



**ANNUAL FINANCIAL REPORT
2017**

I. Background

The following information is presented with the intent of providing the participants and beneficiaries of the City Employees' Pension Fund, (the "Fund"), with information regarding the financial status of the pension fund. While this information is intended to provide information to the participants and beneficiaries of the fund, selected additional information in more detail is available for inspection at the City Employees' Pension Fund office located at 400 W. San Antonio, Suite B in El Paso, Texas. Should you desire to review the selected detailed information from which the information contained herein is extracted please call the pension office for an appointment.

Included in this annual report is information related to the financial condition of the Fund. Information regarding the results of Fund's biennial actuarial review and the yearly external audit of the Fund are provided. The Fund has taken the liberty of providing some supplemental information regarding the interpretation of the reports referred to above.

II. Administration

The Fund is administered in accordance with the trust document or pension ordinance passed by the City Council of the City of El Paso. This trust document is found in Chapter 2.64 of the El Paso Municipal Code. The trust document provides, in part, that the Fund may make rules and regulations necessary to provide for effective administration of the fund. The Fund is governed not only by the pension ordinance but also by any rules and regulations approved by the Pension Fund's Board of Trustees.

The Board of Trustees (the "Board"), is a quasi-legislative and quasi-judicial body which is promulgated by the pension ordinance. There are currently 9 individuals who serve as your Pension Fund Board of Trustees. The composition of trustees who serve on the Board are either elected by the members or appointed by the Mayor or City Council. Four employee representatives are elected and serve three (3) year terms. Five members are appointed either by City Council or the Mayor. These appointed Board members serve for a term of two (2) years. Board members may be reelected or reappointed as long as certain qualifications required by the pension ordinance are satisfied.

Board members are responsible for a number of decisions, which affect the management of the Fund. Board members pass rules and regulations governing the administration of the Fund. Board members hire the pension staff, provide a yearly budget, make investment decisions and set the policy and direction of the fund through their efforts, and decide disability claims.

The current members of the City Employees' Pension Fund Board of Trustees are:

Elected members:

Karl Rimkus – Chairman
7969 San Paulo
El Paso, Texas 79907

Robert C. Studer
300 N. Campbell
El Paso, Texas 79901

Rebecca Torres
300 N. Campbell
El Paso, Texas 79901

Jesus E. Garcia
300 N. Campbell
El Paso, Texas 79901

Appointed members:

Representative Cassandra H. Brown
300 N. Campbell
El Paso, Texas 79901

Representative Sam Morgan
300 N. Campbell
El Paso, Texas 79901

Rene D. Peña – Vice-Chairman
4171 N. Mesa, Suite B100
El Paso, Texas 79901

Presi Ortega, Jr.
7505 Lockheed, Suite A
El Paso, Texas 79925

Nicholas J. Costanzo
5132 Prince Edward
El Paso, TX 79924

Employees of the Fund:

❖ Robert Ash
Pension Administrator

Pete Delgado
Deputy Pension Administrator

Alma R. Duenas
Benefits / Budget Specialist

David Garcia
Payroll / Accounts Payable Specialist

Pauline Castillo
Benefits Technician

Karina Chavez
Retiree Coordinator/Data Entry Clerk

Esmeralda Aguirre
Benefits Technician

* The Pension Administrator serves as Secretary to the Board but does not vote and is not counted for purposes of establishing a quorum.

The City's Comptroller serves as Treasurer of the Fund but does not vote and is not counted for purposes of establishing a quorum.

The address for Pension Administration staff is:
400 W. San Antonio, Suite B
El Paso Texas 79901

III. Financial Statements

The financial statements and auditors' opinion identified below are compiled as part of the yearly audit performed by the Fund's external auditors BKD. The financial statements reflect the most recent audit period which represents the fiscal year from September 1, 2016 through August 31, 2017.

Auditors Opinion:

Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Trustees, Audit Committee and Management
El Paso City Employees' Pension Fund
El Paso, Texas

As part of our audit of the financial statements of El Paso City Employees' Pension Fund (Fund) as of and for the year ended August 31, 2017, we wish to communicate the following to you.

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America

An audit performed in accordance with auditing standards generally accepted in the United States of America is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

The Fund's significant accounting policies are described in *Note 1* of the audited financial statements. With respect to unusual accounting policies or accounting methods used by the Company for unusual transactions, no matters are reportable.

Alternative Accounting Treatments

No matters are reportable.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Fair value of investments
- Net pension liability

Financial Statement Disclosures

The following area involves particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Net pension liability

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated.

