

EL PASO FIREMEN AND POLICEMEN'S  
PENSION FUND AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007

(WITH INDEPENDENT AUDITOR'S REPORT THEREON)

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY  
CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007

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TABLE OF CONTENTS

|  | PAGE   |
|--|--------|
| Independent Auditor's Report   | 1 - 2  |
| Financial Statements   |        |
| Consolidated Statements of Plan Net Assets   | 3      |
| Consolidated Statements of Changes in Plan Net Assets                                    | 4      |
| Notes to Consolidated Financial Statements   | 5 - 18 |
| Required Supplementary Information   | 19     |
| Schedule 1 - Schedules of Funding Progress (Unaudited)                                   | 20     |
| Schedule 2 - Schedules of Employer Contributions (Unaudited)                             | 21     |
| Other Supplementary Information  | 22     |
| Schedule 3 – Consolidated Schedule of Plan Net Assets for 2007 (Unaudited)               | 23     |
| Schedule 4 – Consolidated Schedule of Changes in Plan Net Assets<br>for 2007 (Unaudited) | 24     |
| Schedule 5 – Consolidated Schedule of Plan Net Assets for 2008 (Unaudited)               | 25     |
| Schedule 6 – Consolidated Schedule of Changes in Plan Net Assets<br>for 2008 (Unaudited) | 26     |

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
El Paso Firemen And Policemen's Pension Fund and Subsidiary  
El Paso, Texas

We have audited the accompanying consolidated statements of plan net assets of the El Paso Firemen And Policemen's Pension Fund and subsidiary, a component unit of the City of El Paso, Texas, as of December 31, 2008 and 2007 and the related consolidated statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Fund'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, the consolidated financial statements referred to above present fairly, in all material respects, the financial status of the El Paso Firemen And Policemen's Pension Fund and subsidiary as of December 31, 2008 and 2007, and the changes in financial status for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The schedules of funding progress and employer contributions on pages 20 and 21 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We did not audit this supplementary information, and accordingly, we express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information included in schedules 3 through 6 listed in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This supplementary information is the responsibility of the Fund's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the other supplementary information; however, we did not audit this supplementary information, and accordingly, we express no opinion on it.

*Bipker + Co., L.L.P.*

El Paso, Texas  
June 26, 2009

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF PLAN NET ASSETS  
AS OF DECEMBER 31, 2008 AND 2007

| ASSETS   | <u>2008</u>           | <u>2007</u>           |
|--|-----------------------|-----------------------|
| Cash and short-term investments  | \$ <u>7,035,238</u>   | \$ <u>6,725,422</u>   |
| Receivables  |                       |                       |
| Employer contributions   | 1,078,673             | 808,968               |
| Employee contributions   | 866,868               | 649,597               |
| Deposit  | <u>6,180</u>          | <u>-</u>              |
| Total receivables  | <u>1,951,721</u>      | <u>1,458,565</u>      |
| Investments, at fair value   |                       |                       |
| Fixed income securities  | 320,323,158           | 311,369,826           |
| Domestic equities  | 159,581,196           | 257,786,417           |
| International equities   | <u>165,295,031</u>    | <u>310,821,088</u>    |
| Total investments  | <u>645,199,385</u>    | <u>879,977,331</u>    |
| Property and equipment   |                       |                       |
| Land   | -                     | 790,154               |
| Furniture and fixtures   | 50,210                | 1,657                 |
| Computer equipment   | 48,034                | 33,209                |
| Machinery equipment  | 5,756                 | -                     |
| Pension administration system software   | <u>1,106,856</u>      | <u>909,790</u>        |
| Total property and equipment   | <u>1,210,856</u>      | <u>1,734,810</u>      |
| Less: Accumulated depreciation and amortization  | <u>(31,768)</u>       | <u>(20,213)</u>       |
| Net property and equipment   | <u>1,179,088</u>      | <u>1,714,597</u>      |
| Other assets   |                       |                       |
| Organizational costs   | 14,543                | 14,543                |
| Less: Accumulated amortization   | <u>(2,425)</u>        | <u>(1,455)</u>        |
| Net other assets   | <u>12,118</u>         | <u>13,088</u>         |
| Total assets   | <u>655,377,550</u>    | <u>889,889,003</u>    |
| LIABILITIES  |                       |                       |
| Accrued expenses and other   | <u>782,559</u>        | <u>458,597</u>        |
| Total liabilities  | <u>782,559</u>        | <u>458,597</u>        |
| Net assets held in trust for pension benefits<br>(A schedule of funding progress for each<br>plan is presented on page 20) | \$ <u>654,594,991</u> | \$ <u>889,430,406</u> |

See accompanying notes to consolidated financial statements.

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CHANGES IN PLAN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

|   | 2008           | 2007           |
|---|----------------|----------------|
| ADDITIONS   |                |                |
| Contributions   |                |                |
| Employer  | \$ 21,036,077  | \$ 118,945,836 |
| Employee  | 17,457,131     | 17,275,371     |
| Other   | -              | 4,420          |
| Total contributions   | 38,493,208     | 136,225,627    |
| Investment income   |                |                |
| Master trust investment gain (loss)                             |                |                |
| Net appreciation (depreciation) in<br>fair value of investments | (239,042,647)  | 74,444,405     |
| Interest  | 6,461,688      | 4,682,871      |
| Dividends   | 8,110,125      | 6,851,575      |
| Securities lending income                                       | 534,733        | 295,197        |
| Net change accrued income                                       | 891,225        | 839,196        |
| Less: Investment expenses                                       | (3,068,785)    | (2,074,644)    |
| Net master trust investment gain (loss)                         | (226,113,661)  | 85,038,600     |
| Other income (loss)   |                |                |
| Other income  | 71,117         | 21,511         |
| Rental income   | 574            | 1,722          |
| Gain on Sale  | 136,857        | -              |
| Total other income (loss)                                       | 208,548        | 23,233         |
| Total additions   | (187,411,905)  | 221,287,460    |
| DEDUCTIONS  |                |                |
| Benefits paid to participants                                   | 45,590,574     | 42,215,924     |
| Refunds of employee contributions                               | 654,747        | 1,220,307      |
| Administrative expenses   | 1,165,664      | 1,717,338      |
| Depreciation and amortization expense                           | 12,525         | 7,782          |
| Total deductions  | 47,423,510     | 45,161,351     |
| Net increase (decrease)   | (234,835,415)  | 176,126,109    |
| Net assets held in trust for pension benefits                   |                |                |
| Beginning - January 1, 2008 and 2007                            | 889,430,406    | 713,304,297    |
| Ending - December 31, 2008 and 2007                             | \$ 654,594,991 | \$ 889,430,406 |

See accompanying notes to consolidated financial statements.

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007

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NOTE 1: Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

The El Paso Firemen And Policemen's Pension Fund And Subsidiary (the Fund) is a single-employer Public Employee Retirement System (PERS) plan established and administered by the Board of Trustees in accordance with authority granted by Article 6243b of Vernon's Annotated Texas Statutes.

The Fund consists of separate divisions for firemen and policemen. The two divisions have been combined in the accompanying financial statements.

During the year ended December 31, 2007, the Fund formed Lomaland West, LLC which is a limited liability company. Lomaland West, LLC is a wholly owned subsidiary of the Firemen and Policemen's Pension Fund.

Consolidation

For the year ended December 31, 2008 and 2007, the accompanying financial statements have been consolidated and include the accounts of the Fund and its wholly owned subsidiary Lomaland West, LLC. All material inter-organization transactions have been eliminated in consolidation.

Basis of Accounting

The accounting policies of the Fund have been established to conform to generally accepted accounting principles for state and local governments as promulgated by authoritative pronouncements issued by the Governmental Accounting Standards Board. The Fund is accounted for on an economic resources measurement focus using the accrual basis accounting. The wholly owned subsidiary, Lomaland West, LLC is accounted for using equity method.

Valuation of Investments

Investments are stated at fair value in the accompanying combined statements of plan net assets. The fair value of investments is determined by the latest bid price or by the closing exchange price at year-end.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007

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NOTE 1: Reporting Entity and Summary of Significant Accounting Policies - continued

Valuation of Investments - continued

Net appreciation (depreciation) in fair value of investments reflected in the accompanying combined statements of changes in plan net assets represents the net unrealized gains or losses on investments, which equals the difference between the cost and the market value of investments at the beginning versus the end of the year, plus or minus gains or losses realized during the year.

