

EL PASO COUNTY RETIREMENT PLAN

**Management's Discussion and Analysis
and Financial Statements**

For the Years Ended December 31, 2013 and 2012,

Supplemental Information

And

Independent Auditors' Report

EL PASO COUNTY RETIREMENT PLAN

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
Statements of Plan Net Position, December 31, 2013 and 2012	7
Statements of Changes in Plan Net Position, for the Years Ended December 31, 2013 and 2012	8
Notes to Financial Statements	9
REQUIRED SUPPLEMENTAL INFORMATION	
Schedule of Funding Progress	17
Schedule of Employer Contributions	18
Notes to Required Supplemental Information	19
SUPPORTING SCHEDULES	
Schedule of Administrative Expenses	21
Schedule of Investment Expenses	22
Schedule of Consultant Expenses	23

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the El Paso County Retirement Plan (the Plan), which comprise the statements of plan net position as of December 31, 2013 and 2012 and the related statements of changes in plan net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net position of the El Paso County Retirement Plan at December 31, 2013 and 2012, and the changes in plan net position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Funded Ratio of the Plan

As presented in Note 3 to the financial statements, the funded ratio of the Plan, calculated by dividing the actuarial value of assets by the actuarial accrued liability, was 69.5% as of January 1, 2014. This funded ratio was derived using an 8% investment rate of return and discount rate and the actuarial value of assets. Any significant deviation in the actual rate of return over a 30 year period would have a material impact on the reported actuarial accrued liability as of January 1, 2014.

Report on Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 and the required supplemental information on pages 17 through 20 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 supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Other Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Plan's basic financial statements. The supporting schedules of administrative expenses, investment expenses and consultant expenses on pages 21 through 23 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. Such 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 19, 2014

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 is a cost-sharing, multiple employer defined benefit plan covering all permanent, full-time and job-share employees of include El Paso County, El Paso County Public Health, Pikes Peak Library District, 4th 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 Position* 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 Position* reports additions and deductions in the Plan's net position 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 Position

Net position restricted for pension benefits increased during 2013 by \$34.6 million to \$314.7 million. The primary reason for the 2013 increase in plan net position was net investment income of \$40 million, along with contributions of \$18.1 million. Benefits paid totaled \$23 million. The statements of plan net position are summarized below:

Condensed Statements of Plan Net Position
(in thousands)

	2013	2012	2011
ASSETS			
Cash and cash equivalents	\$ 3,915	\$ 5,037	\$ 10,193
Investments	306,718	274,414	241,981
Receivables	3,768	586	431
Capital assets, net	<u>653</u>	<u>504</u>	<u>310</u>
Total assets	315,054	280,541	252,915
LIABILITIES			
	<u>371</u>	<u>448</u>	<u>280</u>
PLAN NET POSITION RESTRICTED FOR PENSION BENEFITS			
	<u>\$ 314,683</u>	<u>\$ 280,093</u>	<u>\$ 252,635</u>

Additions To Plan Net Position

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 position are summarized below (in thousands):

	2013	2012	2011
Investment income (loss)	\$ 40,044	\$ 30,909	\$ (5,137)
Employer contributions	8,931	8,732	7,899
Employee contributions	9,130	9,173	8,169
Other income	<u>2</u>	<u>10</u>	<u>20</u>
Total additions	<u>\$ 58,107</u>	<u>\$ 48,824</u>	<u>\$ 10,951</u>

The \$40 million of investment income in 2013 consisted primarily of the net appreciation in fair value of investments of \$37.7 million. The appreciation in fair value was mainly the result of the strong performance of the equity markets during 2013. The Plan had gains on its equity portfolio of \$35.9 million in 2013.

The \$30.9 million of investment income in 2012 consisted primarily of the net appreciation in fair value of investments of \$26.7 million. The appreciation in fair value was mainly the result of gains on its equity portfolio of \$20.6 million.

Employer contributions increased in both 2013 and 2012 primarily as the result of the Plan's contribution rate for both employers and employees increasing from 7.0% in 2011 to 7.5% in 2012, and an increase in participants during 2013. Employee contributions decreased slightly in 2013 due to a decrease in purchased service contributions from \$442,000 in 2012 to \$199,000 in 2013.

