

**IMPERIAL COUNTY EMPLOYEES'  
RETIREMENT SYSTEM**

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

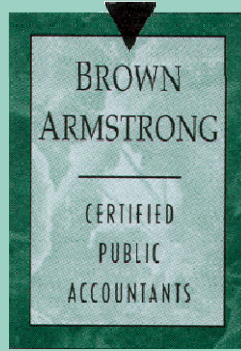
**FOR THE FISCAL YEAR  
ENDED JUNE 30, 2010**

**IMPERIAL COUNTY EMPLOYEES'  
RETIREMENT SYSTEM  
JUNE 30, 2010**

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the statement of plan net assets of the Imperial County Employees' Retirement System (the "System") as of and for the year ended June 30, 2010. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2 to the financial statements, the System adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, and Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the System as of June 30, 2010.

Accounting principles generally accepted in the United States of America require that the Schedule of Funding Progress and Schedule of Employer Contributions on pages 14 and 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2010, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has omitted the management discussion and analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION



Bakersfield, California  
December 29, 2010

## **BASIC FINANCIAL STATEMENTS**

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

|   | June 30, 2010         |
|---|-----------------------|
| <b>Assets</b>   |                       |
| Cash and cash equivalents                                       | \$ 2,045,595          |
| Security lending cash collateral                                | 39,523,814            |
| Total Cash  | 41,569,409            |
| <b>Receivables</b>  |                       |
| Contributions receivable  | 855,249               |
| Accounts receivable - sale of investments                       | 4,275,722             |
| Accrued interest and dividends                                  | 607,129               |
| Forward currency contracts receivable                           | 5,689,613             |
| Accounts receivable - other                                     | 103,427               |
| Total Receivables   | 11,531,140            |
| <b>Investments at fair value</b>                                |                       |
| Domestic fixed income   | 150,382,898           |
| Domestic equities   | 161,577,174           |
| International equities  | 91,881,029            |
| Private equity  | 32,152,787            |
| Real estate   | 15,183,160            |
| Total Investments   | 451,177,048           |
| Capital assets (net of accumulated depreciation)                | 2,397,962             |
| <b>Total Assets</b>   | <b>506,675,559</b>    |
| <b>Liabilities</b>  |                       |
| Accounts payable - purchase of investments                      | 5,242,718             |
| Collateral payable for securities lending                       | 39,523,814            |
| Forward currency contracts payable                              | 5,677,024             |
| Accounts payable - other  | 406,960               |
| Total Liabilities   | 50,850,516            |
| <b>Net Assets Held in Trust for Employees' Pension Benefits</b> | <b>\$ 455,825,043</b> |

(A schedule of funding progress is presented in the Required Supplemental Information.)

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

**IMPERIAL COUNTY EMPLOYEES' RETIREMENT SYSTEM  
STATEMENT OF CHANGES IN PLAN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2010**

|   | June 30, 2010  |
|---|----------------|
| <b>Additions</b>  |                |
| Contributions   |                |
| Employer  | \$ 12,362,022  |
| Plan member   | 8,233,664      |
|   | 20,595,686     |
| Investment income   |                |
| Net Appreciation in fair value of investments                               | 47,190,735     |
| Interest and dividends  | 8,815,280      |
| Real estate operating income, net   | 711,302        |
| Alternative income  | 896,024        |
|   | 57,613,341     |
| Less investment expenses  | 1,368,006      |
|   | 56,245,335     |
| Securities lending activities   |                |
| Securities lending income   | 145,388        |
| Less expenses from securities lending activities                            | 80,479         |
|   | 64,909         |
| Total net investment income   | 56,310,244     |
| Miscellaneous   | 76,451         |
| Total Additions   | 76,982,381     |
| <b>Deductions</b>   |                |
| Benefits  | 21,265,193     |
| Refunds   | 747,047        |
| Lump sum death benefits   | 90,000         |
| Administrative expenses   | 901,837        |
| Legal expenses  | 21,773         |
| Actuarial expenses  | 90,300         |
|   | 23,116,150     |
| Net Increase  | 53,866,231     |
| Net Assets Held in Trust for Employees' Pension Benefits, Beginning of Year | 401,483,959    |
| Prior Period Adjustment   | 474,853        |
|   | 401,958,812    |
| Net Assets Held in Trust for Employees' Pension Benefits, as Restated       | 401,958,812    |
| Net Assets Held in Trust for Employees' Pension Benefits, End of Year       | \$ 455,825,043 |