Investments of the Fund were held by The Northern Trust Company and various investments managers in the custodian's name for the year ended December 31, 2008. Investments of the Fund were held by Mellon Bank, NA and various investment managers in the custodian's name for the period ended December 31, 2007, before being transferred to Northern Trust Company

The Northern Trust Company utilizes a master trust to account for investments of the Fund. As part of the master trust concept, all investments for each division are unitized. A unitization is an arrangement which allows multiple participants to share in the same commingled investment pool. Each division then owns a certain number of units of the master trust. Units are assets which represent an undivided ownership in the master trust. All activity of the master trust, including gains and losses and all expenses not otherwise specifically allocated to each division, are reflected in the master trust.

Securities Lending

The Fund has a securities lending agreement with its custodian, the Northern Trust Company (the Lending Agent), under which Fund owned investments are lent to one or more borrowers for a fee. The Lending Agent is responsible for collecting all required collateral in the form of U.S. dollar cash, securities issued or guaranteed by the United States Government or its agencies or instrumentalities, or irrevocable letters of credit issued by banks independent of the borrowers.

Concurrently with the delivery of the Fund's securities to a borrower, the Lending Agent shall obtain from such borrower collateral in an amount equal, as of such date, to the required percentage, of the market value of any securities loaned, including any accrued interest. The required percentage is 102% with respect to U.S. securities and 105% with respect to foreign securities except in the case of loans of foreign securities which are denominated and payable in U.S. dollars, in which event the required percentage is 102%.



EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007

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NOTE 1: Reporting Entity and Summary of Significant Accounting Policies - continued

Securities Lending - continued

If at the close of trading on any business day, the market value of the collateral delivered by the Borrower is less than the minimum percentage (100%) of the market value of such loaned securities, the Lending Agent shall require that the Borrower deliver an amount of additional collateral by the close of the next business day. Because of this, the Fund believes there is minimal credit risk associated with securities lending transactions. There is no loss indemnification provided to the Fund by the investment managers or broker/dealers.

Foreign Currency Transactions

The Fund is a party to certain financial arrangements, utilizing forward contracts, options and futures only as a hedge against foreign currency fluctuations. Entering into these arrangements involves not only the risk of dealing with counterparties and their ability to meet the terms of the contracts but also the risk associated with market fluctuations. Gains and losses on option and future arrangements are recorded as they are incurred. Gains and losses on forward contracts are recorded on the settlement date.

Gains and losses resulting from foreign exchange contracts (transactions denominated in a currency other than the Fund's functional currency - United States dollars) are recorded by the Fund based on changes in market values and are combined with similar transactions in the accompanying combined statements of changes in plan net assets and are included in net investment income.

Investments and broker accounts denominated in foreign currencies outstanding at December 31, 2008 and 2007 were converted to the Fund's functional currency (United States dollars) at the foreign exchange rates quoted at December 31, 2008 and 2007. These foreign exchange gains and losses are included in net appreciation (depreciation) in fair value of investments in the accompanying combined statements of changes in plan net assets.

Revenue and Expense Recognition

The accounts of the Fund are maintained and reported in the accompanying financial statements on the accrual basis of accounting. Employee and employer contributions are recognized as revenue in the period in which employee services are performed. Benefits paid, refunds paid and expenses are recognized as incurred.

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007

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NOTE 1: Reporting Entity and Summary of Significant Accounting Policies - continued

Property and Equipment

Property and equipment are recorded at cost, less accumulated depreciation and amortization. Maintenance and repairs are charged to expense as incurred; whereas, major additions and significant improvements are capitalized.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset, which is 5 years for computer equipment and 5-10 years for furniture and fixtures. Depreciation expense related to these assets amounted to \$11,555 and \$6,812 for the years ended December 31, 2008 and 2007, respectively.

During prior fiscal periods, the Fund began acquiring and making major modifications to a new pension administration system software package. As of December 31, 2008 and 2007, costs of \$1,106,856 and \$909,790 have been capitalized for this ongoing project, respectively. However, major modifications are still being made to get the software ready for its intended use resulting in additional costs being recorded in the next fiscal year. Therefore, since the software isn't ready for its intended use, no amortization expense has been recorded for this asset for the years ended December 31, 2008 and 2007.

Organizational Costs

Organizational costs related to the creation of the Fund's wholly owned subsidiary Lomaland West, LLC are recorded at cost, less accumulated amortization. These costs are being amortized on a straight-line basis over their estimated useful life of 15 years. Amortization expense for these costs amounted to \$970 and \$970 for the years ended December 31, 2008 and 2007 respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and the reported changes in net assets during the reporting period. Actual results may differ from estimates.

NOTE 2: Description of the Retirement Plans

The designated purpose of the Fund is to provide retirement, death and disability benefits to participants or their beneficiaries. The Fund is established by state statute and administered by a Board of Trustees comprised of eleven trustees as follows:

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2008 AND 2007

---

NOTE 2: Description of the Retirement Plans - continued

Three citizens of the City to be appointed by the mayor; two citizens of the City to be appointed by the city manager; three Member firemen of the City Fire Department, to be elected by the Firemen Members of the Fund; and three Member policemen of the City Police Department, to be elected by the Policemen Members of the Fund. The Board contracts with an independent custodian bank, investment managers, an investment consultant, and an actuary to assist in managing the Fund.

The Fund is a defined benefit pension plan covering uniformed firefighters and police officers employed by the City of El Paso. Non-employer contributions are limited to participating employees. The City of El Paso is the only participating employer.

The Fund's membership is estimated as follows as of December 31, 2008 and 2007:

|  | <u>2008</u>     |                  | <u>2007</u>     |                  |
|--|-----------------|------------------|-----------------|------------------|
|  | <u>Firemen</u>  | <u>Policemen</u> | <u>Firemen</u>  | <u>Policemen</u> |
|  | <u>Division</u> | <u>Division</u>  | <u>Division</u> | <u>Division</u>  |
| Retirees and beneficiaries of deceased retirees currently receiving benefits | 627             | 828              | 562             | 734              |
| Inactive employees entitled to benefits but not yet receiving them           | <u>1</u>        | <u>6</u>         | <u>1</u>        | <u>13</u>        |
| Total retired and inactive members   | <u>628</u>      | <u>834</u>       | <u>563</u>      | <u>747</u>       |
| Current active members   | <u>842</u>      | <u>1,135</u>     | <u>784</u>      | <u>1,098</u>     |

The Pension Fund was originally enacted under Chapter 101, Acts of the 43<sup>rd</sup> Legislature, 1<sup>st</sup> Called Sessions, 1933, subsequently modified from time to time, and has been restated, effective July 1, 2007, in two parts: Part I, The Base Plan and Part II, The Second Tier Plan.

The Firemen Division of the Fund is a defined benefit, contributory retirement plan covering uniformed employees of the Fire Department. Participants are required to contribute 15.28% of their compensation to the Fund. In addition, the City of El Paso pays 18.5% of compensation into the Fund.

The Policemen Division of the Fund is a defined benefit, contributory retirement plan covering uniformed employees of the Police Department. Participants are required to contribute 13.89% of their compensation to the Fund. In addition, the City of El Paso pays 18.5% of compensation into the Fund.

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007

---

NOTE 2: Description of the Retirement Plans – continued

Under both divisions, membership is mandatory and effective upon commencement of the probationary period. Participant contributions are not refunded if a participant terminates with less than five years of service and all benefits under the Fund are terminated. Participant contributions (without interest) are refunded upon request if a participant terminates with five or more years of service but less than twenty years of service. All benefits under the Fund are terminated if contributions are refunded.

The Fund is maintained under the provisions of Article 6243b of Vernon's Annotated Texas Statutes. All current Fund provisions are set forth in the "City of El Paso Firemen & Policemen's Pension Fund Plan Document as Restated Effective July 1, 2008. Benefit provisions, contribution obligations and funding policy of the Fund are established and amended in accordance with authority granted by Article 6243b of Vernon's Annotated Texas Statutes. The costs of administering the Fund are paid out of the Fund's assets. The Plan Document is available in its entirety at the Pension office.