Deductions From Plan Net Position

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 position of \$23.5 million during 2013. Deductions from plan net position are summarized below (in thousands):

	2013	2012	2011
Pension benefits	\$ 19,821	\$ 18,381	\$ 17,403
Termination refunds	2,153	1,549	2,222
Death benefits	996	918	810
Administrative expenses	<u>547</u>	<u>518</u>	<u>527</u>
Total deductions	<u>\$ 23,517</u>	<u>\$ 21,366</u>	<u>\$ 20,962</u>

Deductions from plan net position for 2013 and 2012 increased by 10% and 2%, respectively, from the prior year, primarily due to increased pension benefit payments. The increase in pension benefit payments is mainly the result of an increase in the number of retirees in both 2013 and 2012.

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, 2014:

	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%
January 1, 2013	278,631	414,531	67.2%
January 1, 2014	301,765	434,464	69.5%

The decrease in the funded ratio from January 1, 2008 to January 1, 2014 is due to an increase in the actuarial accrued liability of 39% while the actuarial value of assets increased by 6%. This funded ratio was derived using an 8% investment rate of return and discount rate and the actuarial value of assets. Any significant deviation in the actual rate of return over a 30 year period would have a material impact on the reported actuarial accrued liability as of January 1, 2014.

The unfunded actuarial accrued liability as a percentage of covered payroll improved from 117.4% as of January 1, 2013 to 107.0% as of January 1, 2014. This improvement is partially due to changes in actuarial assumptions.

Current actuarial required contribution levels necessary to meet the Plan's future obligations exceeded the Plan's actual contributions for each of the past 8 years. As of January 1, 2014, the total actuarially required contribution rate for 2014 is 16.6%, a decrease from 18.9% as of January 1, 2013 (which is partially due to changes in actuarial assumptions). 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. Such increases have been matched by the employer, resulting in a total contribution rate of 15% in 2013. Effective January 1, 2014, the participant monthly contribution rate and employer matching contribution rate each increased to 8%, resulting in a total contribution rate beginning in 2014 of 16%.

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. We have also studied contribution rate increases and having the Plan sponsor reimburse administrative expenses of the Plan.

For more detail on the Plan's funded status and required contribution levels, see the Required Supplemental Information – Schedule of Funding Progress on page 17 and Schedule of Employer Contributions on page 18.

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, 2880 International Circle, Suite N030, Colorado Springs, CO 80910.

EL PASO COUNTY RETIREMENT PLAN

STATEMENTS OF PLAN NET POSITION DECEMBER 31, 2013 AND 2012

	2013	2012
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 3,914,695	\$ 5,036,524
INVESTMENTS		
Equities:		
Domestic equities and equity funds	139,253,082	108,759,524
International equity funds	58,312,568	56,091,363
Fixed income:		
Fixed income funds	72,132,226	35,944,975
Corporate securities	142,536	16,130,927
U.S. Government and agency securities		5,252,882
Real estate funds	24,499,907	25,089,308
Fund of hedge funds	<u>12,378,010</u>	<u>27,144,734</u>
Total investments	<u>306,718,329</u>	<u>274,413,713</u>
RECEIVABLES		
Investment distributions receivable	3,478,616	
Interest and dividends	174,835	406,261
Securities sold	36,577	140,702
Other	<u>78,264</u>	<u>39,591</u>
Total receivables	<u>3,768,292</u>	<u>586,554</u>
CAPITAL ASSETS, NET	<u>652,886</u>	<u>504,133</u>
TOTAL ASSETS	<u>315,054,202</u>	<u>280,540,924</u>
LIABILITIES		
PAYABLE FOR SECURITIES PURCHASED	10,781	217,573
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	<u>360,320</u>	<u>230,780</u>
TOTAL LIABILITIES	<u>371,101</u>	<u>448,353</u>
PLAN NET POSITION RESTRICTED FOR PENSION BENEFITS	<u>\$ 314,683,101</u>	<u>\$ 280,092,571</u>

See notes to financial statements.