Areas in which audit adjustments were proposed include:

- None noted

Areas in which adjustments were made as part of the financial statements preparation include:

- Valuation of investments
- Reclassification of investment manager fees
- Accrued expenses

Auditor's Judgments About the Quality of the Entity's Accounting Principles

No matters are reportable.

Other Material Communications

Listed below are other material communications between management and us related to the audit:

- Management representation letter
- We orally communicated to management other deficiencies in internal control identified during our audit that are not considered material weaknesses or significant deficiencies

This letter is intended solely for the information and use of the Audit Committee, Board of Trustees and management, and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

January 9, 2018

El Paso City Employees' Pension Fund
(A Component Unit of the City of El Paso, Texas)
Statements of Fiduciary Net Position
August 31, 2017 and 2016

Assets

	<u>2017</u>	<u>2016</u>
Cash and Cash Equivalents	\$10,597,586	\$4,282,013
Receivables		
Commission credits receivable	128,931	129,071
Due from brokers for securities sold	967,188	106,384
Employer contributions	947,003	798,026
Plan member contributions	596,022	508,187
Accrued interest and dividends	620,705	681,755
	<u>3,259,849</u>	<u>2,223,423</u>
Total receivables		
Prepaid Insurance	<u>21,857</u>	<u>21,727</u>
Investments, At Fair Value		
U.S. government securities	27,104,666	43,300,364
Corporate bonds and notes	42,183,834	43,465,129
Absolute return investments	109,573,856	66,205,813
Corporate stocks	83,883,305	74,680,591
Bank collective investment funds	176,342,988	173,439,189
Commingled funds		
Fixed income	74,742,206	92,599,383
Corporate stocks	89,269,106	66,554,397
Real estate investment funds		
Real estate investment trust	-	9,097,984
Private real estate	67,975,022	64,365,434
Private equity investments	57,103,830	46,875,666
Master limited partnerships	37,030,451	37,029,801
	<u>765,209,264</u>	<u>717,613,751</u>
Total investments at fair value		
Capital Assets, Land	<u>891,306</u>	<u>750,345</u>
Total assets	<u>779,979,862</u>	<u>724,891,259</u>
Liabilities		
Due to brokers for securities purchased	1,715,974	730,468
Accrued expenses	726,570	928,277
Accrued drawdown	855,764	-
Unearned revenue – commission credits	128,931	129,071
	<u>3,427,239</u>	<u>1,787,816</u>
Total liabilities		
Net Position Restricted for Pensions	<u>\$ 776,552,623</u>	<u>\$ 723,103,443</u>

El Paso City Employees' Pension Fund
(A Component Unit of the City of El Paso, Texas)
Statements of Changes in Fiduciary Net Position
Years Ended August 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Additions		
Contributions		
Employer	\$ 25,327,071	\$ 23,370,111
Plan members	15,154,341	14,886,249
	<u>40,481,412</u>	<u>38,256,360</u>
Investment Income		
Net appreciation (depreciation) in fair value of investments	74,716,005	37,856,062
Interest	3,808,906	4,444,138
Dividends	2,582,152	2,980,264
Securities lending income	68,169	138,705
Investment advisor fees	(5,783,774)	(5,104,720)
Securities lending fees	(22,691)	(47,844)
Miscellaneous income/ (expense)	2,206	(6,532)
	<u>75,370,973</u>	<u>40,260,073</u>
Net investment income (loss)		
	<u>115,852,385</u>	<u>78,516,433</u>
Deductions		
Benefits paid to plan members	57,972,792	51,554,209
Refunds	3,104,773	2,829,420
Administrative expenses	1,325,640	1,417,530
	<u>62,403,205</u>	<u>55,801,159</u>
Total deductions		
	<u>53,449,180</u>	<u>22,715,274</u>
Net Increase (Decrease) in Net Position	<u>53,449,180</u>	<u>22,715,274</u>
Net Position Restricted for Pensions, Beginning of Year	<u>723,103,443</u>	<u>700,388,169</u>
Net Position Restricted for Pensions, End of Year	<u>\$ 776,552,623</u>	<u>\$ 723,103,443</u>

IV. Actuarial Statements

The Fund has employed the actuary firm of Conduent, (*f.k.a.* Buck Consultants) to review the Fund's funding and liability. The actuary uses mathematical and statistical formulas in order to substantiate their opinion as to the funding status of the City Employees' Pension Fund. The last biennial actuarial valuation was performed for the two fiscal years ending August 31, 2016. An interim valuation was performed as of September 1, 2017 using the Fund's audited financial data as of August 31, 2017. The results of this interim valuation are included as part of this annual report.



