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
Assets	
Cash and cash equivalents	$ 2,045,595
Security lending cash collateral	39,523,814
Total Cash	41,569,409
Receivables	
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
Investments at fair value	
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
Total Assets	506,675,559
Liabilities	
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
Net Assets Held in Trust for Employees' Pension Benefits	$ 455,825,043

(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
Additions	
Contributions	
Employer	$ 12,362,022
Plan member	8,233,664
Total Contributions	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
Total investment income	57,613,341
Less investment expenses	1,368,006
Net investment income	56,245,335
Securities lending activities	
Securities lending income	145,388
Less expenses from securities lending activities	80,479
Net securities lending income	64,909
Total net investment income	56,310,244
Miscellaneous	76,451
Total Additions	76,982,381
Deductions	
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
Total Deductions	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
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.

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:

	Term Expires
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:

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

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

<u>Reserves</u>

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.

<u>New Accounting Pronouncements</u>

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

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:

Location	Appraised Value 2010
Separate Properties:	
ICERS El Centro Inc	$ 1,690,016
ING Clarion	6,178,008
RREEF American REIT III	7,315,136
Total	13,493,144
Grand Total	$ 15,183,160

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 June 30, 2009	Prior Period Adjustment	Restated Balance July 1, 2009	Additions	Deductions	Balance 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
Less: Accumulated Depreciation						
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):

	Value of Investments 2010
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
1st Layer: $200,000 – $10,000,000
2nd 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 property 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 Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Annual Covered Payroll ((b-a)/c)
6/30/2010	$ 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% Safety: 4.75% to 11.50%
Remaining amortization period	21 years (declining) for UAAL 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 Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Annual Covered Payroll ((b-a)/c)
June 30, 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 Ended	Annual Required Contribution	Actual Contribution	Percentage 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%