NOTE 3: Cash, Investments, and Security Lending

The Fund's investments are managed by various investment managers who have discretionary authority over the assets managed by them, within the investment guidelines established by the Board under contracts with the Fund. The investments of the Fund are held by the Fund's custodians and various investment managers. The investments generally consist of short-term securities, U.S. and foreign government securities, and domestic and foreign corporate debt and equity securities. Certain investment managers have invested in certain bank collective investment funds which invest primarily in U.S. corporate stocks and government bonds. The bank collective funds may also invest in foreign exchange contracts, stock index futures, and temporary collective investment funds and may enter into collateralized securities lending transactions.

Through adherence to the Fund's Investment Policy, management attempts to limit or mitigate certain risks. Certain of these requirements are listed below.

Domestic Large Cap Equity Portfolio

The annual standard deviation of returns for the Fund's domestic large cap equity portfolio, if actively managed, is not expected to exceed 1.25 times the annual standard deviation of the S & P 500 Index. If passively managed, it is not expected to exceed 1.1 times the annual standard deviation of the S & P 500 Index.

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007

---

NOTE 3: Cash, Investments, and Security Lending - continued

Domestic Small Cap Equity Portfolio

The annual standard deviation of returns for the Fund's domestic small cap equity portfolio, if actively managed, is not expected to exceed 1.50 times the annual standard deviation of the Russell 2000 Index.

International Equity Portfolio

The annual standard deviation of returns for the Fund's international equity portfolio, if actively managed, is not expected to exceed 1.5 times the annual standard deviation of the returns for the International Equity Benchmark Index.

Emerging Markets Equity Portfolio

The annual standard deviation of returns for the Fund's emerging markets equity portfolio, if actively managed, is not expected to exceed the 1.50 times the annual standard deviation of the returns for the Emerging Markets Equity Benchmark Index.

Domestic Fixed Income Portfolio

The annual standard deviation of returns for the Fund's domestic fixed income portfolio, if actively managed, is not expected to exceed 1.3 times the annual standard deviation of the returns for the Lehman Brothers Aggregate Bond Index. If passively managed, the portfolio is not expected to exceed 1.2 times the annual standard deviation of the returns for the Lehman Brothers Aggregate Bond Index.

Domestic Core-Real Estate Portfolio

The annual standard deviation of returns for the Fund's domestic core -- plus fixed income portfolio, if actively managed, is not expected to exceed 1.5 times the annual standard deviation of the returns for the NCREIF Index.

Domestic Cash Equivalents Investments

The risk objective shall be to stay within an acceptable risk level, as measured by standard deviations, which is equal to that of the 91-day Treasury Bill rate.

Credit Risk, Concentration of Credit Risk, and Interest Rate Risk

At December 31, 2008 and 2007, the Fund held bond mutual funds in the aggregate fair value of \$320,849,867 and \$310,870,823, respectively. These investments are unrated.

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007

NOTE 3: Cash, Investments, and Security Lending - continued

As of December 31, 2008, the Fund had the following investments and maturities.

| <u>Investment type</u> | <u>Fair value</u> | <u>Maturities by Years</u> |            |             |                     |
|------------------------|-------------------|----------------------------|------------|-------------|---------------------|
|                        |                   | <u>Less than 1</u>         | <u>1-5</u> | <u>6-10</u> | <u>More than 10</u> |
| Bond mutual fund       | \$ 320,849,867    | 320,849,867                | -          | -           | -                   |

As of December 31, 2007, the Fund had the following investments and maturities.

| <u>Investment type</u> | <u>Fair value</u> | <u>Maturities by Years</u> |            |             |                     |
|------------------------|-------------------|----------------------------|------------|-------------|---------------------|
|                        |                   | <u>Less than 1</u>         | <u>1-5</u> | <u>6-10</u> | <u>More than 10</u> |
| Bond mutual fund       | \$ 310,870,823    | 310,870,823                | -          | -           | -                   |

Foreign Currency Risk

The Fund's exposure to foreign currency risk at December 31, 2008 was as follows:

| <u>Investment</u>    | <u>Currency</u>        | <u>2008</u><br><u>Fair Value</u> | <u>2007</u><br><u>Fair Value</u> |
|----------------------|------------------------|----------------------------------|----------------------------------|
| Cash and equivalents | European Union Euro \$ | 99,447                           | \$ 1,385,043                     |
| Corporate stocks     | Canadian dollar        | 2,797,095                        | 3,485,683                        |
| Corporate stocks     | European Union Euro    | 34,586,515                       | 64,206,575                       |
| Corporate stocks     | Hong Kong Dollar       | 1,617,974                        | 2,958,242                        |
| Corporate stocks     | Japanese Yen           | 13,087,041                       | 11,698,191                       |
| Corporate stocks     | South Korean Won       | 1,814,198                        | 5,599,961                        |
| Corporate stocks     | Norwegian Krone        | 1,209,421                        | 3,943,536                        |
| Corporate stocks     | Swedish Kronor         | 2,501,714                        | 4,035,566                        |
| Corporate stocks     | Swiss Franc            | 4,464,557                        | 6,359,750                        |
| Corporate stocks     | British Pound Sterling | 10,782,731                       | 30,553,764                       |
|                      | Total                  | <u>\$ 72,960,693</u>             | <u>\$134,226,311</u>             |

- (1) Investments in cash and cash equivalents were held in Canadian dollars, British pounds, European euros, and Japanese yen.

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007

---

NOTE 3: Cash, Investments, and Security Lending - continued

Securities Lending

The Fund has entered into an agreement with its custodian bank, the Northern Trust Company (the Lending Agent), under which Fund owned investments are lent to one or more borrowers for a fee. The types of securities that governments lend include U.S. government and agency securities, domestic and foreign corporate equity and fixed-income securities, and foreign government fixed-income securities. Parameters are established by the Fund's investment guidelines for securities lending transactions along with the Securities Lending Authorization Agreement. The Lending Agent is responsible for collecting all required collateral in the form of U.S. dollar cash, securities issued or guaranteed by the United States Government or its agencies or instrumentalities, or irrevocable letters of credit issued by banks independent of the borrowers. The Lending Agent may invest on behalf of the Fund any and all cash collateral as agreed upon by both parties. The Fund's policy is to match the maturities of the collateral investments and the securities loans and at year-end all securities loans could be terminated on demand by either the entity or the borrower and substantially all cash collateral is invested in overnight or on-demand investments. There were no losses from securities lending transactions during the period resulting from a default of a borrower or the lending agent.

Concurrently with the delivery of the Fund's securities to a borrower, the Lending Agent shall obtain from such borrower collateral in an amount equal, as of such date, to the required percentage, of the market value of any securities loaned, including any accrued interest. The required percentage is 102% with respect to U.S. securities and 105% with respect to foreign securities except in the case of loans of foreign securities which are denominated and payable in U.S. dollars, in which event the required percentage is 102%. If at the close of trading on any business day, the market value of the Collateral delivered by the Borrower is less than the minimum percentage (100%) of the market value of such loaned securities, the Lending Agent shall require that the Borrower deliver an amount of additional collateral by the close of the next business day. Because of this, the Fund believes there is minimal credit risk associated with securities lending transactions. There is no loss indemnification provided to the Fund by the investment managers or broker/dealers.

As of December 31, 2008 and 2007, \$38,564,334 and \$59,534,090 of Fund owned investments were loaned to borrowers respectively. These loans were fully collateralized per the requirements of the lending agreements described above. There were no losses from securities lending transactions during the years ended December 31, 2008 and 2007 resulting from a default of a borrower or the lending agent.

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007

NOTE 4: Contributions Required and Contributions Made

Funding policies provide for periodic employer contributions as determined by City Charter, and employee contributions as established by the Board of Trustees and a vote of active participants in accordance with Article 6243b of Vernon's Annotated Texas Statutes. Actuarial valuations are prepared biennially for the Fund. The Fund's actuary has indicated that, under the current contribution requirements, the Fund will not accumulate sufficient assets to amortize the Unfunded Actuarial Accrued Liability (UAAL). In the event, based upon the results of the actuarial valuations, present contribution requirements are insufficient to accumulate assets to pay benefits when due, the Fund's Board of Trustees, after approval by secret ballot of the rank and file policemen or firemen, could revise the employee contribution requirements to maintain the actuarial integrity of the system.

