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# EL PASO COUNTY RETIREMENT PLAN

## Management's Discussion and Analysis and Financial Statements

## For the Years Ended December 31, 2011 and 2010,

## Supplementary Information

## And

## Independent Auditors' Report

# EL PASO COUNTY RETIREMENT PLAN

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**INDEPENDENT AUDITORS' REPORT**

Board of Retirement
El Paso County Retirement Plan
Colorado Springs, Colorado

We have audited the accompanying statements of plan net assets of the El Paso County Retirement Plan (the Plan) as of December 31, 2011 and 2010 and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion 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. 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 audits provide a reasonable basis for our opinions.

In our opinion, such financial statements present fairly, in all material respects, the plan net assets of the El Paso County Retirement Plan at December 31, 2011 and 2010, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 5 and the required supplementary information on pages 18 through 21 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.

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Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supporting schedules of administrative expenses, investment expenses and consultant expenses on pages 22 through 24 are presented for purposes of additional analysis and are not a required part of the financial statements. Such schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Stockman Kast Ryan + Co., LLP

May 21, 2012

# EL PASO COUNTY RETIREMENT PLAN

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Management is pleased to provide this overview and analysis of the financial activities of the El Paso County Retirement Plan (the Plan). Please read it in conjunction with the Plan's financial statements and accompanying notes.

The Plan was established in 1967 consisting of one employer and has subsequently expanded to include El Paso County, El Paso County Health, Pikes Peak Library District, $4^{th}$ Judicial District Attorney and El Paso County Board of Retirement. The Plan is a cost-sharing multiple employer-defined benefit plan covering all permanent, full-time and job-share employees of the five participating employers upon their date of employment.

### OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The *Statement of Plan Net Assets* provides a statement of account balances at the end of the year. This statement reports the assets available for future payments to retirees and any current liabilities that are owed at the end of the year. These assets, less liabilities, represent the net amount of funds that are available for future payments. The *Statement of Changes in Plan Net Assets* reports additions and deductions in plan net assets during the current year.

The financial statements report the resources available to pay benefits to retirees and other beneficiaries as of the end of the year, as well as the changes in resources during the year. These statements include all assets and liabilities, using an economic resources measurement focus and the accrual basis of accounting. The notes to the financial statements are an integral part of the financial statements. The notes communicate information that is not displayed on the face of the financial statements that is essential for the fair presentation of the financial statements. These financial statements should be reviewed along with the *Schedule of Funding Progress* and *Schedule of Employer Contributions* to determine whether the Plan is financially strong and to understand changes over time in the financial status of the Plan.

### FINANCIAL HIGHLIGHTS

#### Plan Net Assets

Plan net assets held in trust for pension benefits decreased during 2011 by $10 million to $252.6 million. The primary reason for the 2011 decrease in Plan net assets was a loss on investments of $5.1 million, along with deductions of $21.0 million. Contributions to plan net assets totaled $16.1 million.

**Condensed Statements of Plan Net Assets**
**(in thousands)**

| | 2011 | 2010 | Change |
|---|---|---|---|
| ASSETS | | | |
| Cash and cash equivalents | $ 10,193 | $ 4,691 | $ 5,502 |
| Investments | 241,981 | 257,536 | (15,555) |
| Receivables | 431 | 521 | (90) |
| Capital assets, net | 310 | 145 | 165 |
| Total assets | 252,915 | 262,893 | (9,978) |
| LIABILITIES | | | |
| Other liabilities | 280 | 247 | 33 |
| NET ASSETS HELD IN TRUST FOR PENSION BENEFITS | $ 252,635 | $ 262,646 | $ (10,011) |

### Additions To Plan Net Assets

The collection of member and employer contributions, as well as income from investments, provides the reserves needed to finance retirement benefits. Additions to plan net assets are summarized below (in thousands):

| | 2011 | 2010 | Change |
|---|---|---|---|
| Investment income (loss) | $ (5,137) | $ 31,243 | $ (36,380) |
| Employer contributions | 7,899 | 7,163 | 736 |
| Employee contributions | 8,169 | 7,776 | 393 |
| Other income | 20 | 23 | (3) |
| Total additions | $ 10,951 | $ 46,205 | $ (35,254) |

The $5.1 million of investment loss in 2011 consisted primarily of the net depreciation in fair value of investments of $8.4 million. The depreciation in fair value was mainly the result of the poor performance of the international equity markets during 2011.

The $31.2 million of investment income in 2010 consisted primarily of the net appreciation in fair value of investments of $28.8 million. The appreciation in fair value was mainly the result of the strong performance of the international equity markets during 2010.

Employer and employee contributions increased in 2011 primarily as the result of the Plan’s contribution rate for both employers and employees increasing from 6.5% in 2010 to 7.0% in 2011.