EL PASO COUNTY RETIREMENT PLAN

STATEMENTS OF CHANGES IN PLAN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
ADDITIONS		
INVESTMENT INCOME		
Net appreciation in fair value of investments	\$ 37,730,726	\$ 26,670,872
Interest and dividends	3,276,611	5,149,619
Investment expenses	<u>(963,363)</u>	<u>(911,566)</u>
Net investment income	<u>40,043,974</u>	<u>30,908,925</u>
CONTRIBUTIONS		
Employers	8,930,855	8,731,658
Employees	<u>9,130,143</u>	<u>9,173,314</u>
Total contributions	<u>18,060,998</u>	<u>17,904,972</u>
OTHER INCOME	<u>2,479</u>	<u>9,847</u>
TOTAL ADDITIONS	<u>58,107,451</u>	<u>48,823,744</u>
DEDUCTIONS		
BENEFITS PAID TO PARTICIPANTS		
Pension	19,821,448	18,381,130
Termination refunds	2,152,586	1,548,635
Death	<u>995,772</u>	<u>918,202</u>
Total	22,969,806	20,847,967
ADMINISTRATIVE EXPENSES	<u>547,115</u>	<u>518,086</u>
TOTAL DEDUCTIONS	<u>23,516,921</u>	<u>21,366,053</u>
NET INCREASE IN PLAN NET POSITION	34,590,530	27,457,691
PLAN NET POSITION RESTRICTED FOR PENSION BENEFITS:		
Beginning of year	<u>280,092,571</u>	<u>252,634,880</u>
End of year	<u>\$ 314,683,101</u>	<u>\$ 280,092,571</u>

See notes to financial statements.

EL PASO COUNTY RETIREMENT PLAN

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 participating employers upon their date of employment. Employers, as defined in the plan document, include El Paso County, El Paso County Public Health, Pikes Peak Library District, 4th Judicial District Attorney and El Paso County Board of Retirement. 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:

	2013	2012
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	1,606	1,525
Terminated employees receiving refunds in early 2014 and 2013, respectively	75	84
Current employees:		
Vested	1,399	1,379
Non-vested	<u>1,081</u>	<u>975</u>
Total	<u><u>4,161</u></u>	<u><u>3,963</u></u>

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 further amended in 2013 to increase the participant monthly contribution rate to 8.0% effective January 1, 2014. 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 15% of covered payroll for both 2013 and 2012.

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 19, 2014, 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' financial statements as a pension trust fund.

Basis of Accounting and Presentation — 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 in the United States of America 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.

Recent Accounting Pronouncement — In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. The objective of Statement No. 67 is to improve financial reporting by state and local governmental pension plans. This Statement establishes standards for financial reporting for separately issued financial reports and specifies the required approach to measuring the pension liability. Statement No. 67 requires the use of a discount rate for measurement of the pension liability equal to the long-term expected rate of return on investments to the extent the Plan's net position is projected to be sufficient to make projected benefit payments and plan assets are expected to be invested using a strategy to achieve that return. To the extent such conditions are not met, the discount rate is required to be a rate equivalent to the rate on 20-year, tax-exempt general obligation municipal bonds with a rating of AA/Aa or higher. The Statement also establishes new requirements with respect to footnote disclosures and required supplemental information. The Plan will be required to adopt the provisions of Statement No. 67 for the year ending December 31, 2014.

Management of the Plan has not yet determined the impact that Statement No. 67 will have on the Plan's financial statements.

3. FUNDED STATUS AND FUNDING PROGRESS

The funded status of the Plan as of January 1, 2014, the most recent actuarial valuation date, is as follows (in thousands):

Actuarial Value of Assets (a)	\$ 301,765
Actuarial Accrued Liability – Entry Age (b)	\$ 434,464
Total Unfunded Actuarial Accrued Liability (UAAL) (b) – (a)	\$ 132,699
Funded Ratio (a)/(b)	69.5%
Covered Payroll (c)	\$ 124,040
Unfunded UAAL as Percentage of Covered Payroll ((b-a)/c)	107.0%

The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents 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, 2014
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	8.0%
Projected salary increases (including inflation)	3.75% to 7.8%
Cost of living adjustments	None
Inflation rate	3.5%
Mortality rate	RP-2000 Mortality Table

4. DEPOSITS

The Plan has bank balances of \$87,095 and \$839,200 on deposit with banking institutions at December 31, 2013 and 2012, respectively. Of the bank balances, up to \$250,000 is insured by the Federal Deposit Insurance Corporation at December 31, 2013 and 2012. The uninsured balance as of December 31, 2012 is collateralized with securities held by the banking institutions but not in the Plan's name. In addition, \$3,827,600 and \$4,197,324 was held by money managers in banking institutions at December 31, 2013 and 2012, respectively.