Contributions were made as follows during the years ended December 31, 2008 and 2007:

|   | 2008                 |                                   | 2007                  |                                   |
|---|----------------------|-----------------------------------|-----------------------|-----------------------------------|
|   | Amount               | Stated %<br>of Covered<br>Payroll | Amount                | Stated %<br>of Covered<br>Payroll |
| Firemen Division                            |                      |                                   |                       |                                   |
| Employer contributions                      | \$ 8,607,484         | 18.50%                            | \$ 7,942,043          | 18.50%                            |
| Employee contributions                      | 7,529,738            | 15.28%                            | 7,883,174             | 15.28%                            |
| Other contributions                         | -                    | N/A                               | <u>56,000,415</u>     | N/A                               |
| Total contributions                         | <u>\$ 16,137,222</u> |                                   | <u>\$ 71,825,632</u>  |                                   |
| Policemen Division                          |                      |                                   |                       |                                   |
| Employer contributions                      | \$ 12,428,593        | 18.50%                            | \$ 11,003,793         | 18.50%                            |
| Employee contributions                      | 9,927,392            | 13.89%                            | 9,392,197             | 13.89%                            |
| Other contributions                         | -                    | N/A                               | <u>44,004,005</u>     | N/A                               |
| Total contributions                         | <u>\$ 22,355,985</u> |                                   | <u>\$ 64,399,995</u>  |                                   |
| Firemen and Policemen Divisions<br>Combined |                      |                                   |                       |                                   |
| Employer contributions                      | \$ 21,036,077        | 18.50%                            | \$ 18,945,836         | 18.50%                            |
| Employee contributions                      | 17,457,130           | N/A                               | 17,275,371            | N/A                               |
| Other contributions                         | -                    | N/A                               | <u>100,004,420</u>    | N/A                               |
| Total contributions                         | <u>\$ 38,493,207</u> |                                   | <u>\$ 136,225,627</u> |                                   |



EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2008 AND 2007

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NOTE 5: Plan Termination

Although not anticipated, should the Fund terminate at some future time, its net assets generally will not be available on a pro rata basis to provide participants' benefits. Under the current contribution requirements, each of the funds will not accumulate sufficient assets to cover their liabilities. Whether a particular participant's accumulated benefits will be paid depends on the priority of those benefits. Some benefits may be fully or partially provided for by the then existing assets while other benefits may not be provided for at all.

NOTE 6: Federal Income Taxes and ERISA

The Fund is a Public Employee Retirement System (PERS) and is exempt from federal income taxes and the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

NOTE 7: Operating Leases

A month-to-month lease for office space was paid for the first four months of 2008 at \$3,203.13 per month.

The fund leases a postage meter on a quarter-to-quarter basis. The first quarter of 2008 was at a rate of \$149.97 while the 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> quarters were at a \$125.85. As of the 1<sup>st</sup> quarter of 2009, the rate has increased to \$134.85 a quarter.

The fund leases a copier/printer at the base rate of \$17.00 per month plus usage charges of \$0.023901 per page. The average invoice during 2008 was \$101.19 per month. This lease is through the City of El Paso and is cancelable by the Fund.

On the accompanying financial statements for the years ended December 31, 2008 and 2007, total rent expensed for these operating leases were shown as part of administrative expenses as follows:

|                     | <u>2008</u>      | <u>2007</u>      |
|---------------------|------------------|------------------|
| Firemen Division    | \$ 24,496        | \$ 16,315        |
| Policemen Division  | <u>24,945</u>    | <u>16,316</u>    |
| Total rent expenses | \$ <u>49,441</u> | \$ <u>32,631</u> |

In March, 2008, Lomaland West, LLC, the wholly owned subsidiary of El Paso Firemen & Policemen's Pension Fund, entered into a Lease Agreement with Borderplex 201 E. Main, LLC, for the rental of office space in the Chase Tower in downtown El Paso. This lease is estimated to terminate in March 2013. A copy of the lease is in the permanent file.

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2008 AND 2007

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NOTE 7: Operating Leases - continued

Borderplex provided two months of free rent to the Fund for the months of May and June 2008.

The lease payment for the first 12 months is \$6,179.78 per month. This rate will increase in May 2009 to \$6,393.62 per month.

Additional rent can be assessed as described in paragraph 3 of the lease agreement if the landlord expects "Operating Costs" to exceed the expense stop provision.

Future minimum lease payments under non-cancelable operating leases with initial or remaining terms of one year or more are as follows:

| <u>Year Ended</u> | <u>Firemen<br/>Division</u> | <u>Policemen<br/>Division</u> | <u>Combined<br/>Total</u> |
|-------------------|-----------------------------|-------------------------------|---------------------------|
| 2009              | \$ 37,934                   | \$ 37,934                     | \$ 75,868                 |
| 2010              | 38,361                      | 38,362                        | 76,723                    |
| 2011              | 39,217                      | 39,217                        | 78,434                    |
| 2012              | 39,645                      | 39,644                        | 79,289                    |
| 2013              | 13,215                      | 13,215                        | 26,430                    |

NOTE 8: Risk and Uncertainties

The Fund invests in various investment securities. Investment securities are exposed to various risks such as interest rate and credit risk.

Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of plan net assets.

NOTE 9: Subsequent Events

The Fund's Board of Trustees and the City of El Paso entered into an agreement in May 2008 whereby the City made a \$100 million contribution to the Pension fund in July 2008. An additional \$110 million contribution is to be made by July 2009.

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2008 AND 2007

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NOTE 10: Funded Status, Actuarial Method and Significant Assumptions

The funded Status of the plan as of January 1, 2008, the most recent actuarial valuation date, was as follows:

Analysis of Change in UAAL – Firemen Division

|   |                     |
|---|---------------------|
| 1. UAAL as of January 1, 2006                 | \$ 159,448,332      |
| 2. Changes due to:                            |                     |
| a. Expected increase (negative amortization)  | \$ 24,923,567       |
| b. Actual contributions greater than expected | (58,716,436)        |
| c. Liability experience                       | 11,033,757          |
| d. Plan changes                               | (7,247,179)         |
| e. Asset experience                           | <u>(15,428,390)</u> |
|   | \$ (45,434,681)     |
| 3. UAAL as of January 1, 2008                 | \$ 114,013,651      |

Analysis of Change in UAAL – Policemen Division

|   |                     |
|---|---------------------|
| 1. UAAL as of January 1, 2006                 | \$ 158,538,969      |
| 2. Changes due to:                            |                     |
| a. Expected increase (negative amortization)  | \$ 28,134,788       |
| b. Actual contributions greater than expected | (46,807,210)        |
| c. Liability experience                       | (1,794,520)         |
| d. Plan changes                               | (11,819,592)        |
| e. Asset experience                           | <u>(27,664,623)</u> |
|   | \$ (59,951,157)     |
| 3. UAAL as of January 1, 2008                 | \$ 98,587,812       |

The schedule of funding progress, presented as required supplementary information immediately following the notes to the financial statements, presents multi-year trend information showing whether the actuarial value of the Fund's assets is increasing or decreasing over time.

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007

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NOTE 10: Funded Status, Actuarial Method and Significant Assumptions – continued

The information presented as required supplementary information immediately following the notes to the financial statements was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

|                               |                              |
|-------------------------------|------------------------------|
| Valuation date                | January 1, 2008              |
| Actuarial cost method         | Entry Age Normal Cost Method |
| Amortization method           | Level percentage of payroll  |
| Remaining amortization period | 30 years                     |
| Asset valuation method        | 5-year smoothed market       |
| Investment rate of return*    | 8%                           |
| Projected salary increases*   | 5.5 – 10.5%                  |
| Total payroll increase        | 4%                           |
| Cost of living adjustments    | 3%                           |

All actuarial valuation information, calculations, methods, and assumptions can be found in the complete actuarial valuation reports, for both the firemen and policemen divisions, which may be obtained by contacting the Fund's management.

|                              |    |
|------------------------------|----|
| * Includes inflation rate of | 4% |
|------------------------------|----|