December 1, 2017

David J. Kershner
Principal, Wealth
David.Kershner@conduent.com
602.803.6174

Mr. Robert B. Ash
Pension Administrator
El Paso City Employees' Pension Fund
400 West San Antonio, Suite B
El Paso, TX 79901-1196

Re: September 1, 2017 Roll-Forward Valuation Results

Dear Mr. Ash,

This report provides the results of the September 1, 2017 roll-forward valuation of the El Paso City Employees' Pension Fund (Fund). It is based on a roll-forward of the September 1, 2016 valuation liabilities (assuming no liability gains or losses during the year) and the August 31, 2017 asset statement that was provided to us by the City.

The primary purpose of the roll-forward valuation is to present the estimated actuarial position of the El Paso City Employees' Pension Fund as of September 1, 2017.

Use of this report for any other purpose or by anyone other than the City or the Board may not be appropriate and may result in mistaken conclusions because of failure to understand applicable assumptions, methods, or inapplicability of the report for that purpose. Conduent will not accept any liability for any such statement made without prior review by Conduent.

This roll-forward valuation is based on the participant data, plan provisions, and actuarial assumptions and methods described in the September 1, 2016 actuarial valuation report.

Where presented, references to "funded ratio" and "unfunded accrued liability" typically are measured on an actuarial value of assets basis. It should be noted that the same measurements using market value of assets would result in different funded ratios and unfunded accrued liabilities. Moreover, the funded ratio presented is appropriate for evaluating the need and level of future contributions but makes no assessment regarding the funded status of the Fund if the Fund were to settle (i.e., purchase annuities) for a portion or all of its liabilities.

Future actuarial measurements may differ significantly from current measurements due to plan experience differing from that anticipated by the economic and demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law. An analysis of the potential range of such future differences is beyond the scope of this valuation.

This report was prepared under my supervision and in accordance with all applicable Actuarial Standards of Practice. I am a Fellow of the Society of Actuaries, an Enrolled Actuary, a Member of the American Academy of Actuaries and a Fellow of the Conference of Consulting Actuaries. I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

I am available to discuss this report with you at your convenience. I can be reached at 602-803-6174.

Sincerely,

A handwritten signature in black ink, appearing to read "DK", written in a cursive style.

David J. Kershner, FSA, EA, MAAA, FCA
Principal

	September 1, 2017	September 1, 2016
Membership ¹		
Active		4,217
Terminated with deferred benefits		141
Retired paid from Fund ²		2,863
Compensation		
Total		\$ 156,336,028
Average		\$ 37,073
Assets		
Market value	\$ 776,137,711	\$ 723,103,443
Actuarial value	\$ 785,412,525	\$ 749,026,818
Valuations Results		
Actuarial Accrued Liability (AAL)	\$ 975,995,580	\$ 945,772,098
Actuarial Value of Assets (AVA)	\$ 785,412,525	\$ 749,026,818
Funded ratio (AVA/AAL)	80.5%	79.2%
Unfunded Actuarial Accrued Liability (UAAL)	\$ 190,583,055	\$ 196,745,280
UAAL funding period	14 years	17 years

¹Census data as of July 1 preceding valuation date.

²Excludes retirees for whom annuities were purchased from Prudential, but whose cost-of-living increases are paid by the Fund.

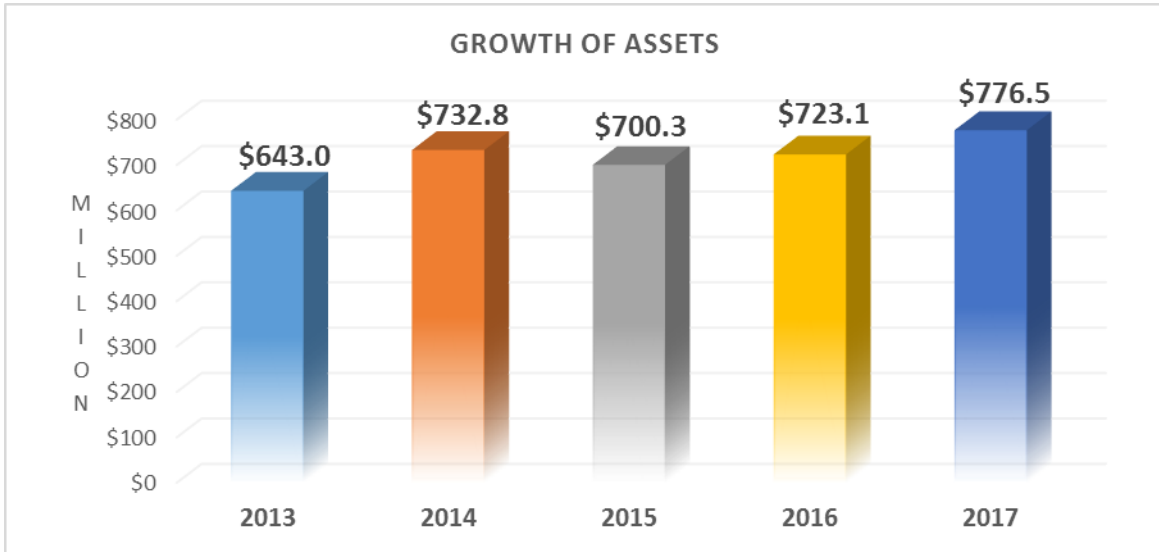
V. Rates of Investment Return and Expenses