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

**IMPERIAL COUNTY EMPLOYEES' RETIREMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 1 – PENSION PLAN DESCRIPTION**

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

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

|  | <u>Term Expires</u> |
|--|---------------------|
| Ann McDonald, General Member Employee      | 6/30/2013           |
| Julie Viilleneuve, General Member Employee | 6/30/2011           |
| Jack Terrazas, Supervisor                  | 6/30/2012           |
| Becky Flammangs, Public Member             | 6/30/2011           |
| Robert W. Williams, Public Member          | 12/31/2011          |
| Herbert Bumgart, Safety Member Employee    | 12/31/2011          |
| Terry Huskey, Retiree                      | 12/31/2011          |
| James E. Rhoads, Public Member             | 12/31/2011          |
| Pompeyo Tabarez, Jr., Alternate Member     | 12/31/2011          |
| Charles L. Jernigan, Alternate Member      | 12/31/2011          |
| Karen Vogel, Ex-Officio Member             | Ex-Officio          |

The System's membership consisted of the following as reported in the most recent actuarial valuation dated June 30, 2010:

|  | <u>June 30, 2010</u> |
|--|----------------------|
| Active Members (vested and non-vested) | 1,944                |
| Retired Members and Beneficiaries      | 877                  |
| Terminated Vested (deferred)           | <u>247</u>           |
| Total Membership                       | <u><u>3,068</u></u>  |

As required by state statutes and the System by-laws, all regular-hire employees considered at least three-quarter time must participate in the County's pension plan, except for elected officials and those members over 60 years of age as outlined under Government Code Section 31552. Under the provisions of the County's pension plan, pension benefits vest after five years of credited service. Employees are eligible to receive benefits upon reaching the age of 50 and 10 years of credited service or after 30 years of service (Safety, 20 years of service). Pension benefit amounts vary based on the individual's age and number of years in the retirement system. The maximum pension benefit is 100% of final compensation. Also, the pension plan provides for death benefits and disability benefits. All pension, death and disability benefits are determined in accordance with state statutes.

## **NOTE 1 – PENSION PLAN DESCRIPTION** (Continued)

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

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

Employer and employee contributions are based on actuarial valuations that cover the mortality, service, and compensation experience of the members and beneficiaries, and the evaluation of the assets and liabilities of the retirement fund. The Board of Supervisors makes the necessary changes in County contribution rates and interest rates based upon the valuations and recommendations of the actuary. According to the June 30, 2010, actuarial valuation, depending on the age and classification at hire date, employees' weighted contributions are 13.62% of covered payroll for the County.

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

## **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

### Cash

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

### Capital Assets

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

### Use of Estimates

The preparation of 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)

### Reserves

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

The Contingency Reserve is established as required by the County Employees Retirement Law to absorb possible future losses on investments. The reserve balance, per the County Employees Retirement Law, is one percent (1%) of the total market value of assets if excess earnings exist. The System's policy sets the targeted rate at 2%. The Contingency Reserve is 2.0% of the market value of total assets at June 30, 2010.

### New Accounting Pronouncements

The GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement establishes accounting and financial reporting requirements for intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. This statement was implemented by the System as of June 30, 2010.

The GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement establishes accounting and financial reporting requirements for derivative instruments entered into by state and local governments. This statement requires most derivative instruments to be measured at fair value and reported on the statement of net assets. GASB Statement No. 53 also establishes disclosure requirements, which include summary information of derivative instruments and the government's exposure to financial risks. This statement was not required to be implemented by the System due to the System recording all of its investments at fair market value and the System having no hedging derivatives.

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

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

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

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

The Investment Policy Statement encompasses the following:

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

#### Credit Risk

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The System 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.

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

Custodial Credit Risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System 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 the System's name, and held by the counterparty. The System's investment securities are not exposed to custodial credit risk because all securities are held by the System's custodial bank in the System's name. The System has investments in commingled funds that are not held by the System's 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. The System has no general policy on custodial credit risk for deposits.

#### Concentration of Credit Risk

As of June 30, 2010, the System 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.

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

#### Interest Rate Risk (Continued)

The System 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 Lehman Brothers Aggregate Bond Index's modified adjusted duration. Deviations from any of the stated guidelines require prior written authorization from the System.