REQUIRED SUPPLEMENTARY INFORMATION

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF FUNDING PROGRESS (UNAUDITED)

| PERIOD<br>ENDING* | ACTUARIAL                 | ACTUARIAL  | ACTUARIAL                | UNFUNDED                | FUNDED         | COVERED        | UAAAL AS A                                       |
|-------------------|---------------------------|--|--------------------------|-------------------------|----------------|----------------|--|
|                   | VALUE<br>OF ASSETS<br>(a) | ACCRUED<br>LIABILITY (AAL)<br>- ENTRY AGE<br>(b) | LIABILITY (AAL)<br>(b-a) | AAL<br>(UAAAL)<br>(b-a) | RATIO<br>(a/b) | PAYROLL<br>(c) | PERCENTAGE<br>OF COVERED<br>PAYROLL<br>((b-a)/c) |
| FIRE              |                           |  |                          |                         |                |                |  |
| 12/31/07          | \$ 317,924,960            | \$ 431,938,611                                   | \$ 114,013,651           |                         | 73.6           | \$ 41,165,230  | 276.7  |
| 12/31/05          | 215,036,027               | 374,484,359                                      | 159,448,332              |                         | 57.4           | 38,326,296     | 416.0  |
| 12/31/03          | 194,959,292               | 330,726,917                                      | 135,767,625              |                         | 58.9           | 31,485,952     | 431.2  |
| 06/30/02          | 189,077,862               | 297,164,783                                      | 108,086,921              |                         | 63.6           | 27,775,431     | 389.1  |
| 06/30/00          | 172,619,982               | 240,106,381                                      | 67,486,399               |                         | 71.9           | 25,640,584     | 263.2  |
| 08/31/98          | 146,124,027               | 210,816,419                                      | 64,692,392               |                         | 69.3           | 23,128,300     | 279.7  |
| POLICE            |                           |  |                          |                         |                |                |  |
| 12/31/07          | 515,354,403               | 613,942,215                                      | 98,587,812               |                         | 83.9           | 56,840,063     | 173.4  |
| 12/31/05          | 388,533,219               | 547,072,188                                      | 158,538,969              |                         | 71.0           | 53,274,624     | 297.6  |
| 12/31/03          | 350,346,865               | 472,811,811                                      | 122,464,946              |                         | 74.1           | 49,935,081     | 245.2  |
| 06/30/02          | 332,872,986               | 426,306,228                                      | 93,433,242               |                         | 78.1           | 46,880,546     | 199.3  |
| 06/30/00          | 294,595,963               | 338,008,780                                      | 43,412,817               |                         | 87.2           | 42,913,283     | 101.2  |
| 08/31/98          | 240,449,893               | 286,536,151                                      | 46,086,258               |                         | 83.9           | 39,087,014     | 117.9  |

\* For financial reporting purposes, an actuarial valuation is performed biennially in accordance with GASB 25. See independent auditor's report.

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULES OF EMPLOYER CONTRIBUTIONS (UNAUDITED)

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|        | <u>PERIOD<br/>ENDING</u> | <u>ANNUAL<br/>REQUIRED<br/>CONTRIBUTION</u> | <u>PERCENTAGE<br/>CONTRIBUTED</u> |
|--------|--------------------------|---|-----------------------------------|
| FIRE   | 12/31/08                 | \$ 12,422,966                               | 68%                               |
|        | 12/31/07                 | 15,794,257                                  | 404%                              |
|        | 12/31/06                 | 15,343,321                                  | 52%                               |
|        | 12/31/05                 | 13,807,421                                  | 56%                               |
|        | 12/31/04                 | 13,019,605                                  | 57%                               |
|        | 12/31/03                 | 5,491,478                                   | 59%                               |
|        | 06/30/03                 | 10,353,117                                  | 56%                               |
|        | 06/30/02                 | 8,021,795                                   | 67%                               |
|        | 06/30/01                 | 7,589,169                                   | 68%                               |
|        | 06/30/00                 | 7,200,247                                   | 65%                               |
|        | 06/30/99                 | 5,689,339                                   | 66%                               |
|        | 08/31/98                 | 7,358,958                                   | 59%                               |
|        | 08/31/97                 | 6,937,708                                   | 61%                               |
| POLICE | 12/31/08                 | \$ 15,341,003                               | 80%                               |
|        | 12/31/07                 | 20,800,595                                  | 263%                              |
|        | 12/31/06                 | 20,153,124                                  | 57%                               |
|        | 12/31/05                 | 18,427,235                                  | 60%                               |
|        | 12/31/04                 | 17,422,817                                  | 63%                               |
|        | 12/31/03                 | 7,564,377                                   | 67%                               |
|        | 06/30/03                 | 14,355,577                                  | 71%                               |
|        | 06/30/02                 | 10,402,681                                  | 92%                               |
|        | 06/30/01                 | 9,977,549                                   | 94%                               |
|        | 06/30/00                 | 9,719,446                                   | 90%                               |
|        | 06/30/99                 | 7,765,177                                   | 92%                               |
|        | 08/31/98                 | 10,948,994                                  | 71%                               |
|        | 08/31/97                 | 10,388,893                                  | 74%                               |

See independent auditor's report.

OTHER SUPPLEMENTARY INFORMATION



EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY  
CONSOLIDATED SCHEDULE OF PLAN NET ASSETS (UNAUDITED)  
AS OF DECEMBER 31, 2007

|   | Pension Fund        |                       |                   | Lomaland West, LLC  |                       |                   | Eliminating Entries |                       |                   | Consolidated        |                       |                   |
|---|---------------------|-----------------------|-------------------|---------------------|-----------------------|-------------------|---------------------|-----------------------|-------------------|---------------------|-----------------------|-------------------|
|   | Firemen<br>Division | Policeman<br>Division | Combined<br>Total | Firemen<br>Division | Policemen<br>Division | Combined<br>Total | Firemen<br>Division | Policemen<br>Division | Combined<br>Total | Firemen<br>Division | Policemen<br>Division | Combined<br>Total |
| <b>ASSETS</b>   |                     |                       |                   |                     |                       |                   |                     |                       |                   |                     |                       |                   |
| Cash and short-term investments   | \$ 2,551,417        | \$ 4,164,734          | \$ 6,716,151      | \$ 4,635            | \$ 4,636              | \$ 9,271          | \$ -                | \$ -                  | \$ -              | \$ 2,556,052        | \$ 4,169,370          | \$ 6,725,422      |
| Receivables   |                     |                       |                   |                     |                       |                   |                     |                       |                   |                     |                       |                   |
| Employer contributions  | 328,188             | 480,780               | 808,968           | -                   | -                     | -                 | -                   | -                     | -                 | 328,188             | 480,780               | 808,968           |
| Employee contributions  | 278,595             | 371,002               | 649,597           | -                   | -                     | -                 | -                   | -                     | -                 | 278,595             | 371,002               | 649,597           |
| Interest receivable   | -                   | -                     | -                 | -                   | -                     | -                 | -                   | -                     | -                 | -                   | -                     | -                 |
| Total receivables   | 606,783             | 851,782               | 1,458,565         | -                   | -                     | -                 | -                   | -                     | -                 | 606,783             | 851,782               | 1,458,565         |
| Investments, at fair value  |                     |                       |                   |                     |                       |                   |                     |                       |                   |                     |                       |                   |
| Fixed income securities   | 118,338,671         | 193,031,155           | 311,369,826       | -                   | -                     | -                 | -                   | -                     | -                 | 118,338,671         | 193,031,155           | 311,369,826       |
| Domestic equities   | 97,973,854          | 159,812,563           | 257,786,417       | -                   | -                     | -                 | -                   | -                     | -                 | 97,973,854          | 159,812,563           | 257,786,417       |
| International equities  | 118,150,644         | 192,670,444           | 310,821,088       | -                   | -                     | -                 | -                   | -                     | -                 | 118,150,644         | 192,670,444           | 310,821,088       |
| Investment in subsidiary  | 291,249             | 521,264               | 812,513           | -                   | -                     | -                 | (291,249)           | (521,264)             | (812,513)         | -                   | -                     | -                 |
| Total investments   | 334,754,418         | 546,035,426           | 880,789,844       | -                   | -                     | -                 | (291,249)           | (521,264)             | (812,513)         | 334,463,169         | 545,514,162           | 879,977,331       |
| Property and equipment  |                     |                       |                   |                     |                       |                   |                     |                       |                   |                     |                       |                   |
| Land  | -                   | -                     | -                 | 282,034             | 508,120               | 790,154           | -                   | -                     | -                 | 282,034             | 508,120               | 790,154           |
| Furniture and fixtures  | 829                 | 829                   | 1,658             | -                   | -                     | -                 | -                   | -                     | -                 | 829                 | 829                   | 1,658             |
| Computer equipment  | 16,604              | 16,604                | 33,208            | -                   | -                     | -                 | -                   | -                     | -                 | 16,604              | 16,604                | 33,208            |
| Pension administration system software  | 454,895             | 454,895               | 909,790           | -                   | -                     | -                 | -                   | -                     | -                 | 454,895             | 454,895               | 909,790           |
| Total property and equipment  | 472,328             | 472,328               | 944,656           | 282,034             | 508,120               | 790,154           | -                   | -                     | -                 | 754,362             | 980,448               | 1,734,810         |
| Less: Accumulated depreciation and amortization   | (10,106)            | (10,107)              | (20,213)          | -                   | -                     | -                 | -                   | -                     | -                 | (10,106)            | (10,107)              | (20,213)          |
| Net property and equipment  | 462,222             | 462,221               | 924,443           | 282,034             | 508,120               | 790,154           | -                   | -                     | -                 | 744,256             | 970,341               | 1,714,597         |
| Other assets  |                     |                       |                   |                     |                       |                   |                     |                       |                   |                     |                       |                   |
| Organizational costs  | -                   | -                     | -                 | 5,090               | 9,453                 | 14,543            | -                   | -                     | -                 | 5,090               | 9,453                 | 14,543            |
| Less: Accumulated amortization  | -                   | -                     | -                 | (510)               | (945)                 | (1,455)           | -                   | -                     | -                 | (510)               | (945)                 | (1,455)           |
| Net other assets  | -                   | -                     | -                 | 4,580               | 8,508                 | 13,088            | -                   | -                     | -                 | 4,580               | 8,508                 | 13,088            |
| Total assets  | 338,374,840         | 551,514,163           | 889,889,003       | 291,249             | 521,264               | 812,513           | (291,249)           | (521,264)             | (812,513)         | 338,374,840         | 551,514,163           | 889,889,003       |
| <b>LIABILITIES</b>  |                     |                       |                   |                     |                       |                   |                     |                       |                   |                     |                       |                   |
| Bank overdraft  | -                   | -                     | -                 | -                   | -                     | -                 | -                   | -                     | -                 | -                   | -                     | -                 |
| Accrued expenses and other  | 152,749             | 305,848               | 458,597           | -                   | -                     | -                 | -                   | -                     | -                 | 152,749             | 305,848               | 458,597           |
| Total liabilities   | 152,749             | 305,848               | 458,597           | -                   | -                     | -                 | -                   | -                     | -                 | 152,749             | 305,848               | 458,597           |
| Net assets held in trust for pension benefits<br>(A schedule of funding progress for each plan is presented on page 20) | \$ 338,222,091      | \$ 551,208,315        | \$ 889,430,406    | \$ 291,249          | \$ 521,264            | \$ 812,513        | \$ (291,249)        | \$ (521,264)          | \$ (812,513)      | \$ 338,222,091      | \$ 551,208,315        | \$ 889,430,406    |

