108,938</u>	<u>\$ 134,099,812</u>	<u>\$ 134,216,572</u>	<u>\$ 88,608,296</u>	<u>\$ 58,723,504</u>	<u>\$ 84,740,414</u>
Plan fiduciary net position as a percentage of the total pension liability	86.20%	85.31%	83.89%	88.78%	92.19%	87.67%
Covered employee payroll	\$ 112,994,000	\$ 114,539,000	\$ 106,520,000	\$ 102,235,000	\$ 96,300,000	\$ 100,356,000
Plan net pension liability as percentage of covered employee payroll	117.80%	117.08%	126.00%	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 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
2018	21	21	0	113	18.60%
2017	21	21	0	115	18.34%
2016	21	21	0	107	19.25%
2015	18	18	0	102	18.06%
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%

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

UAAL established as of June 30, 2012 is amortized over a declining period (with 16 years remaining as of the June 30, 2015 valuation which set the rates for the 2016/2017 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.

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

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, 2014 valuation
(for year ended 2016 ADC)

Investment rate of return

7.50%, net of pension plan investment expense, including inflation

Inflation rate

3.25%

Projected salary increases

General: 4.75% to 7.75% and Safety: 4.75% to 11.75%, vary by service, including inflation

Cost of living adjustments

2.00% of retirement income

Other assumptions

Same as those used in the June 30, 2016 funding actuarial valuation.

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

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<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	8.0%	13.9%	0.4%	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 AND MEMBER CONTRIBUTIONS
 ALLOCATED BY COST SHARING PLAN
 AS OF JUNE 30, 2018**

Employer	General	Safety	Total Contributions	Total %
County	\$ 22,577,520	\$ 10,047,589	\$ 32,625,109	94.784%
Courts	1,598,667	-	1,598,667	4.645%
ICTC	158,327	-	158,327	0.460%
LAFCO	38,186	-	38,186	0.111%
Total	\$ 24,372,700	\$ 10,047,589	\$ 34,420,289	100.000%

**IMPERIAL COUNTY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF NET PENSION LIABILITY (NPL)
ALLOCATED BY COST SHARING PLAN
AS OF JUNE 30, 2018**

<u>Employer</u>	<u>General</u>	<u>Safety</u>	<u>Total NPL</u>	<u>Total %</u>
County	\$ 83,946,312	\$ 42,487,901	\$ 126,434,213	94.985%
Courts	5,944,063	-	5,944,063	4.466%
ICTC	588,681	-	588,681	0.442%
LAFCO	141,981	-	141,981	0.107%
Total	<u>\$ 90,621,037</u>	<u>\$ 42,487,901</u>	<u>\$ 133,108,938</u>	100.000%

Notes to Schedule:

Based on July 1, 2017 through June 30, 2018 contributions as provided by ICERS.

The Net Pension Liability (NPL) for each membership class is the Total Pension Liability (TPL) minus the Plan Fiduciary Net Position. The TPL for each membership class is obtained from internal valuation results. The Plan Fiduciary Net Position for each membership class was estimated by adjusting the Valuation Value of Assets (VVA) for each membership class by the ratio of the total ICERS Plan Fiduciary Net Position to total ICERS VVA. Based on this methodology, any non-valuation reserves (such as Reserve for Capital Assets) are allocated amongst the membership classes based on the VVA 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, 2018

	<u>County General</u>	<u>County Safety</u>	<u>County Total</u>	<u>Courts</u>	<u>ICTC</u>	<u>LAFCO</u>	<u>Total for All Employers</u>
Net Pension Liability	\$ 83,946,312	\$ 42,487,901	\$ 126,434,213	\$ 5,944,063	\$ 588,681	\$ 141,981	\$ 133,108,938
Deferred Outflows of Resources							
Differences Between Expected and Actual Plan Experience	-	329,320.00	329,320.00	-	-	-	329,320.00
Differences Between Projected and Actual Investment Earnings on Pension Plan Investments	2,613,153	1,127,336	3,740,489	185,032	18,325	4,420	3,948,266
Changes of Assumptions	26,598,748	8,011,946	34,610,694	1,883,402	186,526	44,987	36,725,609
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	370,594	-	370,594	27,304	59,387	20,967	478,252
Total Deferred Outflows of Resources	<u>\$ 29,582,495</u>	<u>\$ 9,468,602</u>	<u>\$ 39,051,097</u>	<u>\$ 2,095,738</u>	<u>\$ 264,238</u>	<u>\$ 70,374</u>	<u>\$ 41,481,447</u>
Deferred Inflows of Resources							
Differences Between Expected and Actual Plan Experience	\$ 16,424,494	\$ 4,704,675	\$ 21,129,169	\$ 1,162,984	\$ 115,178	\$ 27,779	\$ 22,435,110
Differences Between Projected and Actual Investment Earnings on Pension Plan Investments	-	-	-	-	-	-	-
Changes of Assumptions	-	-	-	-	-	-	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	23,528	-	23,528	437,235	1,093	16,396	478,252
Total Deferred Inflows of Resources	<u>\$ 16,448,022</u>	<u>\$ 4,704,675</u>	<u>\$ 21,152,697</u>	<u>\$ 1,600,219</u>	<u>\$ 116,271</u>	<u>\$ 44,175</u>	<u>\$ 22,913,362</u>
Pension Expense							
Proportionate Share of Plan Pension Expense	\$ 20,371,557	\$ 8,740,525	\$ 29,112,082	\$ 1,450,437	\$ 143,726	\$ 34,345	\$ 30,740,590
Net Amortization of Deferred Amounts from Changes in Proportion and Proportionate Share of Pension Expense	71,848	-	71,848	(88,674)	15,715	1,111	-
Total Employer Pension Expense	<u>\$ 20,443,405</u>	<u>\$ 8,740,525</u>	<u>\$ 29,183,930</u>	<u>\$ 1,361,763</u>	<u>\$ 159,441</u>	<u>\$ 35,456</u>	<u>\$ 30,740,590</u>

**IMPERIAL COUNTY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER PENSION AMOUNTS
ALLOCATED BY COST SHARING PLAN (CONTINUED)
AS OF JUNE 30, 2018**

Notes to Schedule:

Amounts shown in this exhibit 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 fiscal year in which they occur.
- Differences between expected and actual experience are recognized over the average of the expected remaining service lives of all members that are provided with pensions through ICERS determined as of June 30, 2015 (the beginning of the measurement period ending June 30, 2016) and is 6.60 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 non-active or retired members.
- Dividing the sum of the above amounts by the total number of active employee, non-active and retired members.