**Deductions From Plan Net Assets**

The principal purpose for which the Plan was created was to provide retirement annuities and survivor benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments, as designated by the Plan, refunds of contributions to terminated employees, and the cost of administering the Plan. These costs resulted in deductions from Plan net assets of $21 million during 2011. Deductions from plan net assets are summarized below (in thousands):

| | 2011 | 2010 | Change |
|---|---|---|---|
| Pension benefits | $ 17,403 | $ 16,339 | $ 1,064 |
| Termination refunds | 2,222 | 1,776 | 446 |
| Death benefits | 810 | 660 | 150 |
| Administrative expenses | 527 | 486 | 41 |
| Total deductions | $ 20,962 | $ 19,261 | $ 1,701 |

Deductions from plan net assets for 2011 increased by 9% primarily due to increased benefit payments. The increase in ongoing benefit payments is mainly the result of an increase in the number of retirees.

## FUNDED STATUS OF THE PLAN

The Plan's fundamental financial objective is to meet long-term benefit obligations through employer and employee contributions and investment income. Actuarial valuations, using various assumptions, examine the Plan's assets as compared to liabilities and determine annual contribution rates necessary to pay current and future benefit obligations.

The funded ratio is determined by dividing the actuarial value of assets by the actuarial accrued liability. The actuarial value of assets is not the current market value but a market-related value which smoothes changes in the market value over five years. The funded ratio of the Plan was as follows as of January 1, 2008 through January 1, 2012:

| | Actuarial Value of Assets | Actuarial Accrued Liability | Funded Ratio |
|---|---|---|---|
| January 1, 2008 | $ 285,740 | $ 312,549 | 91.4% |
| January 1, 2009 | 249,777 | 331,358 | 75.4% |
| January 1, 2010 | 282,842 | 354,377 | 79.8% |
| January 1, 2011 | 285,037 | 375,802 | 75.8% |
| January 1, 2012 | 280,214 | 393,086 | 71.3% |

The decrease in the funded ratio from January 1, 2008 to January 1, 2012 is due to an increase in the actuarial accrued liability of 25.8% while the actuarial value of assets decreased by 1.9%. As of December 31, 2011, the actuarial value of assets exceeds the fair value of plan assets by approximately $27.6 million.

Current actuarial required contribution levels necessary to meet the Plan's future obligations exceeded the Plan's actual contributions for each of the past 6 years. As of January 1, 2012, the total actuarially required contribution rate for 2012 is 17.6%. The Plan was amended during 2009 to increase the participant contribution rate to 6.5% effective January 1, 2010, 7% effective January 1, 2011 and 7.5% effective January 1, 2012. The Plan was amended in 2012 to increase the participant contribution rate to 8% effective January 1, 2013. Such increases will be matched by the employer, resulting in a total contribution rate of 16% in 2013.

The Retirement Board also made benefit changes during 2011 which included increasing the required months of continuous service for normal retirement to 96 months for participants hired after December 31, 2012, reducing the maximum benefit for participants hired after December 31, 2012 to 60% of average monthly compensation, and increasing the required years of credited service for early retirement from 5 years to 8 years for participants hired after December 31, 2012

In an effort to get the Plan on par with the annual required contribution rate as determined under established guidelines and to be able to fund the current liabilities over the Plan's established 30 year amortization period the Board has studied many proposed plan changes. Plan changes studied, but not acted on include: increasing the member retirement eligibility criteria, setting a minimum payout age, eliminating the supplemental death benefit, increasing the years needed to vest and decreasing the benefit level further. All of these options will be re-evaluated in future years.

For more detail on the Plan's funded status and required contribution levels, see the Required Supplementary Information – Schedule of Funding Progress on page 18 and Schedule of Employer Contributions on page 19.

## CONTACTING THE PLAN'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Plan's finances. If you have any questions about this report or need additional financial information, contact the Executive Director, 105 East Vermijo, Suite 200, Colorado Springs, CO 80903.

# EL PASO COUNTY RETIREMENT PLAN

## STATEMENTS OF PLAN NET ASSETS
## DECEMBER 31, 2011 AND 2010

| | 2011 | 2010 |
|---|---|---|
| **ASSETS** | | |
| CASH AND CASH EQUIVALENTS | $ 10,193,504 | $ 4,690,501 |
| INVESTMENTS | | |
| Equities: | | |
| Domestic stocks and equity funds | 74,509,850 | 75,182,388 |
| International equity funds | 57,108,856 | 77,853,668 |
| Fixed income: | | |
| Fixed income funds | 48,604,577 | 50,566,564 |
| Corporate securities | 15,821,467 | 18,057,752 |
| U.S. Government and agency securities | 8,636,392 | 5,805,496 |
| Real estate funds | 18,911,521 | 16,027,023 |
| Fund of hedge funds | 18,388,210 | 14,043,148 |
| Total investments | 241,980,873 | 257,536,039 |
| RECEIVABLES | | |
| Interest and dividends | 363,308 | 245,450 |
| Securities sold | 42,307 | 197,426 |
| Other | 25,167 | 78,587 |
| Total receivables | 430,782 | 521,463 |
| CAPITAL ASSETS, NET | 309,704 | 144,829 |
| TOTAL ASSETS | 252,914,863 | 262,892,832 |
| **LIABILITIES** | | |
| PAYABLE FOR SECURITIES PURCHASED | 143,951 | 63,914 |
| ACCOUNTS PAYABLE AND ACCRUED LIABILITIES | 136,032 | 183,079 |
| TOTAL LIABILITIES | 279,983 | 246,993 |
| NET ASSETS HELD IN TRUST FOR PENSION BENEFITS | $ 252,634,880 | $ 262,645,839 |

See notes to financial statements.