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.

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, 2013:

S&P Rating	Fixed Income Funds	Corporate Securities	Total
AA	\$ 13,777,449		\$ 13,777,449
AA-	14,135,361		14,135,361
A	28,965,072		28,965,072
B	15,254,344		15,254,344
Unrated		\$ 142,536	142,536
Total	<u>\$ 72,132,226</u>	<u>\$ 142,536</u>	<u>\$ 72,274,762</u>

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 position at December 31, 2013 and 2012.

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, 2013, the effective duration of the Plan's \$72,274,762 of fixed income instruments is 4.3 years.

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, 2013, none 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.

Appreciation in Fair Value of Investments — During the years ended December 31, 2013 and 2012, the Plan's investments (including investments bought, sold and held during the year) appreciated in value as follows:

	2013	2012
Equities:		
Domestic equities and equity funds	\$ 34,374,555	\$ 13,573,296
International equity funds	1,512,434	7,039,917
Fixed income:		
Fixed income funds	(1,331,911)	2,126,767
Corporate securities	100,357	1,080,975
U.S. Government and agency securities	(119,803)	(20,849)
Real estate funds	3,543,961	2,177,787
Fund of hedge funds	<u>(348,867)</u>	<u>692,979</u>
Net appreciation in fair value of investments	<u>\$ 37,730,726</u>	<u>\$ 26,670,872</u>

6. CAPITAL ASSETS

Capital assets consist of the following at December 31:

	2013	2012
Software	\$ 821,102	\$ 641,102
Furniture and equipment	52,930	54,613
Leasehold improvements	<u>10,312</u>	<u>10,312</u>
Total	884,344	706,027
Less: accumulated depreciation and amortization	<u>231,458</u>	<u>201,894</u>
Capital assets, net	<u>\$ 652,886</u>	<u>\$ 504,133</u>

EL PASO COUNTY RETIREMENT PLAN

REQUIRED SUPPLEMENTAL INFORMATION

EL PASO COUNTY RETIREMENT PLAN

REQUIRED SUPPLEMENTAL INFORMATION SCHEDULE OF FUNDING PROGRESS (Amounts in Thousands)

	January 1,					
	2014	2013	2012	2011	2010	2009
Actuarial Value of Assets (a)	\$ 301,765	\$ 278,631	\$ 280,214	\$ 285,037	\$ 282,842	\$ 249,777
Actuarial Accrued Liability —						
Entry Age (b)	434,464	414,531	393,086	375,802	354,377	331,358
Total Unfunded Actuarial						
Accrued Liability (b)-(a)	132,699	135,900	112,872	90,765	71,535	81,581
Funded Ratio (a)/(b)	69.5%	67.2%	71.3%	75.8%	79.8%	75.4%
Covered Payroll (c)	124,040	115,762	116,611	112,232	106,957	102,703
Unfunded Actuarial Accrued						
Liability (Surplus) as						
Percentage of Covered						
Payroll ((b-a)/c)	107.0%	117.4%	96.8%	80.9%	66.9%	79.4%

EL PASO COUNTY RETIREMENT PLAN

REQUIRED SUPPLEMENTAL INFORMATION SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year	Valuation Date	Annual Required Contribution	Percentage Contributed
2014	January 1, 2014	\$ 10,603,632	N/A
2013	January 1, 2013	\$ 13,574,900	66%
2012	January 1, 2012	\$ 11,299,311	77%
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%

See notes to required supplementary information.

