

**EL PASO COUNTY RETIREMENT PLAN**

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

**For the Years Ended December 31, 2006 and 2005,**

**Required Supplementary Information,**

**Supporting Schedules**

**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, 2006 and 2005 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 opinion.

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, 2006 and 2005, 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.

As discussed in Note 1 to the financial statements, the Plan adopted Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures* as of January 1, 2005. This standard establishes and modifies disclosure requirements for deposit and investment risks including credit risk, interest rate risk and foreign currency risk.

The Management's Discussion and Analysis on pages 2 through 4 and the supplementary information on pages 15 through 18 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supporting schedules of administrative expenses, investment expenses and consultant expenses on pages 19 through 21 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such schedules have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

*Stockman Kart Ryan & Co., LLP*

April 10, 2007

# **EL PASO COUNTY RETIREMENT PLAN**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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 five employers in El Paso County, Colorado. The Plan provides normal service retirement benefits for members who attain the age and service requirement, or age 62. Early service retirement benefits are also provided to members who attain an age and service requirement equal to 75.

### **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 (plan net assets) increased during 2006 by \$35.1 million (15%) to \$275.8 million. The major reason for the increase in Plan net assets was investment gains and income of \$35.7 million during 2006. Plan net assets also increased as a result of contributions of \$13.0 million. Deductions from plan net assets consisted primarily of benefit payments which increased 10% to \$13.3 million.

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

	2006	2005	Dollar Change	Percent Change
<b>ASSETS</b>				
Cash and cash equivalents	\$ 5,570	\$ 5,923	\$ (353)	(6)%
Investments	270,185	234,339	35,846	15%
Securities lending collateral	31,960	15,426	16,534	107%
Receivables	1,055	1,117	(62)	(6)%
Fixed assets — net	<u>85</u>	<u>19</u>	<u>66</u>	<u>347%</u>
Total assets	<u>308,855</u>	<u>256,824</u>	<u>52,031</u>	<u>20%</u>
<b>LIABILITIES</b>				
Securities lending obligation	31,960	15,426	16,534	107%
Other liabilities	<u>1,074</u>	<u>665</u>	<u>409</u>	<u>62%</u>
Total liabilities	<u>33,034</u>	<u>16,091</u>	<u>16,943</u>	<u>105%</u>
<b>NET ASSETS HELD IN TRUST</b>				
FOR PLAN BENEFITS	<u>\$ 275,821</u>	<u>\$ 240,733</u>	<u>\$ 35,088</u>	<u>15%</u>

**Additions To Plan Net Assets**

The collection of member and employer contributions, as well as income from investments, provide the reserves needed to finance retirement benefits. Investment income, contributions and other income for 2006 resulted in additions to Plan assets of \$48.7 million. Additions to plan net assets are summarized below (in thousands):

	2006	2005	Dollar Change	Percent Change
Investment income	\$ 35,666	\$ 13,415	\$ 22,251	166%
Employer contributions	6,156	5,697	459	8%
Employee contributions	6,866	6,580	286	4%
Other income	<u>20</u>	<u>20</u>	<u>0</u>	<u>0%</u>
Total additions	<u>\$ 48,708</u>	<u>\$ 25,712</u>	<u>\$ 22,996</u>	<u>89%</u>

The \$35.7 million of investment income in 2006 consisted primarily of the net appreciation in fair value of investments of \$31.3 million. This increase in fair value was mainly attributable to the performance of the equity markets during 2006 with \$27.6 million of the increase relating to equity securities. Employer contributions increased by 8% reflecting increases in average salaries and changes in membership. The employee contributions increase of 4% is attributable to increases in average salaries and service credit purchases for periods of previous employment with any public or private employers (see Note 1 to the financial statements).

## 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 \$13.6 million during 2006.

Deductions from plan net assets are summarized below (in thousands):

	2006	2005	Dollar Change	Percent Change
Benefit payments	\$ 11,187	\$ 10,210	\$ 977	10%
Termination refunds	1,546	1,756	(210)	(12)%
Death benefits	542	153	389	254%
Administrative expenses	<u>345</u>	<u>325</u>	<u>20</u>	<u>6%</u>
Total deductions	<u>\$ 13,620</u>	<u>\$ 12,444</u>	<u>\$ 1,176</u>	<u>9%</u>

Deductions from plan net assets for 2006 increased by 9%. The increase in ongoing benefit payments is primarily due to an increase in the number of retirees. The decrease in termination refunds is attributable to the decrease in payments to terminated employees who chose to receive a refund distribution.