As of June 30, 2010, the System's Core fixed income manager had a duration of 4.0 years, while the System's Core Plus Fixed Income manager had a duration of 4.94 years.

#### Foreign Currency Risk

Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. 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 currency hedging.

The System's exposure to Foreign Currency Risk in U.S. dollars as of June 30, 2010, was \$12,589.

The System invests indirectly, through its portfolio managers, in foreign currency forward transactions to limit its exposure to fluctuations in foreign currency exchange rates. Aside from net currency gains or losses reported as a component of investment income, no other amounts are recorded on the financial statements.

These forward transactions typically range from one to six months. When used in a hedging strategy, a loss in value of the underlying security, due to a weakening of a foreign currency relative to the U.S. dollar will result in an opposite gain in value of the foreign currency transaction. The reverse is true for a foreign currency, which strengthens relative to the U.S. dollar.

Foreign currency forward transactions are typically transacted with highly rated (usually AA or better) financial institutions; typically major worldwide commercial or investment banks. Counterparty risk occurs when the financial institution (who engages in the forward transaction with the System) has a liability due to the System and is unable to pay. This risk is monitored on a daily basis by the investment advisors and limited to maximum levels of exposure for the entire portfolio.

### **NOTE 4 – REAL ESTATE**

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

| <b>Location</b>         | <u>Appraised Value</u><br><u>2010</u> |
|-------------------------|---------------------------------------|
| Separate Properties:    |                                       |
| ICERS EI Centro Inc     | <u>\$ 1,690,016</u>                   |
| ING Clarion             | 6,178,008                             |
| RREEF American REIT III | <u>7,315,136</u>                      |
| Total                   | <u>13,493,144</u>                     |
| Grand Total             | <u>\$ 15,183,160</u>                  |

The System, like all who invest in the real estate arena has seen substantial losses in the real estate portfolio. This decline, while other segments of the investment market are in recovery continues to decline due to the lag period between appraisals of properties in the various portfolios.

**NOTE 4 – REAL ESTATE** (Continued)

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

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

**NOTE 5 – SECURITIES LENDING TRANSACTIONS**

State statutes and the investment policies of the System allow the plan to enter into securities lending transactions (loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future). Securities loaned are secured by cash collateral of 103% of the fair value of the loaned securities plus accrued interest. The System is not exposed to credit risk on security lending transactions because its custodian is required to indemnify the System against any related losses.

Securities loaned include U.S. government and agencies securities, corporate bonds, and domestic corporate stock. The System is not restricted as to the amount of loans that can be made. The System cannot pledge or sell collateral securities received unless the borrower defaults. As of June 30, 2010, the value of securities loaned by the System totaled \$39,523,814. As of June 30, 2010, the value of collateral held for securities loaned was \$39,523,814.

**NOTE 6 – CAPITAL ASSETS**

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

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

Depreciation expense at June 30, 2010, was \$18,854.

**NOTE 7 – CONCENTRATIONS**

The System has entered into a custodial agreement with JP Morgan. JP Morgan custodies securities, and collects income for the System. The value of the System's investments under JP Morgan's custodianship at June 30, 2010, was approximately \$448,434,972.

**NOTE 7 – CONCENTRATIONS** (Continued)

The following firms professionally manage the System's investments (dollars in thousands):

|                                  | <u>Value of<br/>Investments</u><br><u>2010</u> |
|----------------------------------|--|
| Blackrock                        | \$ 178,209,125                                 |
| Bradford & Marzec                | 63,722,386                                     |
| Dimensional                      | 29,755,101                                     |
| Franklin Templeton Institutional | 42,096,837                                     |
| HarbourVest Partners, LLC        | 121,005  |
| PIMCO                            | 63,828,152                                     |
| T. Rowe Price                    | 30,695,586                                     |
| Timesquare Capital               | 25,155,539                                     |
| ING Clarion Partners             | 6,178,008                                      |
| RREEF                            | 7,315,136                                      |
| JP Morgan                        | 1,358,097                                      |

**NOTE 8 – ADMINISTRATIVE EXPENSES**

California Government Code §31580.2 requires that the Board of Retirement may expend no more than 0.18% of the total assets of the retirement system for administrative expenses. However, per §31580.3 if during the year the expense of administration of the retirement system includes expenditures for software, hardware, and computer technology consulting services in support of that software or hardware, the expense incurred may not exceed the greater of the following: (1) The sum of eighteen hundredths of 1 percent of the total assets of the retirement system plus one million (\$1,000,000). (2) Twenty-three hundredths of 1 percent of the total assets of the retirement system.