EL PASO COUNTY RETIREMENT PLAN

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

1. DESCRIPTION

The historical trend information is presented as required supplemental 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 supplemental schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of January 1, 2014, 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	8.0%
Projected salary increases (including inflation)	3.75% to 7.8%
Cost of living adjustments	None
Inflation rate	3.5%
Mortality rate	RP-2000 Mortality Table

The January 1, 2014 actuarial valuation reflects the following changes in actuarial assumptions and plan provisions:

- Projected salary increases were changed from a range of 4.5% to 11.6% to a range of 3.75% to 7.8%.
- The mortality rate assumptions were changed to be based on the RP-2000 Mortality Table from the 1994 Group Annuity Mortality Table.
- Effective January 1, 2014 the required monthly participant contribution increases from 7.5% to 8% of earnings.

The January 1, 2013 actuarial valuation reflects no changes and the following change in plan provisions.

- The increase in the monthly participant contribution rate to 8.0% as of January 1, 2013 did not go into effect as expected. Accordingly, the actuarial valuation as of January 1, 2013 reflects a contribution rate of 7.5% of earnings.

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

- Effective January 1, 2013 the anticipated 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 or plan provisions.

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 11th through 20th 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 or plan provisions.

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

EL PASO COUNTY RETIREMENT PLAN

SUPPORTING SCHEDULES

EL PASO COUNTY RETIREMENT PLAN

SUPPORTING SCHEDULES

SCHEDULE OF ADMINISTRATIVE EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
PERSONNEL SERVICES		
Staff salaries	\$ 151,765	\$ 176,883
Insurance	18,405	26,972
Retirement	11,365	11,441
Social Security	<u>10,946</u>	<u>12,850</u>
Total personnel services	<u>192,481</u>	<u>228,146</u>
PROFESSIONAL SERVICES		
Legal and accounting	105,210	58,577
Actuarial	57,691	34,597
Audit	15,050	16,492
Other professional	<u>4,524</u>	<u>45,017</u>
Total professional services	<u>182,475</u>	<u>154,683</u>
COMMUNICATION		
Dues and subscriptions	4,015	1,430
Postage and delivery	3,918	4,081
Printing and copying	3,489	7,882
Conferences and travel	2,877	10,124
Telephone	<u>2,411</u>	<u>1,298</u>
Total communication	<u>16,710</u>	<u>24,815</u>
MISCELLANEOUS		
Software maintenance	91,670	45,104
Depreciation	32,569	30,570
Insurance	29,121	28,561
Other	<u>2,089</u>	<u>6,207</u>
Total miscellaneous	<u>155,449</u>	<u>110,442</u>
TOTAL ADMINISTRATIVE EXPENSES	<u>\$ 547,115</u>	<u>\$ 518,086</u>

EL PASO COUNTY RETIREMENT PLAN

SUPPORTING SCHEDULES

SCHEDULE OF INVESTMENT EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Investment Management:		
State Street Global Advisors	\$ 456,627	\$ 447,456
Tortoise Capital Advisors, LLC	126,545	57,882
Lee Munder Investments, Ltd.	115,564	119,054
Santa Barbara Asset Management, LLC	109,865	52,590
Loomis Sayles & Co.	1,744	89,226
Investment Consultant:		
Watershed Investment Consultants, Inc.	85,058	83,636
Master Custodian:		
Wells Fargo Bank	<u>67,960</u>	<u>61,722</u>
TOTAL INVESTMENT EXPENSES	<u>\$ 963,363</u>	<u>\$ 911,566</u>

EL PASO COUNTY RETIREMENT PLAN

SUPPORTING SCHEDULES

SCHEDULE OF CONSULTANT EXPENSES ⁽¹⁾

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Legal – Bryan Cave, LLP	\$ 78,810	\$ 32,177
Actuarial – Buck Consultants	57,691	34,597
Accounting – DMLG and Associates, LLP	26,400	26,400
Audit – Stockman Kast Ryan & Company, LLP	15,050	16,492
Other	<u>4,524</u>	<u>45,017</u>
Total consultant expenses	<u>\$ 182,475</u>	<u>\$ 154,683</u>

⁽¹⁾ See the Schedule of Investment Expenses for fees paid to investment professionals.