## FUNDING STATUS

The Plan's fundamental financial objective is to meet long-term benefit obligations through employer and employee contributions and investment income. As of January 1, 2007, the funded ratio was 87.7%, compared with a funded level of 86.9% at January 1, 2006. The increase in the funded level is due to favorable investment returns generated in 2006. The impact of that investment gain on the funded status was reduced by adoption of changes in actuarial assumptions developed as a result of a five year experience study conducted in early 2006. Without the adoption of those assumptions, the funded level would have increased to 90.6%.

Current actuarial required contribution levels necessary to meet the Plan's future obligations exceed the Plan's current contribution rate of 12%. The actual contribution rate has been less than the required contribution rate for several years and the effects of the reduced level of contribution is having a negative impact on the Plan's funded status. It is management's intent to seek out solutions and make recommendations which will mitigate this situation. Management believes the El Paso County Retirement Plan is in reasonably sound financial position to meet its obligations to the retired and current participants of the Plan.

## 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 Plan Administrator, 105 East Vermijo, Suite 200, Colorado Springs, CO 80903.

# EL PASO COUNTY RETIREMENT PLAN

## STATEMENTS OF PLAN NET ASSETS DECEMBER 31, 2006 AND 2005

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	2006	2005
<b>ASSETS</b>		
CASH AND CASH EQUIVALENTS	<u>\$ 5,570,374</u>	<u>\$ 5,922,683</u>
INVESTMENTS		
Equities:		
Domestic stocks	76,815,232	68,292,569
International stocks	66,191,160	52,871,051
Domestic equity mutual funds	36,293,349	30,908,334
Fixed income:		
Fixed income mutual funds	43,828,866	34,595,904
U.S. Government and agency securities	10,447,537	8,234,822
Corporate fixed income securities	9,610,586	15,744,972
Real estate mutual fund	<u>26,998,277</u>	<u>23,691,589</u>
Total investments	<u>270,185,007</u>	<u>234,339,241</u>
SECURITIES LENDING COLLATERAL	<u>31,959,969</u>	<u>15,426,106</u>
RECEIVABLES		
Interest and dividends	539,447	630,624
Securities sold	398,219	384,807
Other	<u>116,914</u>	<u>101,720</u>
Total receivables	<u>1,054,580</u>	<u>1,117,151</u>
CAPITAL ASSETS — net	<u>84,690</u>	<u>18,660</u>
TOTAL ASSETS	<u>308,854,620</u>	<u>256,823,841</u>
<b>LIABILITIES</b>		
SECURITIES LENDING OBLIGATION	31,959,969	15,426,106
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	396,256	306,823
PAYABLE FOR SECURITIES PURCHASED	<u>677,493</u>	<u>357,658</u>
TOTAL LIABILITIES	<u>33,033,718</u>	<u>16,090,587</u>
NET ASSETS HELD IN TRUST FOR PENSION		
BENEFITS (A Schedule of Funding Progress for the Plan is presented on page 15)	<u>\$ 275,820,902</u>	<u>\$ 240,733,254</u>

See notes to financial statements.

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# EL PASO COUNTY RETIREMENT PLAN