# EL PASO COUNTY RETIREMENT PLAN

## STATEMENTS OF CHANGES IN PLAN NET ASSETS
## FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

| | 2011 | 2010 |
|---|---|---|
| **ADDITIONS** | | |
| INVESTMENT INCOME | | |
| Net appreciation (depreciation) in fair value of investments | $ (8,447,002) | $ 28,788,997 |
| Interest and dividends | 4,059,100 | 3,626,209 |
| Investment expenses | (749,148) | (918,566) |
| Net investment income (loss) before securities lending activities | (5,137,050) | 31,496,640 |
| Securities lending loss | | (254,128) |
| Net investment income (loss) | (5,137,050) | 31,242,512 |
| CONTRIBUTIONS | | |
| Employers | 7,899,401 | 7,163,560 |
| Employees | 8,169,407 | 7,775,817 |
| Total contributions | 16,068,808 | 14,939,377 |
| OTHER INCOME | 19,694 | 23,452 |
| TOTAL ADDITIONS | 10,951,452 | 46,205,341 |
| **DEDUCTIONS** | | |
| BENEFITS PAID TO PARTICIPANTS | | |
| Pension | 17,402,552 | 16,339,242 |
| Termination refunds | 2,222,415 | 1,775,640 |
| Death | 810,243 | 660,131 |
| Total | 20,435,210 | 18,775,013 |
| ADMINISTRATIVE EXPENSES | 527,201 | 485,995 |
| TOTAL DEDUCTIONS | 20,962,411 | 19,261,008 |
| NET INCREASE (DECREASE) IN PLAN NET ASSETS | (10,010,959) | 26,944,333 |
| NET ASSETS HELD IN TRUST FOR PENSION BENEFITS: | | |
| Beginning of year | 262,645,839 | 235,701,506 |
| End of year | $ 252,634,880 | $ 262,645,839 |

See notes to financial statements.

## 1. DESCRIPTION OF THE PLAN

The following brief description of the El Paso County Retirement Plan (the Plan) is provided for informational purposes only. Participants should refer to the plan document for more complete information.

**General** — The Plan is a cost-sharing multiple employer defined benefit plan covering all permanent, full-time and job-share employees of the five participating employers upon their date of employment. All employees hired after September 1, 1967 are required to participate. Employees hired from 1974 through 1981 who were age 60 or older at their date of employment could elect to become a member as of January 1, 1982.

The participants of the Plan consist of the following as of December 31:

| | 2011 | 2010 |
|---|---|---|
| Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them | 1,448 | 1,388 |
| Terminated employees receiving refunds in early 2012 and 2011, respectively | 62 | 66 |
| Current employees: | | |
| Vested | 1,328 | 1,283 |
| Non-vested | 1,031 | 1,050 |
| Total | 3,869 | 3,787 |

The El Paso County Board of Retirement (the Board) manages and administers the Plan. The Board consists of five members, one of whom is the El Paso County Treasurer, two of whom are appointed by the El Paso County Board of Commissioners (the Board of Commissioners) and two of whom are employees of the participating employers elected by participants.

**Contributions** — Through December 31, 2009, participants contributed 6% of their monthly compensation to the Plan. The Plan was amended during 2009 to increase the participant monthly contribution rate to 6.5% effective January 1, 2010, 7.0% effective January 1, 2011 and 7.5% effective January 1, 2012. The Plan was amended in 2012 to increase the participant monthly contribution rate to 8.0% effective January 1, 2013. The participating employers make monthly contributions at least equal to the contributions made by the participants. Interest is credited on employee contributions at the rate of 3% per annum, compounded monthly. Employee and employer basic contributions amounted to 14% and 13% of covered payroll for 2011 and 2010, respectively.

Contributions are tax-deferred to the participants for federal income tax purposes. If participants have at least five or eight years of credited service (see Retirement Benefits below), they are eligible to receive a future monthly retirement benefit. Any refund of contributions paid waives all future rights to any benefits. However, eligible participants who return to employment with a participating employer within 48 months and were previously refunded their contributions may reinstate withdrawn service if they repay the Plan the amount received when employment was terminated, plus interest, within twelve months of rehire.

Active participants who have completed five years of service if hired before January 1, 2013 and eight years of service if hired on or after January 1, 2013 may purchase up to five years of service credit for any period of full-time, nonvested previous employment with any public or private employer. One month of service credit may be purchased for each full month of full-time, nonvested, noncovered employment. The cost to purchase one month of service credit for noncovered employment is the "actuarial equivalent cost", as determined by the actuary for the Plan.

Participants may elect to pay for purchases of service credit in a lump sum or on an installment basis. Payments may be made on a monthly, quarterly or annual basis with interest due at the actuarial equivalent interest rate for periodic benefits. The period over which installment payments may be made cannot exceed a period equal to the total amount of credited service to be purchased. Purchased service is recognized when paid.

**Administrative Expenses** — The Plan's administrative expenses are paid from the assets of the Plan accumulated from contributions and investment earnings.

**Termination Benefits** — Participants vest in accumulated contributions as follows:

(a) If hired before January 1, 2013 and credited with less than five years of service or hired on or after January 1, 2013 and credited with less than eight years of service: Refund of the participant's accumulated contributions.