See independent auditor's report.

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY  
CONSOLIDATED SCHEDULE OF CHANGES IN PLAN NET ASSETS (UNAUDITED)  
FOR THE YEAR ENDED DECEMBER 31, 2007

|  | Pension Fund        |                       |                    | Lomaland West, LLC  |                       |                   | Eliminating Entries |                       |                   | Consolidated        |                       |                    |
|--|---------------------|-----------------------|--------------------|---------------------|-----------------------|-------------------|---------------------|-----------------------|-------------------|---------------------|-----------------------|--------------------|
|  | Firemen<br>Division | Policeman<br>Division | Combined<br>Total  | Firemen<br>Division | Policemen<br>Division | Combined<br>Total | Firemen<br>Division | Policemen<br>Division | Combined<br>Total | Firemen<br>Division | Policemen<br>Division | Combined<br>Total  |
| <b>ADDITIONS</b>   |                     |                       |                    |                     |                       |                   |                     |                       |                   |                     |                       |                    |
| Contributions  |                     |                       |                    |                     |                       |                   |                     |                       |                   |                     |                       |                    |
| Employer   | \$ 63,942,043       | \$ 55,003,793         | \$ 118,945,836     | \$ -                | \$ -                  | \$ -              | \$ -                | \$ -                  | \$ -              | \$ 63,942,043       | \$ 55,003,793         | \$ 118,945,836     |
| Employee   | 7,883,174           | 9,392,197             | 17,275,371         | -                   | -                     | -                 | -                   | -                     | -                 | 7,883,174           | 9,392,197             | 17,275,371         |
| Other  | 415                 | 4,005                 | 4,420              | -                   | -                     | -                 | -                   | -                     | -                 | 415                 | 4,005                 | 4,420              |
| Total contributions  | <u>71,825,632</u>   | <u>64,399,995</u>     | <u>136,225,627</u> | <u>-</u>            | <u>-</u>              | <u>-</u>          | <u>-</u>            | <u>-</u>              | <u>-</u>          | <u>71,825,632</u>   | <u>64,399,995</u>     | <u>136,225,627</u> |
| Investment income  |                     |                       |                    |                     |                       |                   |                     |                       |                   |                     |                       |                    |
| Net master trust investment gain (loss)<br>fair value of investments | 27,571,316          | 47,168,286            | 74,739,602         | -                   | -                     | -                 | -                   | -                     | -                 | 27,571,316          | 47,168,286            | 74,739,602         |
| Interest   | 1,725,801           | 2,957,070             | 4,682,871          | -                   | -                     | -                 | -                   | -                     | -                 | 1,725,801           | 2,957,070             | 4,682,871          |
| Dividends  | 2,500,847           | 4,350,728             | 6,851,575          | -                   | -                     | -                 | -                   | -                     | -                 | 2,500,847           | 4,350,728             | 6,851,575          |
| Net change accrued income  | 313,271             | 525,925               | 839,196            | -                   | -                     | -                 | -                   | -                     | -                 | 313,271             | 525,925               | 839,196            |
| Less: Investment expenses  | <u>(786,615)</u>    | <u>(1,288,029)</u>    | <u>(2,074,644)</u> | <u>-</u>            | <u>-</u>              | <u>-</u>          | <u>-</u>            | <u>-</u>              | <u>-</u>          | <u>(786,615)</u>    | <u>(1,288,029)</u>    | <u>(2,074,644)</u> |
| Net investment income (loss)   | <u>31,324,620</u>   | <u>53,713,980</u>     | <u>85,038,600</u>  | <u>-</u>            | <u>-</u>              | <u>-</u>          | <u>-</u>            | <u>-</u>              | <u>-</u>          | <u>31,324,620</u>   | <u>53,713,980</u>     | <u>85,038,600</u>  |
| Other income (loss)  |                     |                       |                    |                     |                       |                   |                     |                       |                   |                     |                       |                    |
| Net income (loss) in subsidiary                                      | 7,065               | 6,776                 | 13,841             | -                   | -                     | -                 | (7,065)             | (6,776)               | (13,841)          | -                   | -                     | -                  |
| Other income   | -                   | -                     | -                  | 10,755              | 10,756                | 21,511            | -                   | -                     | -                 | 10,755              | 10,756                | 21,511             |
| Rental Income  | -                   | -                     | -                  | 861                 | 861                   | 1,722             | -                   | -                     | -                 | 861                 | 861                   | 1,722              |
| Total other income   | <u>7,065</u>        | <u>6,776</u>          | <u>13,841</u>      | <u>11,616</u>       | <u>11,617</u>         | <u>23,233</u>     | <u>(7,065)</u>      | <u>(6,776)</u>        | <u>(13,841)</u>   | <u>11,616</u>       | <u>11,617</u>         | <u>23,233</u>      |
| Total additions  | <u>103,157,317</u>  | <u>118,120,751</u>    | <u>221,278,068</u> | <u>11,616</u>       | <u>11,617</u>         | <u>23,233</u>     | <u>(7,065)</u>      | <u>(6,776)</u>        | <u>(13,841)</u>   | <u>103,161,868</u>  | <u>118,125,592</u>    | <u>221,287,460</u> |
| <b>DEDUCTIONS</b>  |                     |                       |                    |                     |                       |                   |                     |                       |                   |                     |                       |                    |
| Benefits paid to participants  | 18,065,595          | 24,150,329            | 42,215,924         | -                   | -                     | -                 | -                   | -                     | -                 | 18,065,595          | 24,150,329            | 42,215,924         |
| Refunds of employee contributions                                    | 313,342             | 906,965               | 1,220,307          | -                   | -                     | -                 | -                   | -                     | -                 | 313,342             | 906,965               | 1,220,307          |
| Administrative expenses  | 723,915             | 985,001               | 1,708,916          | 4,211               | 4,211                 | 8,422             | -                   | -                     | -                 | 728,126             | 989,212               | 1,717,338          |
| Depreciation and amortization expense                                | 3,406               | 3,406                 | 6,812              | 340                 | 630                   | 970               | -                   | -                     | -                 | 3,746               | 4,036                 | 7,782              |
| Property taxes   | -                   | -                     | -                  | -                   | -                     | -                 | -                   | -                     | -                 | -                   | -                     | -                  |
| Total deductions   | <u>19,106,258</u>   | <u>26,045,701</u>     | <u>45,151,959</u>  | <u>4,551</u>        | <u>4,841</u>          | <u>9,392</u>      | <u>-</u>            | <u>-</u>              | <u>-</u>          | <u>19,110,809</u>   | <u>26,050,542</u>     | <u>45,161,351</u>  |
| Net increase (decrease)  | 84,051,059          | 92,075,050            | 176,126,109        | 7,065               | 6,776                 | 13,841            | (7,065)             | (6,776)               | (13,841)          | 84,051,059          | 92,075,050            | 176,126,109        |
| Net assets held in trust for pension benefits                        |                     |                       |                    |                     |                       |                   |                     |                       |                   |                     |                       |                    |
| Beginning – January 1, 2007  | 254,171,032         | 459,133,265           | 713,304,297        | -                   | -                     | -                 | -                   | -                     | -                 | 254,171,032         | 459,133,265           | 713,304,297        |
| Cash investment from Pension Fund                                    | -                   | -                     | -                  | 284,184             | 514,488               | 798,672           | (284,184)           | (514,488)             | (798,672)         | -                   | -                     | -                  |
| Ending – December 31, 2007   | \$ 338,222,091      | \$ 551,208,315        | \$ 889,430,406     | \$ 291,249          | \$ 521,264            | \$ 812,513        | \$ (291,249)        | \$ (521,264)          | \$ (812,513)      | \$ 338,222,091      | \$ 551,208,315        | \$ 889,430,406     |