## STATEMENTS OF CHANGES IN PLAN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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	2006	2005
<b>ADDITIONS</b>		
INVESTMENT INCOME		
Net appreciation in fair value of investments	\$ 31,346,373	\$ 9,958,332
Interest and dividends	5,967,777	4,820,266
Investment expenses	<u>(1,696,195)</u>	<u>(1,396,840)</u>
Net investment income before securities lending activities	35,617,955	13,381,758
Securities lending income	1,517,619	925,250
Securities lending borrower rebates	(1,447,674)	(859,165)
Securities lending agent fees	<u>(22,172)</u>	<u>(32,432)</u>
Net investment income	<u>35,665,728</u>	<u>13,415,411</u>
CONTRIBUTIONS		
Employers	6,155,876	5,696,786
Employees	<u>6,866,368</u>	<u>6,579,672</u>
Total contributions	<u>13,022,244</u>	<u>12,276,458</u>
OTHER INCOME	<u>19,658</u>	<u>19,785</u>
TOTAL ADDITIONS	<u>48,707,630</u>	<u>25,711,654</u>
DEDUCTIONS		
BENEFITS PAID TO PARTICIPANTS		
Pension	11,187,026	10,210,376
Termination refunds	1,545,738	1,755,564
Death	<u>541,882</u>	<u>153,424</u>
Total	13,274,646	12,119,364
ADMINISTRATIVE EXPENSES	<u>345,336</u>	<u>325,217</u>
TOTAL DEDUCTIONS	<u>13,619,982</u>	<u>12,444,581</u>
NET INCREASE IN PLAN NET ASSETS	35,087,648	13,267,073
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:		
Beginning of year	<u>240,733,254</u>	<u>227,466,181</u>
End of year	<u>\$ 275,820,902</u>	<u>\$ 240,733,254</u>

See notes to financial statements.

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# EL PASO COUNTY RETIREMENT PLAN

## NOTES TO FINANCIAL STATEMENTS

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### 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, 2006 and 2005:

	2006	2005
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	1,104	1,026
Terminated employees receiving refunds in early 2007 and 2006, respectively	36	37
Current employees:		
Vested	1,255	1,313
Nonvested	<u>1,101</u>	<u>956</u>
Total	<u>3,496</u>	<u>3,332</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** — Participants contribute 6% of their monthly compensation to the Plan. As provided in the Plan documents, 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 6% per annum, compounded monthly. Employee and employer basic contributions amounted to 12% of covered payroll for 2006 and 2005.

Effective January 1, 1984, contributions are tax-deferred to the participants for federal income tax purposes. If participants have at least five years of credited service, 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 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 Costs** — The Plan’s administrative and investment costs are financed through investment earnings on the general assets of the Plan.

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

- (a) If Credited with Less than Five Years of Service: Refund of the participant’s accumulated contributions.
- (b) If Credited with Five 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 are eligible for normal retirement on the first of the month coincident with attainment of age 62. The monthly annuity, payable for ten years certain and life thereafter, is the greater of (a) 2.22% times final average monthly compensation times number of years of credited service or (b) \$25 times number of years of credited service. 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 years of credited service. 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:

**Single** — Two times the active single participant's or vested single participant's accumulated contributions will be paid in a lump sum to the participant's beneficiary or estate.

**Married** — In the event that an active married participant or vested married participant dies prior to their normal retirement date, the participant's surviving spouse 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 spouse 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 form had been elected prior to death, the participant shall be deemed to have elected the full joint and survivor benefit form 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Reporting Entity** — The Plan is considered a pension trust fund of El Paso County. As such, the Plan is included in El Paso County's Comprehensive Annual Financial Report 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 accepting accounting principles that apply to governmental accounting for fiduciary funds. Employee and employer contributions are recognized in the period in which employee services are performed. Benefits and refunds are recognized when due and payable in accordance with the plan provisions.

**Investments** — Marketable securities are stated at fair value. Securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the plan year; investments traded in the over-the-counter market and listed securities for which no sale was reported on that date are valued at the average of the last reported bid and ask price.

The Plan adopted Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures* as of January 1, 2005. This standard establishes and modifies disclosure requirements for deposit and investment risks including credit risk, interest rate risk and foreign currency risk.

**Securities Lending** — Cash received as collateral on securities lending transactions is reported as an asset and the corresponding securities lending obligation is reported as a liability on the Statement of Plan Net Assets. Securities lending transactions collateralized by letters of credit or by securities that the Plan does not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities.

**Capital Assets** — Capital assets are recorded at cost. Depreciation is calculated using the straight-line method over useful lives of 3 to 5 years.

**Tax Status** — The Internal Revenue Service has determined and informed the Plan by a letter dated April 2, 2002, that the Plan is designed in accordance with the applicable sections of the Internal Revenue Code (the Code). Accordingly, no provision for income taxes has been included in the accompanying financial statements.