(b) If hired before January 1, 2013 and credited with five or more years of service or hired on or after January 1, 2013 and credited with eight or more years of service:

(i) The participant may elect to receive a deferred retirement benefit which shall be equal to the participant's accrued benefit as of the date of termination and payable on the participant's normal retirement date. The participant may elect to receive a reduced retirement benefit beginning on the first day of any month subsequent to the participant's attainment of age 55. The reduction shall be 3% for each year by which payments commence prior to the first of the month following the participant's normal retirement date.

(ii) In lieu of (i), a participant may elect a current refund of accumulated contributions made by the participant.

**Retirement Benefits** — Participants hired before January 1, 2010 are eligible for normal retirement on the first of the month coincident with attainment of age 62. Participants hired after December 31, 2009 are eligible for normal retirement after attainment of age 62, but not before the completion of 60 months of continuous service. Participants hired after December 31, 2012 are eligible for normal retirement after attainment of age 62, but not before the completion of 96 months of continuous service.

If hired before January 1, 2010, the monthly benefit payable at normal retirement is equal to 2.22% times the final average monthly compensation, times years of credited service earned through December 31, 2012 and 2.00% times the final average monthly compensation, times years of credited service earned after December 31, 2012. If hired on or after January 1, 2010, the monthly benefit payable at normal retirement is equal to 2.00% times final average monthly compensation times years of credited service.

The normal retirement benefit will not be greater than 75% of the participant’s final average monthly compensation if hired before January 1, 2013 and not greater than $60% of final average monthly compensation if hired on or after January 1, 2013. Final average compensation is the highest monthly average of considered compensation during the 36 consecutive calendar months of credited service out of the last 120 calendar months of credited service.

A participant is eligible for an early retirement benefit at age 55, provided the member has completed five or eight years of credited service. If the participant is hired before January 1, 2013, five years is required. If hired on or after January 1, 2013, eight years is required. The monthly pension is based on the vested portion of the normal retirement benefit, reduced by 3% for each year the early retirement date precedes the normal retirement date.

A participant is eligible for special early retirement benefits if the sum of the participant's age and credited service equals 75 or more. The monthly benefit is equal to the normal retirement benefit and is not reduced for early commencement.

The annuity for delayed retirement is computed by the normal retirement formula considering credited service and compensation to actual retirement.

**Disability Benefits** — A participant is eligible for disability benefits if the participant's employment is terminated due to total and permanent disability as determined by eligibility for and receipt of disability benefits continuously until the normal retirement date under (1) the employer's long-term disability plan, or (2) Title II of the Federal Social Security Act. The annuity, payable at age 62, shall be calculated as for normal retirement considering the credited service that would have accrued had the participant been employed until the normal retirement date and the final average compensation during the calendar year preceding the year of the member's Disability Retirement.

**Payment of Benefits** — The monthly benefit, computed as set forth above, shall be paid in equal monthly payments commencing one month after the actual retirement date continuing at monthly intervals for the retired participant's lifetime thereafter. If the retired participant's death occurs prior to the payment of 120 monthly payments, the remainder of the 120 payments shall be paid to the participant's beneficiary.

**Death Benefits Prior to Retirement** — Death benefits prior to retirement are as follows:

In the event that an active participant or vested participant dies prior to their normal retirement date, the participant's surviving beneficiary will be entitled to either two times the participant's accumulated contributions payable immediately or a monthly benefit equal to 60% of the monthly retirement benefit earned by the member prior to the date of death. Payment of the monthly benefit to the beneficiary will begin on the first of the month following the death or the date the member would have attained age 55, if later.

Between normal and delayed retirement — In the event that a participant dies after their normal retirement date but prior to their actual retirement, their beneficiary will be entitled to a monthly benefit. Under these circumstances, the participant will be deemed to have retired on the first day of the month of their death. If no optional benefit had been elected prior to death, the participant shall be deemed to have elected the full joint and survivor benefit and such benefit shall be payable for the life of the participant's designated beneficiary, if living, following the participant's death.

**Death Benefits After Retirement** — Death benefits after retirement consist of a lump-sum benefit of $3,000 payable upon the death of a retired participant.

**Plan Termination** — Although not presently contemplated, the Board has the right to terminate the Plan at any time, subject to limitations. In the event of termination, after payment of expenses, accumulated contributions would be returned to the participants, and the remaining assets distributed on a pro rata method to the participants based on accrued benefits. Participating employers would not receive any Plan assets.

**Subsequent Events —** The Plan has evaluated subsequent events for recognition or disclosure through May 21, 2012, the date the financial statements were available for issuance.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Reporting Entity** — The Plan is considered a multi-employer cost-sharing pension trust fund. As such, the Plan is included in the participating employers' Comprehensive Annual Financial Reports as a pension trust fund.

**Basis of Accounting** — The accompanying financial statements are presented using the economic resources measurement focus and the accrual basis of accounting in accordance with generally accepted accounting principles that apply to governmental accounting for fiduciary funds. Employee and employer contributions are recognized in the period they are due. Investment earnings are recognized in the period earned. Expenses are recognized when incurred. Benefits and refunds are recognized when due and payable in accordance with the plan provisions.