See independent auditor's report.

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY  
CONSOLIDATED SCHEDULE OF PLAN NET ASSETS (UNAUDITED)  
AS OF DECEMBER 31, 2008

|   | Pension Fund        |                       |                   | Lomaland West, LLC  |                       |                   | Eliminating Entries |                       |                   | Consolidated        |                       |                   |
|---|---------------------|-----------------------|-------------------|---------------------|-----------------------|-------------------|---------------------|-----------------------|-------------------|---------------------|-----------------------|-------------------|
|   | Firemen<br>Division | Policeman<br>Division | Combined<br>Total | Firemen<br>Division | Policemen<br>Division | Combined<br>Total | Firemen<br>Division | Policemen<br>Division | Combined<br>Total | Firemen<br>Division | Policemen<br>Division | Combined<br>Total |
| <b>ASSETS</b>   |                     |                       |                   |                     |                       |                   |                     |                       |                   |                     |                       |                   |
| Cash and short-term investments   | \$ 2,654,546        | \$ 4,365,170          | \$ 7,019,716      | \$ 6,886            | \$ 8,636              | \$ 15,522         | \$ -                | \$ -                  | \$ -              | \$ 2,661,432        | \$ 4,373,806          | \$ 7,035,238      |
| Receivables   |                     |                       |                   |                     |                       |                   |                     |                       |                   |                     |                       |                   |
| Employer contributions  | 446,665             | 632,008               | 1,078,673         | -                   | -                     | -                 | -                   | -                     | -                 | 446,665             | 632,008               | 1,078,673         |
| Employee contributions  | 379,168             | 487,700               | 866,868           | -                   | -                     | -                 | -                   | -                     | -                 | 379,168             | 487,700               | 866,868           |
| Deposit   | -                   | -                     | -                 | 2,206               | 3,974                 | 6,180             | -                   | -                     | -                 | 2,206               | 3,974                 | 6,180             |
| Total receivables   | 825,833             | 1,119,708             | 1,945,541         | 2,206               | 3,974                 | 6,180             | -                   | -                     | -                 | 828,039             | 1,123,682             | 1,951,721         |
| Investments, at fair value  |                     |                       |                   |                     |                       |                   |                     |                       |                   |                     |                       |                   |
| Fixed income securities   | 121,219,567         | 199,103,591           | 320,323,158       | -                   | -                     | -                 | -                   | -                     | -                 | 121,219,567         | 199,103,591           | 320,323,158       |
| Domestic equities   | 60,390,150          | 99,191,046            | 159,581,196       | -                   | -                     | -                 | -                   | -                     | -                 | 60,390,150          | 99,191,046            | 159,581,196       |
| International equities  | 62,552,430          | 102,742,601           | 165,295,031       | -                   | -                     | -                 | -                   | -                     | -                 | 62,552,430          | 102,742,601           | 165,295,031       |
| Investment in subsidiary  | 13,333              | 20,487                | 33,820            | -                   | -                     | -                 | (13,333)            | (20,487)              | (33,820)          | -                   | -                     | -                 |
| Total investments   | 244,175,480         | 401,057,725           | 645,233,205       | -                   | -                     | -                 | (13,333)            | (20,487)              | (33,820)          | 244,162,147         | 401,037,238           | 645,199,385       |
| Property and equipment  |                     |                       |                   |                     |                       |                   |                     |                       |                   |                     |                       |                   |
| Land  | -                   | -                     | -                 | -                   | -                     | -                 | -                   | -                     | -                 | -                   | -                     | -                 |
| Furniture and fixtures  | 25,105              | 25,105                | 50,210            | -                   | -                     | -                 | -                   | -                     | -                 | 25,105              | 25,105                | 50,210            |
| Computer equipment  | 24,017              | 24,017                | 48,034            | -                   | -                     | -                 | -                   | -                     | -                 | 24,017              | 24,017                | 48,034            |
| Machinery Equipment   | 2,878               | 2,878                 | 5,756             | -                   | -                     | -                 | -                   | -                     | -                 | 2,878               | 2,878                 | 5,756             |
| Pension administration system software  | 553,428             | 553,428               | 1,106,856         | -                   | -                     | -                 | -                   | -                     | -                 | 553,428             | 553,428               | 1,106,856         |
| Total property and equipment  | 605,428             | 605,428               | 1,210,856         | -                   | -                     | -                 | -                   | -                     | -                 | 605,428             | 605,428               | 1,210,856         |
| Less: Accumulated depreciation and amortization   | (15,884)            | (15,884)              | (31,768)          | -                   | -                     | -                 | -                   | -                     | -                 | (15,884)            | (15,884)              | (31,768)          |
| Net property and equipment  | 589,544             | 589,544               | 1,179,088         | -                   | -                     | -                 | -                   | -                     | -                 | 589,544             | 589,544               | 1,179,088         |
| Other assets  |                     |                       |                   |                     |                       |                   |                     |                       |                   |                     |                       |                   |
| Organizational costs  | -                   | -                     | -                 | 5,090               | 9,453                 | 14,543            | -                   | -                     | -                 | 5,090               | 9,453                 | 14,543            |
| Less: Accumulated amortization  | -                   | -                     | -                 | (849)               | (1,576)               | (2,425)           | -                   | -                     | -                 | (849)               | (1,576)               | (2,425)           |
| Net other assets  | -                   | -                     | -                 | 4,241               | 7,877                 | 12,118            | -                   | -                     | -                 | 4,241               | 7,877                 | 12,118            |
| Total assets  | 248,245,403         | 407,132,147           | 655,377,550       | 13,333              | 20,487                | 33,820            | (13,333)            | (20,487)              | (33,820)          | 248,245,403         | 407,132,147           | 655,377,550       |
| <b>LIABILITIES</b>  |                     |                       |                   |                     |                       |                   |                     |                       |                   |                     |                       |                   |
| Accrued expenses and other  | 315,425             | 467,134               | 782,559           | -                   | -                     | -                 | -                   | -                     | -                 | 315,425             | 467,134               | 782,559           |
| Total liabilities   | 315,425             | 467,134               | 782,559           | -                   | -                     | -                 | -                   | -                     | -                 | 315,425             | 467,134               | 782,559           |
| Net assets held in trust for pension benefits<br>(A schedule of funding progress for each plan is presented on page 20) | \$ 247,929,978      | \$ 406,665,013        | \$ 654,594,991    | \$ 13,333           | \$ 20,487             | \$ 33,820         | \$ (13,333)         | \$ (20,487)           | \$ (33,820)       | \$ 247,929,978      | \$ 406,665,013        | \$ 654,594,991    |

See independent auditor's report.