**Reclassifications** — Certain reclassifications have been made to the 2005 financial statements to conform with the 2006 format.

## 3. DEPOSITS

The Plan has bank balances of \$653,286 and \$556,074 on deposit with banking institutions at December 31, 2006 and 2005, respectively. Of the bank balances, \$100,000 is insured by the Federal Deposit Insurance Corporation at December 31, 2006 and 2005. In addition, \$4,917,088 and \$5,366,609 was held by the various money managers in banking institutions at December 31, 2006 and 2005, respectively. The uninsured bank balances and money manager balances are collateralized with securities held by the banking institutions but not in the Plan's name.

#### 4. 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, fixed income securities, cash equivalent securities and real estate. 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:

<b>Fixed Income Investments</b>	<b>Fair Value</b>	<b>S&amp;P Rating</b>
Fixed income mutual funds	\$ 43,828,866	AA+ to A-
U.S. Government Agency securities	8,474,026	AAA
Corporate securities	6,944,534	BBB
Asset-backed securities	2,234,765	AAA
U. S. Treasury securities	1,973,511	AAA
Other fixed income securities	<u>431,287</u>	AAA
Total fixed income investments	<u>\$ 63,886,989</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 place on investments in U.S. Government guaranteed obligations. No individual investments exceeded 5% of the Plan's net assets at December 31, 2006 and 2005.

**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, 2006, the effective duration of Plan's fixed income instruments are as follows (duration is stated in years):

<b>Fixed Income Investments</b>	<b>Fair Value</b>	<b>Effective Duration</b>
Fixed income mutual funds	\$ 43,828,866	4.64
U.S. Government Agency securities	8,474,026	4.21
Corporate securities	6,944,534	9.51
Asset-backed securities	2,234,765	3.03
U. S. Treasury securities	1,973,511	0.64
Other fixed income securities	<u>431,287</u>	<u>3.60</u>
Total fixed income investments	<u>\$ 63,886,989</u>	
Portfolio effective duration		<u>4.93</u>

**Foreign Currency Risk** — Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Plan's investments were distributed among the following currencies as of December 31, 2006:

	<b>Common Stocks</b>	<b>Corporate Fixed Income</b>	<b>Other</b>	<b>Total Fair Value</b>
United States dollar	\$ 76,815,232	\$ 8,302,619	\$ 117,568,029	\$ 202,685,880
EMU (Euro)	22,053,328	58,544		22,111,872
Japanese yen	14,034,202	835,652		14,869,854
British sterling pound	13,410,914			13,410,914
Swiss franc (CHF)	5,290,096			5,290,096
Australian dollar	2,888,583			2,888,583
Hong Kong dollar	2,562,217			2,562,217
Canadian dollar	2,369,745			2,369,745
Swedish krona	1,660,170	197,770		1,857,940
Singapore dollar	837,796			837,796
Norwegian krone	578,732	216,001		794,733
Danish kroner	354,023			354,023
New Zealand dollar	<u>151,354</u>			<u>151,354</u>
Total investments	<u>\$ 143,006,392</u>	<u>\$ 9,610,586</u>	<u>\$ 117,568,029</u>	<u>\$ 270,185,007</u>

**Appreciation in Fair Value** — During the years ended December 31, 2006 and 2005, the Plan's investments (including investments bought, sold and held during the year) appreciated (depreciated) in value by \$31,346,373 and \$9,958,332, respectively, as follows:

	2006	2005
Equities:		
Domestic stocks	\$ 10,277,029	\$ 4,734,078
International stocks	12,423,691	4,786,707
Domestic equity mutual funds	4,905,131	(916,948)
International equity mutual funds		199,271
Fixed income mutual funds	1,518,485	709,067
Real estate mutual fund	2,149,295	1,938,762
Corporate fixed income securities	(93,339)	(1,288,384)
U.S. Government and agency securities	<u>166,081</u>	<u>(204,221)</u>
Net appreciation in fair value	<u>\$ 31,346,373</u>	<u>\$ 9,958,332</u>

## 5. SECURITIES LENDING

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 Plan's custodian, Wells Fargo Bank (the Bank), lends securities for collateral in the form of cash, securities and letters of credit. The Plan does not have the ability to pledge or sell collateral securities.