**Investments** — Investments are stated at fair value. Securities and mutual funds that are actively traded are valued based on quoted market prices. Fixed income securities that are not actively traded are valued primarily based on equivalent values of comparable securities. Collective equity and fixed income funds are valued based on the fair values of the underlying investments, which are primarily based on quoted market prices. Collective real estate fund fair values are valued by the respective fund managers based on capital account balances as of the balance sheet date. The fund of hedge funds is valued by the fund of funds manager based on the valuations of each of the individual portfolio fund values. The individual portfolio fund managers use data such as redemption and subscription prices and other observable inputs to value the individual funds.

**Capital Assets** — Capital assets are recorded at cost. Depreciation is calculated using the straight-line method over useful lives of 3 to 7 years.

**Tax Status** — The Plan is a governmental plan within the meaning of the Internal Revenue Code (the Code). The Internal Revenue Service has determined and informed the Plan by a letter dated August 8, 2011, that the Plan is designed in accordance with the applicable sections of the Code. The Plan has been subsequently amended; however, management of the Plan believes that the Plan is designed and operating in accordance with the Code. Accordingly, no provision for income taxes has been included in the accompanying financial statements.

## 3. FUNDED STATUS AND FUNDING PROGRESS

The funded status of the Plan as of January 1, 2012, the most recent actuarial valuation date, is as follows (in thousands):

| | | |
|---|---|---|
| Actuarial Value of Assets (a) | $ | 280,214 |
| Actuarial Accrued Liability – Entry Age (b) | $ | 393,086 |
| Total Unfunded Actuarial Accrued Liability (UAAL) (b) – (a) | $ | 112,872 |
| Funded Ratio (a)/(b) | | 71.3% |
| Covered Payroll (c) | $ | 116,611 |
| Unfunded UAAL as Percentage of Covered Payroll ((b-a)/c) | | 96.8% |

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Additional information as of the latest actuarial valuation follows:

| | |
|---|---|
| Valuation date | January 1, 2012 |
| Actuarial cost method | Entry Age Normal |
| Amortization method | Level Percent Open |
| Remaining amortization period | 30 years |
| Asset valuation method | 5-year smoothed market |
| Actuarial assumptions: | |
| Investment rate of return | 8% |
| Projected salary increases (including inflation) | 4.5% to 11.6% |
| Cost of living adjustments | None |
| Inflation rate | 3.5% |
| Mortality rate | 1994 Group Annuity Mortality Table |

## 4. DEPOSITS

The Plan has bank balances of $2,262,230 and $660,048 on deposit with banking institutions at December 31, 2011 and 2010, respectively. Of the bank balances, $250,000 is insured by the Federal Deposit Insurance Corporation at December 31, 2011 and 2010. In addition, $7,931,274 and $4,030,453 was held by the various money managers in banking institutions at December 31, 2011 and 2010, respectively. The uninsured balances are collateralized with securities held by the banking institutions but not in the Plan’s name.

## 5. INVESTMENTS

**General Policies** — Funds of the Plan are managed in accordance with Colorado statutes and any other applicable law, and in compliance with the prudent investor rule. The investment of the Plan’s assets shall be for the exclusive purpose of providing benefits for the participants and their beneficiaries, and paying the Plan’s administrative expenses. The investments shall be prudently selected and properly diversified to fulfill fiduciary responsibilities.

The investment portfolio is comprised of equity securities and funds, fixed income securities and funds, cash equivalents, real estate funds and a fund of hedge funds. The investments are denominated in both U.S. and foreign currencies.

**Credit Risk** — Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The Plan's general investment policy is to limit its investments in fixed income securities to those with an S&P/Moody's rating of investment grade BBB/Baa or better, unless expressly permitted by the Board. However, the fixed income portfolio manager is allowed to hold fixed income securities with a rating of BB or B. The manager's total foreign securities and securities with a rating of BB or B may not exceed 20% of the portfolio.

The Plan's exposure to fixed income security credit risk based on Standard & Poor's ratings is as follows as of December 31, 2011:

| S&P Rating | Fixed Income Funds | Corporate Securities | Mortgage Backed Securities | US Treasury Securities | US Government Agency Securities | Total |
|---|---|---|---|---|---|---|
| AAA | | | $ 38,057 | | | $ 38,057 |
| AA+ | | $ 245,773 | 342,205 | $ 5,258,540 | $ 3,377,852 | 9,224,370 |
| AA | $ 23,537,226 | | | | | 23,537,226 |
| AA- | | 212,930 | | | | 212,930 |
| A+ | 25,067,351 | 671,200 | 134,257 | | | 25,872,808 |
| A | | 1,260,514 | 26,326 | | | 1,286,840 |
| A- | | 2,562,652 | 202,718 | | | 2,765,370 |
| BBB+ | | 2,075,950 | 295,862 | | | 2,371,812 |
| BBB | | 2,245,979 | | | | 2,245,979 |
| BBB- | | 1,719,717 | 571,882 | | | 2,291,599 |
| BB+ | | 714,554 | 19,709 | | | 734,263 |
| BB | | 791,493 | | | | 791,493 |
| BB- | | 137,350 | | | | 137,350 |
| B+ | | 436,543 | | | | 436,543 |
| B | | 48,100 | | | | 48,100 |
| B- | | 42,250 | | | | 42,250 |
| CCC | | 51,081 | | | | 51,081 |
| Unrated | | 266,805 | 707,560 | | | 974,365 |
| Total | $ 48,604,577 | $ 13,482,891 | $ 2,338,576 | $ 5,258,540 | $ 3,377,852 | $ 73,062,436 |

The $707,560 of mortgage-backed securities that are unrated by Standard & Poor's are rated AAA by Moody's. $66,997 of the corporate securities that are unrated by Standard & Poor's are rated A2 by Moody's. $199,808 of the corporate securities that are unrated by Standard & Poor's are unrated by Moody's.