For the year ended June 30, 2010, administrative expenses were \$901,837, or 0.18%, of the total net assets of the Plan at year-end. Administrative costs of the plan are financed through investment plan assets.

**NOTE 9 – RISK MANAGEMENT**

The System 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, the System is covered by the following policies and programs:

Liability Coverage  
Carl Warren  
1<sup>st</sup> Layer: \$200,000 – \$10,000,000  
2<sup>nd</sup> Layer: \$10,000,000 – \$25,000,000

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

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

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

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

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

**NOTE 10 – ACTUARIAL VALUATIONS**

Pursuant to provisions in the County Employees Retirement Law of 1937 (CERL), the System engages and independent actuarial firm to perform an annual actual valuation. A system actuarial valuation is performed every three (3) years (i.e., triennial 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 the system. The System also hires and independent actuarial firm to audit the results of each triennial valuation.

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

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

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Annual Covered Payroll ((b-a)/c) |
|--------------------------|-------------------------------|-------------------------------|---------------------------|--------------------|---------------------|--|
| 6/30/2010                | \$ 524,522                    | \$ 546,342                    | \$ 21,820                 | 96.0%              | \$ 98,085           | 22.25%   |

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

|   |   |
|---|---|
| Valuation date                              | June 30, 2010   |
| Actuarial cost method                       | Entry age normal method   |
| Amortization method                         | Level percentage  |
| Asset valuation method                      | 5-year smoothing process  |
| Annual inflation rate                       | 3.75%   |
| Investment rate of return                   | 7.90%   |
| Postretirement benefit increase assumptions | COLA, maximum of 2.00%  |
| Projected salary increases                  | General: 4.55% to 7.50%<br>Safety: 4.75% to 11.50%                |
| Remaining amortization period               | 21 years (declining) for UAAL<br>over period ending June 30, 2031 |

#### **NOTE 11 – PRIOR PERIOD ADJUSTMENT**

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

#### **NOTE 12 – FEDERAL INCOME TAX STATUS**

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

#### **NOTE 13 – COMMITMENTS AND CONTINGENCIES**

##### Litigation

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

#### **NOTE 14 – REQUIRED SUPPLEMENTARY INFORMATION**

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

#### **NOTE 15 – SUBSEQUENT EVENTS**

Subsequent to June 30, 2010, and through December 29, 2010, the date through which management evaluated subsequent events and on which the financial statements were issued, the System did not identify any subsequent events that require disclosure.

**REQUIRED SUPPLEMENTAL INFORMATION**

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

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability (AAL)<br>(b) | Unfunded<br>AAL (UAAL)<br>(b-a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage of<br>Annual<br>Covered Payroll<br>((b-a)/c) |
|--------------------------------|--|--|---------------------------------|--------------------------|---------------------------|--|
| June 30, 2005                  | \$ 361,353                             | \$ 366,158                                     | \$ 4,805                        | 98.69%                   | \$ 67,042                 | 7.17%  |
| June 30, 2006                  | 390,297                                | 401,958  | 11,661                          | 97.10%                   | 71,731                    | 16.26%   |
| June 30, 2007                  | 420,938                                | 437,816  | 16,878                          | 96.14%                   | 77,886                    | 21.67%   |
| June 30, 2008                  | 449,745                                | 466,427  | 16,682                          | 96.42%                   | 85,966                    | 19.41%   |
| June 30, 2009                  | 487,411                                | 507,631  | 20,220                          | 96.02%                   | 93,493                    | 21.63%   |
| June 30, 2010                  | 524,522                                | 546,342  | 21,820                          | 96.01%                   | 98,085                    | 22.25%   |

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

| Fiscal Year<br>Ended | Annual Required<br>Contribution | Actual<br>Contribution | Percentage<br>Contributed |
|----------------------|---------------------------------|------------------------|---------------------------|
| June 30, 2005        | \$ 6,000                        | \$ 6,000               | 100%                      |
| June 30, 2006        | 6,000                           | 6,000                  | 100%                      |
| June 30, 2007        | 8,000                           | 8,000                  | 100%                      |
| June 30, 2008        | 9,000                           | 9,000                  | 100%                      |
| June 30, 2009        | 11,000                          | 11,000                 | 100%                      |
| June 30, 2010        | 12,000                          | 12,000                 | 100%                      |