The relationship between the maturities of the investment pool and the Plan's loans is affected by the maturities of the securities loans made by other entities, which the Plan cannot determine. The weighted average maturity of the securities lending collateral received as of December 31, 2006 is 11 days.

The Bank may negotiate 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 reserves the right to pre-approve new borrowers. There are no restrictions on the amount of securities that may be lent at one time.

Each loan is required to be collateralized in the amount of 102% of the market value of the loaned security and accrued interest. Collateral is marked to market daily. If the market value of the given collateral falls to 100% or less of the loaned security market value, the Bank immediately procures additional collateral to bring the collateralization back to 102%. Collateral in excess of 102% is returned to the Borrower if requested.

The Bank's responsibilities include 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. As of December 31, 2006, the Plan had no credit risk exposure to borrowers because the amounts the Plan owes the borrowers exceed the amounts the borrowers owe the Plan. The Plan had no losses on securities lending transactions resulting from the default of a borrower or the lending agent for the years ended December 31, 2006 and 2005.

All securities loans can be terminated on demand by either the Plan or the borrower. The Plan is 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 are loaned, the Plan waives its right to vote such securities.

As of December 31, 2006 and 2005, the fair values of lent securities and the associated collateral received are as follows:

	<b>2006</b>	<b>2005</b>
Lent securities	<u>\$ 30,764,368</u>	<u>\$ 27,113,727</u>
Collateral received:		
Cash	\$ 31,959,969	\$ 15,426,106
Securities		12,743,565
Letters of credit	<u>                    </u>	<u>96,013</u>
Total collateral received	<u>\$ 31,959,969</u>	<u>\$ 28,265,684</u>

The cash collateral of \$31,959,969 and \$15,426,106 as of December 31, 2006 and 2005, respectively, has been reported in the Statements of Plan Net Assets as an asset with a corresponding liability. The Plan's income, net of expenses from securities lending, was \$47,773 and \$33,653 for the years ended December 31, 2006 and 2005, respectively.

## **6. CAPITAL ASSETS**

Capital assets consist of the following at December 31, 2006 and 2005:

	<b>2006</b>	<b>2005</b>
Furniture and equipment	\$ 44,152	\$ 42,962
Software development costs	70,756	
Leasehold improvements	<u>10,312</u>	<u>10,312</u>
Total	125,220	53,274
Less: accumulated depreciation and amortization	<u>40,530</u>	<u>34,614</u>
Fixed assets — net	<u>\$ 84,690</u>	<u>\$ 18,660</u>

**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,					
	2007	2006	2005	2004	2003	2002
Actuarial Value of Assets (a)	\$ 257,214 <sup>(1)</sup>	\$ 234,661 <sup>(1)</sup>	\$ 219,697	\$ 207,538	\$ 192,439	\$ 194,589
Actuarial Accrued Liability — Entry Age (b)	293,358	270,180	249,694	230,926	212,239	193,722
Total Unfunded Actuarial Accrued Liability (Surplus) (b)-(a)	36,144	35,519	29,997	23,388	19,800	(867)
Funded Ratio (a)/(b)	87.7%	86.9%	88.0%	89.9%	90.7%	100.4%
Covered Payroll (c)	103,403	98,916	92,758	91,978	89,629	85,260
Unfunded Actuarial Accrued Liability (Surplus) as Percentage of Covered Payroll ((b-a)/c)	35.0%	35.9%	32.3%	25.4%	22.1%	(1.0)%

<sup>(1)</sup> The difference between the actuarial value of assets and the net assets held in trust for pension benefits on the accompanying statements of plan net assets is 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

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<b>Year</b>	<b>Valuation Date</b>	<b>Annual Required Contribution<sup>(1)</sup></b>	<b>Percentage Contributed</b>
2007	January 1, 2007	\$ 8,025,030	N/A
2006	January 1, 2006	\$ 7,387,051	83%
2005	January 1, 2005	\$ 6,551,304	87%
2004	January 1, 2004	\$ 5,951,443	92%
2003	January 1, 2003	\$ 5,709,580	97%
2002	January 1, 2002	\$ 4,303,733	>100%

<sup>(1)</sup> The January 1, 2007 amount is an estimate based on the annual required contribution percentage and an estimate of the 2007 covered payroll. The actual required contribution will be based on the annual required contribution percentage and the actual 2007 covered payroll. Factors including investment results and changes in employer demographic data will cause fluctuations in the annual required contribution on an ongoing basis.