**Concentration of Credit Risk** — Concentration of credit risk is the risk of loss attributed to the magnitude of the Plan's investment in a single issuer. The Plan limits its investments in any one issuer of equity securities, fixed income securities, short-term investments and commercial paper to no more than 5% of the applicable portfolio. No limitation is placed on investments in U.S. Government guaranteed obligations. No individual investments exceeded 5% of the Plan's net assets at December 31, 2011 and 2010.

**Interest Rate Risk** — Interest rate risk is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. Unless expressly permitted by the Board, the effective duration of any fixed income portfolio shall not exceed 120% of the effective duration of the broad market benchmark included in the instructions to the portfolio manager.

As of December 31, 2011, the effective duration of Plan's fixed income instruments are as follows (duration is stated in years):

| Fixed Income Investments | Fair Value | Effective Duration |
|---|---|---|
| Fixed income funds | $ 48,604,577 | 6.0 |
| U.S. Government Agency securities | 3,377,852 | 3.3 |
| U. S. Treasury securities | 5,258,540 | 5.6 |
| Corporate securities | 13,482,891 | 6.2 |
| Mortgage-backed securities | 2,338,576 | 3.3 |
| Total fixed income investments | $ 73,062,436 | |
| Portfolio effective duration | | 5.8 |

**Foreign Currency Risk** — Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. As of December 31, 2011, $32,554 of the Plan's investments were denominated in currencies other than the United States dollar.

**Redemption Periods —** Redemptions of the Plan's real estate funds can be made upon 90 days notice. Redemptions of the Plan's fund of hedge funds can be made quarterly upon 48 days notice.

**Mortgage-Backed Securities —** A mortgage-backed security depends on the underlying pool of mortgage loans to provide the cash flow to make principal and interest payments on the security. A decline in interest rates can result in prepayments. Alternatively, an increase in interest rates can result in decreased prepayments. A collateralized mortgage obligation (CMO), is a mortgage-backed security that is comprised of classes of bonds created by prioritizing the cash flows of the underlying mortgage pool. This redistributes prepayment risk and/or credit risk among the various bond classes in the CMO structure.

The Plan invests in mortgage-backed securities for diversification and to enhance fixed income returns. Mortgage-backed securities are subject to credit risk, the risk that the borrower will meet its obligations. These securities are also subject to prepayment risk, which is the risk that a payment will be made in excess of the regularly scheduled principal payment. Prepayment risk is comprised of two risks: call risk, the risk that prepayments will occur when interest rates have declined, and extension risk, the risk that prepayments will not be made when interest rates have increased.

As of December 31, 2011, the fair value of the Plan's mortgage-backed securities is $2,338,576.

**Appreciation (Depreciation) in Fair Value of Investments** — During the years ended December 31, 2011 and 2010, the Plan's investments (including investments bought, sold and held during the year) appreciated (depreciated) in value as follows:

| | 2011 | 2010 |
|---|---|---|
| Equities: | | |
| Domestic stocks and equity funds | $ (715,127) | $ 13,695,627 |
| International equity funds | (11,779,249) | 8,649,487 |
| Fixed income: | | |
| Fixed income funds | 2,076,872 | 2,846,564 |
| Corporate securities | 459,371 | 1,198,038 |
| U.S. Government and agency securities | 331,369 | 11,534 |
| Real estate funds | 1,873,624 | 2,112,834 |
| Fund of hedge funds | (693,862) | 274,913 |
| Net appreciation (depreciation) in fair value of investments | $ (8,447,002) | $ 28,788,997 |

## 6. SECURITIES LENDING

The Plan participated in a securities lending program through its custodian, Wells Fargo Bank (the Bank), until March 31, 2010 when the Plan terminated all of its securities loans under the program.

The Board policies permit the Plan to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Bank lent securities for collateral in the form of cash, securities and letters of credit. The Plan did not have the ability to pledge or sell collateral securities.

The Bank negotiated loans directly or through a finder for a minimum of one day but with no fixed maximum term, retaining the power to terminate the loan at any time unless otherwise agreed to by the Plan. The Plan reserved the right to pre-approve new borrowers.

The Bank's responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examination Council regulations concerning securities lending.

All securities loans could be terminated on demand by either the Plan or the borrower. The Plan was entitled to all cash dividends, stock dividends, stock splits, rights of distribution, conversion privileges, tender and exchange offers, and similar corporate actions with respect to any loaned securities as if the securities had not been loaned. However, during any period when securities were loaned, the Plan waived its right to vote such securities.