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY  
CONSOLIDATED SCHEDULE OF CHANGES IN PLAN NET ASSETS (UNAUDITED)  
FOR THE YEAR ENDED DECEMBER 31, 2008

|   | Pension Fund        |                       |                      | Lomaland West, LLC  |                       |                   | Eliminating Entries |                       |                   | Consolidated        |                       |                      |
|---|---------------------|-----------------------|----------------------|---------------------|-----------------------|-------------------|---------------------|-----------------------|-------------------|---------------------|-----------------------|----------------------|
|   | Firemen<br>Division | Policeman<br>Division | Combined<br>Total    | Firemen<br>Division | Policemen<br>Division | Combined<br>Total | Firemen<br>Division | Policemen<br>Division | Combined<br>Total | Firemen<br>Division | Policemen<br>Division | Combined<br>Total    |
| <b>ADDITIONS</b>  |                     |                       |                      |                     |                       |                   |                     |                       |                   |                     |                       |                      |
| Contributions   |                     |                       |                      |                     |                       |                   |                     |                       |                   |                     |                       |                      |
| Employer  | \$ 8,607,484        | \$ 12,428,593         | \$ 21,036,077        | \$ -                | \$ -                  | \$ -              | \$ -                | \$ -                  | \$ -              | \$ 8,607,484        | \$ 12,428,593         | \$ 21,036,077        |
| Employee  | 7,529,739           | 9,927,392             | 17,457,131           | -                   | -                     | -                 | -                   | -                     | -                 | 7,529,739           | 9,927,392             | 17,457,131           |
| Other   | -                   | -                     | -                    | -                   | -                     | -                 | -                   | -                     | -                 | -                   | -                     | -                    |
| Total contributions   | <u>16,137,223</u>   | <u>22,355,985</u>     | <u>38,493,208</u>    | <u>-</u>            | <u>-</u>              | <u>-</u>          | <u>-</u>            | <u>-</u>              | <u>-</u>          | <u>16,137,223</u>   | <u>22,355,985</u>     | <u>38,493,208</u>    |
| Investment income   |                     |                       |                      |                     |                       |                   |                     |                       |                   |                     |                       |                      |
| Net appreciation (depreciation) in<br>fair value of investments | (90,560,802)        | (147,947,112)         | (238,507,914)        | -                   | -                     | -                 | -                   | -                     | -                 | (90,560,802)        | (147,947,112)         | (238,507,914)        |
| Interest  | 2,452,857           | 4,008,831             | 6,461,688            | -                   | -                     | -                 | -                   | -                     | -                 | 2,452,857           | 4,008,831             | 6,461,688            |
| Dividends   | 3,078,773           | 5,031,352             | 8,110,125            | -                   | -                     | -                 | -                   | -                     | -                 | 3,078,773           | 5,031,352             | 8,110,125            |
| Net change accrued income                                       | 341,825             | 549,400               | 891,225              | -                   | -                     | -                 | -                   | -                     | -                 | 341,825             | 549,400               | 891,225              |
| Less: Investment expenses                                       | (1,214,937)         | (1,853,848)           | (3,068,785)          | -                   | -                     | -                 | -                   | -                     | -                 | (1,214,937)         | (1,853,848)           | (3,068,785)          |
| Net investment income (loss)                                    | <u>(85,902,284)</u> | <u>(140,211,377)</u>  | <u>(226,113,661)</u> | <u>-</u>            | <u>-</u>              | <u>-</u>          | <u>-</u>            | <u>-</u>              | <u>-</u>          | <u>(85,902,284)</u> | <u>(140,211,377)</u>  | <u>(226,113,661)</u> |
| Other income (loss)   |                     |                       |                      |                     |                       |                   |                     |                       |                   |                     |                       |                      |
| Net income (loss) in subsidiary                                 | 52,978              | 95,462                | 148,440              | -                   | -                     | -                 | (52,978)            | (95,462)              | (148,440)         | -                   | -                     | -                    |
| Other Income  | -                   | -                     | -                    | 25,381              | 45,736                | 71,117            | -                   | -                     | -                 | 25,381              | 45,736                | 71,117               |
| Rental Income   | -                   | -                     | -                    | 205                 | 369                   | 574               | -                   | -                     | -                 | 205                 | 369                   | 574                  |
| Gain on sale  | -                   | -                     | -                    | 48,844              | 88,013                | 136,857           | -                   | -                     | -                 | 48,844              | 88,013                | 136,857              |
| Total other income  | <u>52,978</u>       | <u>95,462</u>         | <u>148,440</u>       | <u>74,430</u>       | <u>134,118</u>        | <u>208,548</u>    | <u>(52,978)</u>     | <u>(95,462)</u>       | <u>(148,440)</u>  | <u>74,430</u>       | <u>134,118</u>        | <u>208,548</u>       |
| Total additions   | <u>(69,712,083)</u> | <u>(117,759,930)</u>  | <u>(187,472,013)</u> | <u>74,430</u>       | <u>134,118</u>        | <u>208,548</u>    | <u>(52,978)</u>     | <u>(95,462)</u>       | <u>(148,440)</u>  | <u>(69,690,631)</u> | <u>(117,721,274)</u>  | <u>(187,411,905)</u> |
| <b>DEDUCTIONS</b>   |                     |                       |                      |                     |                       |                   |                     |                       |                   |                     |                       |                      |
| Benefits paid to participants                                   | 19,927,497          | 25,663,077            | 45,590,574           | -                   | -                     | -                 | -                   | -                     | -                 | 19,927,497          | 25,663,077            | 45,590,574           |
| Refunds of employee contributions                               | 120,357             | 534,390               | 654,747              | -                   | -                     | -                 | -                   | -                     | -                 | 120,357             | 534,390               | 654,747              |
| Administrative expenses   | 526,398             | 580,128               | 1,106,526            | 21,106              | 38,032                | 59,138            | -                   | -                     | -                 | 547,504             | 618,160               | 1,165,664            |
| Depreciation and amortization expense                           | 5,778               | 5,777                 | 11,555               | 346                 | 624                   | 970               | -                   | -                     | -                 | 6,124               | 6,401                 | 12,525               |
| Property taxes  | -                   | -                     | -                    | -                   | -                     | -                 | -                   | -                     | -                 | -                   | -                     | -                    |
| Total deductions  | <u>20,580,030</u>   | <u>26,783,372</u>     | <u>47,363,402</u>    | <u>21,452</u>       | <u>38,656</u>         | <u>60,108</u>     | <u>-</u>            | <u>-</u>              | <u>-</u>          | <u>20,601,482</u>   | <u>26,822,028</u>     | <u>47,423,510</u>    |
| Net increase (decrease)   | (90,292,113)        | (144,543,302)         | (234,835,415)        | 52,978              | 95,462                | 148,440           | (52,978)            | (95,462)              | (148,440)         | (90,292,113)        | (144,543,302)         | (234,835,415)        |
| Net assets held in trust for pension benefits                   |                     |                       |                      |                     |                       |                   |                     |                       |                   |                     |                       |                      |
| Beginning -- January 1, 2008                                    | 338,222,091         | 551,208,315           | 889,430,406          | 291,249             | 521,264               | 812,513           | (291,249)           | (521,264)             | (812,513)         | 338,222,091         | 551,208,315           | 889,430,406          |
| Cash investment from Pension Fund                               | -                   | -                     | -                    | (330,894)           | (596,239)             | (927,133)         | 330,894             | 596,239               | 927,133           | -                   | -                     | -                    |
| Ending -- December 31, 2008                                     | \$ 247,929,978      | \$ 406,665,013        | \$ 654,594,991       | \$ 13,333           | \$ 20,487             | \$ 33,820         | \$ (13,333)         | \$ (20,487)           | \$ (33,820)       | \$ 247,929,978      | \$ 406,665,013        | \$ 654,594,991       |

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