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See notes to required supplementary information.

# EL PASO COUNTY RETIREMENT PLAN

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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### 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, 2007, 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, 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.

The January 1, 2006 actuarial valuation reflects no changes in actuarial assumptions.

The January 1, 2005 actuarial valuation reflects no changes in actuarial assumptions and the following change in plan provisions:

- Increase in existing retirement benefits by the higher of 2% or \$10 per month.

The January 1, 2004 actuarial valuation reflects no changes in actuarial assumptions.

The January 1, 2003 actuarial valuation reflects no changes in actuarial assumptions.

The January 1, 2002 actuarial valuation reflects the following changes in actuarial assumptions:

- The salary scale, retirement, withdrawal and disability assumptions were changed to more accurately reflect plan experience. The impact of these changes was to increase the actuarial accrued liability by \$4,593,805.

**EL PASO COUNTY RETIREMENT PLAN**

**SUPPORTING SCHEDULES**

# EL PASO COUNTY RETIREMENT PLAN

## SUPPORTING SCHEDULES SCHEDULE OF ADMINISTRATIVE EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2006

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### PERSONNEL SERVICES

Staff salaries	\$ 137,920
Insurance	11,734
Social Security	9,900
Retirement	<u>8,266</u>
Total personnel services	<u>167,820</u>

### PROFESSIONAL SERVICES

Actuarial	59,256
Legal and accounting	43,530
Audit	14,300
Other professional	<u>175</u>
Total professional services	<u>117,261</u>

### COMMUNICATION

Conferences and travel	7,164
Printing and copying	3,781
Postage and delivery	2,858
Dues and subscriptions	1,695
Telephone	<u>1,511</u>
Total communication	<u>17,009</u>

### MISCELLANEOUS

Insurance	32,210
Depreciation	5,916
Office supplies	4,424
Miscellaneous	<u>696</u>
Total miscellaneous	<u>43,246</u>

Total administrative expenses	<u>\$ 345,336</u>
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## EL PASO COUNTY RETIREMENT PLAN

### SUPPORTING SCHEDULES SCHEDULE OF INVESTMENT EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2006

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Payee	Amount	Nature of Service
ING Clarion	\$ 279,283	Investment Management
New Star Institutional Managers Limited	242,516	Investment Management
LSV Asset Management	230,766	Investment Management
Lee Munder Investments, Ltd.	187,017	Investment Management
Roxbury Capital Management, LLC	178,204	Investment Management
Gardner Lewis Asset Management	134,957	Investment Management
Wells Fargo Bank	119,900	Master Custodian
Loomis Sayles & Co.	103,486	Investment Management
Summit Strategies Group	85,000	Investment Consultant/ Performance Measurement
Western Asset Management	59,342	Investment Management
State Street Global Advisors	38,571	Investment Management
Trinity Investment Management Corp.	29,444	Investment Management
Miscellaneous	<u>7,709</u>	Various
Total investment expenses	<u>\$ 1,696,195</u>	

# EL PASO COUNTY RETIREMENT PLAN

## SUPPORTING SCHEDULES SCHEDULE OF CONSULTANT EXPENSES <sup>(1)</sup> FOR THE YEAR ENDED DECEMBER 31, 2006

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Payee	Amount	Nature of Service
Buck Consultants	\$ 59,256	Actuarial
DMLG and Associates, LLP	26,400	Accounting
Holme Roberts & Owen, LLP	17,130	Legal
Stockman Kast Ryan & Company, LLP	14,300	Audit
Miscellaneous	<u>175</u>	Various
Total consultant expenses	<u>\$ 117,261</u>	

<sup>(1)</sup> Please see the Schedule of Investment Expenses for fees paid to investment professionals.