Each loan was required to be collateralized in the amount of 102% of the market value of the loaned security and accrued interest. Collateral was marked to market daily. The Plan assumed all risk of loss arising out of collateral investment losses and any resulting collateral deficiencies.

## 7. CAPITAL ASSETS

Capital assets consist of the following at December 31:

| | 2011 | 2010 |
|---|---|---|
| Software development costs | $ 416,102 | $ 216,102 |
| Furniture and equipment | 54,613 | 54,613 |
| Leasehold improvements | 10,312 | 10,312 |
| Total | 481,027 | 281,027 |
| Less: accumulated depreciation and amortization | 171,323 | 136,198 |
| Fixed assets, net | $ 309,704 | $ 144,829 |

# EL PASO COUNTY RETIREMENT PLAN

## REQUIRED SUPPLEMENTARY INFORMATION

# EL PASO COUNTY RETIREMENT PLAN

## REQUIRED SUPPLEMENTARY INFORMATION
## SCHEDULE OF FUNDING PROGRESS (Amounts in Thousands)

| | January 1, | | | | | |
|---|---|---|---|---|---|---|
| | **2012** | **2011** | **2010** | **2009** | **2008** | **2007** |
| Actuarial Value of Assets (a) | $ 280,214[1] | $ 285,037[1] | $ 282,842 | $ 249,777 | $ 285,740 | $ 257,214 |
| Actuarial Accrued Liability — Entry Age (b) | 393,086 | 375,802 | 354,377 | 331,358 | 312,549 | 293,358 |
| Total Unfunded Actuarial Accrued Liability (b)-(a) | 112,872 | 90,765 | 71,535 | 81,581 | 26,809 | 36,144 |
| Funded Ratio (a)/(b) | 71.3% | 75.8% | 79.8% | 75.4% | 91.4% | 87.7% |
| Covered Payroll (c) | 116,611 | 112,232 | 106,957 | 102,703 | 105,140 | 103,403 |
| Unfunded Actuarial Accrued Liability (Surplus) as Percentage of Covered Payroll ((b-a)/c) | 96.8% | 80.9% | 66.9% | 79.4% | 25.5% | 35.0% |

[1] The differences between the actuarial value of assets and the net assets held in trust for pension benefits on the accompanying statements of plan net assets are due primarily to the use of a five year smoothed market asset valuation method in computing the actuarial value of assets. Such method recognizes gains and losses evenly over a five-year period rather than as incurred.

See notes to required supplementary information.

# EL PASO COUNTY RETIREMENT PLAN

## REQUIRED SUPPLEMENTARY INFORMATION
## SCHEDULE OF EMPLOYER CONTRIBUTIONS

| Year | Valuation Date | Annual Required Contribution | Percentage Contributed |
|---|---|---|---|
| 2012 | January 1, 2012 | $ 11,247,420 | N/A |
| 2011 | January 1, 2011 | $ 10,733,979 | 74% |
| 2010 | January 1, 2010 | $ 9,603,845 | 75% |
| 2009 | January 1, 2009 | $ 10,945,353 | 56% |
| 2008 | January 1, 2008 | $ 7,724,074 | 82% |
| 2007 | January 1, 2007 | $ 8,158,839 | 77% |
| 2006 | January 1, 2006 | $ 7,387,051 | 83% |

See notes to required supplementary information.

## 1. DESCRIPTION

The historical trend information is presented as required supplementary information. This information is intended to help financial statement users assess the funding status on a going-concern basis, and to assess progress made in accumulating assets to pay benefits when due.

## 2. ACTUARIAL ASSUMPTIONS AND METHODS

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of January 1, 2012, the latest actuarial valuation date, follows.

| | |
|---|---|
| Actuarial cost method | Entry Age Normal |
| Amortization method | Level Percent Open |
| Remaining amortization period | 30 years |
| Asset valuation method | 5-year smoothed market |
| Actuarial assumptions: | |
| Investment rate of return | 8% |
| Projected salary increases (including inflation) | 4.5% to 11.6% |
| Cost of living adjustments | None |
| Inflation rate | 3.5% |
| Mortality rate | 1994 Group Annuity Mortality Table |

The January 1, 2012 actuarial valuation reflects no changes in actuarial assumptions and the following changes in plan provisions:

- Effective January 1, 2013 the required monthly participant contribution increases from 7.5% to 8% of earnings.

- Normal retirement date for a member hired after December 31, 2012 is the first of the month on or after attainment of age 62, but not before the completion of 96 months of continuous service.

- If hired before January 1, 2010, the monthly benefit payable at normal retirement is equal to 2.22% times the final average monthly compensation, times years of credited service earned through December 31, 2012 plus 2.00% times the final average monthly compensation, times years of credited service earned after December 31, 2012. If hired after December 31, 2009, the monthly benefit payable at normal retirement is equal to 2.00% times final average monthly compensation times years of credited service. Such benefit will not be greater than 75% of the participant’s final average monthly compensation if hired before January 1, 2013 and not greater than 60% of the participant’s final average monthly compensation if hired on or after January 1, 2013.

- If hired on or after January 1, 2013 a participant is eligible for early retirement at age 55 with eight years of credited service.