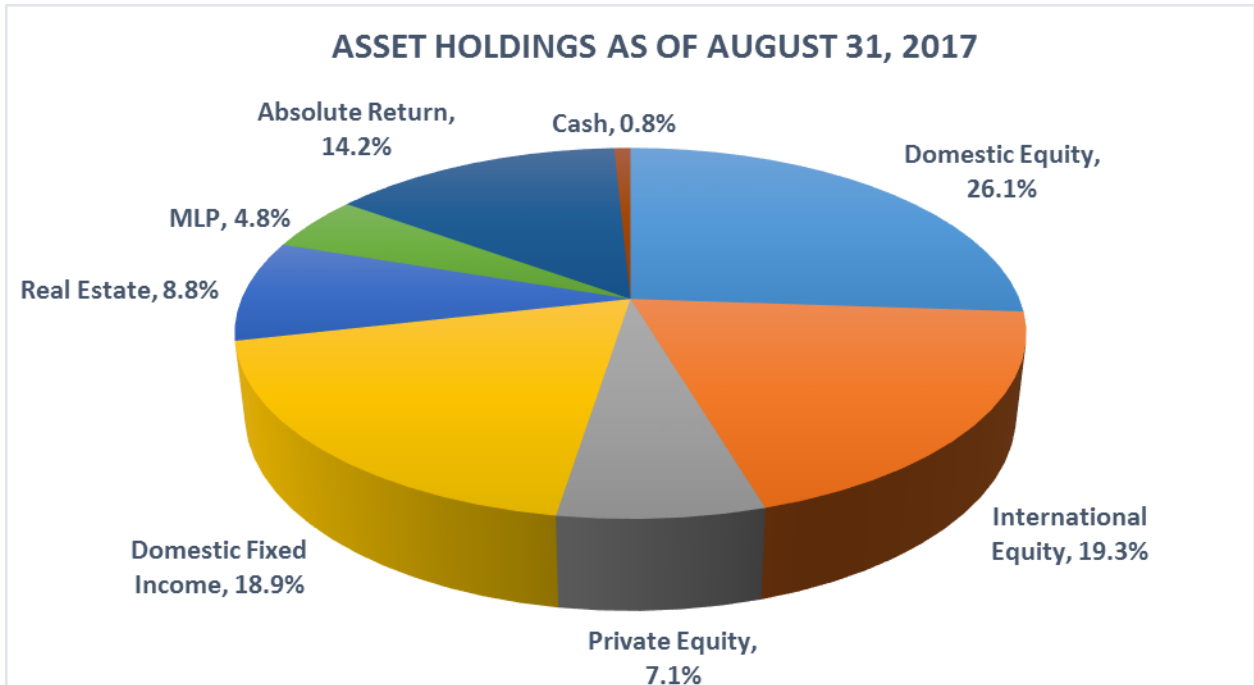
The rate of return on the investments made by the Fund during the last fiscal year was 10.29%. The net total investment expense on total assets was \$ 5,783,774 during the last fiscal year. Administrative expenses for the last fiscal year were \$1,325,640.

The total of administrative expenses and total investment expenses as a percentage of the fair value of assets of the system on the last day of the past five fiscal years is as follows:

2013	Investment Expense	.45%	Administrative Expense	.18%
2014	Investment Expense	.46%	Administrative Expense	.16%
2015	Investment Expense	.51%	Administrative Expense	.19%
2016	Investment Expense	.70%	Administrative Expense	.19%
2017	Investment Expense	.74%	Administrative Expense	.17%

The growth of pension fund assets over the last five fiscal years, and the Fund's asset allocation are depicted by the following charts.





VI. Additional Publications

Copies of the Summary Plan Description are available in the Pension Administration Office located at 400 W. San Antonio, Suite B, El Paso, Texas 79901. In addition the complete auditors and actuary reports are maintained at the pension office. If you should desire to review any of these documents, please call to schedule an appointment, or log on to the Fund's website @ WWW.EPPENSION.ORG where these documents are posted.