The January 1, 2011 actuarial valuation reflects no changes in actuarial assumptions.

The January 1, 2010 actuarial valuation reflects no changes in actuarial assumptions and the following changes in plan provisions:

- Effective January 1, 2010 the required monthly participant contribution increases from 6% to 6.5% of earnings. The participant monthly contribution rate increases to 7% effective January 1, 2011 and 7.5% effective January 1, 2012.

- Normal retirement date for a member hired before January 1, 2010 is the first of the month on or after attainment of age 62. Normal retirement date for a member hired after December 31, 2009 is the first of the month on or after attainment of age 62, but not before the completion of 60 months of continuous service.

  If hired before January 1, 2010, the monthly benefit payable at normal retirement is equal to 2.22% times the final average monthly compensation, times years of credited service. If hired after December 31, 2009, the monthly benefit payable at normal retirement is equal to 2.00% times final average monthly compensation times the first 10 years of credited service, plus 2.11% times final average monthly compensation times the member's 11$^{th}$ through 20$^{th}$ years of credited service, plus 2.22% times final average monthly compensation times credited service in excess of 20 years. Such benefit will not be greater than 75% of the participant's final average monthly compensation and not less than $25.00 per year of credited service.

The January 1, 2009 actuarial valuation reflects no changes in actuarial assumptions.

The January 1, 2008 actuarial valuation reflects no changes in actuarial assumptions.

The January 1, 2007 actuarial valuation reflects the following changes in actuarial assumptions:

- The mortality, withdrawal, disability and retirement rates were changed to more accurately reflect plan experience. The impact of these changes was to increase the actuarial accrued liability by $9,311,777.

# EL PASO COUNTY RETIREMENT PLAN

## SUPPORTING SCHEDULES

# EL PASO COUNTY RETIREMENT PLAN

**SUPPORTING SCHEDULES**
**SCHEDULE OF ADMINISTRATIVE EXPENSES**
**FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

| | 2011 | 2010 |
|---|---|---|
| PERSONNEL SERVICES | | |
| Staff salaries | $ 206,856 | $ 178,204 |
| Insurance | 19,471 | 17,402 |
| Social Security | 14,658 | 12,712 |
| Retirement | 14,035 | 11,575 |
| Total personnel services | 255,020 | 219,893 |
| PROFESSIONAL SERVICES | | |
| Actuarial | 68,522 | 42,533 |
| Legal and accounting | 48,218 | 68,246 |
| Audit | 15,800 | 16,000 |
| Other professional | 1,920 | 2,435 |
| Total professional services | 134,460 | 129,214 |
| COMMUNICATION | | |
| Conferences and travel | 9,949 | 9,605 |
| Printing and copying | 7,459 | 8,186 |
| Postage and delivery | 4,813 | 3,572 |
| Dues and subscriptions | 1,780 | 1,775 |
| Telephone | 1,136 | 1,108 |
| Total communication | 25,137 | 24,246 |
| MISCELLANEOUS | | |
| Software maintenance | 43,363 | 43,862 |
| Depreciation | 35,125 | 35,716 |
| Insurance | 28,227 | 27,636 |
| Office supplies | 3,532 | 3,207 |
| Other | 2,337 | 2,221 |
| Total miscellaneous | 112,584 | 112,642 |
| TOTAL ADMINISTRATIVE EXPENSES | $ 527,201 | $ 485,995 |

# EL PASO COUNTY RETIREMENT PLAN

**SUPPORTING SCHEDULES**
**SCHEDULE OF INVESTMENT EXPENSES**
**FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

| | 2011 | 2010 |
|---|---|---|
| **Investment Management:** | | |
| State Street Global Advisors | $ 312,954 | $ 45,048 |
| Lee Munder Investments, Ltd. | 202,177 | 213,654 |
| Loomis Sayles & Co. | 94,822 | 90,292 |
| LSV Asset Management | | 190,799 |
| ING Clarion | | 165,648 |
| Gardner Lewis Asset Management | | 77,326 |
| **Investment Consultant:** | | |
| Watershed Investment Consultants, Inc. | 81,200 | 80,000 |
| **Master Custodian:** | | |
| Wells Fargo Bank | 57,995 | 55,799 |
| TOTAL INVESTMENT EXPENSES | $ 749,148 | $ 918,566 |

NOTE – During 2011, certain accounts with the Master Custodian were consolidated into the State Street Global Advisors account, including LSV Asset Management, ING Clarion and Gardner Lewis Asset Management.

# EL PASO COUNTY RETIREMENT PLAN

**SUPPORTING SCHEDULES**
**SCHEDULE OF CONSULTANT EXPENSES [1]**
**FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

| | 2011 | 2010 |
|---|---|---|
| Actuarial – Buck Consultants | $ 68,522 | $ 42,533 |
| Legal – Holme Roberts & Owens, LLP | 21,818 | 41,846 |
| Accounting – DMLG and Associates, LLP | 26,400 | 26,400 |
| Audit – Stockman Kast Ryan & Company, LLP | 15,800 | 16,000 |
| Other | 1,920 | 2,435 |
| Total consultant expenses | $ 134,460 | $ 129,214 |

[1] See the Schedule of Investment Expenses for fees paid to investment professionals.