

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY
A COMPONENT UNIT OF THE CITY OF EL PASO, TEXAS

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

(WITH INDEPENDENT AUDITOR'S REPORT THEREON)

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

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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 El Paso Firemen and Policemen's Pension Fund (the Fund) as of December 31, 2009 and 2008, 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 financial statements referred to above present fairly, in all material respects, the plan net assets of El Paso Firemen and Policemen's Pension Fund as of December 31, 2009 and 2008, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis (MD&A) and the required supplemental information (schedules 1 and 2) are not required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A and required supplemental information. However, we did not audit such information and express no opinion on it.

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. The supplementary schedules 3 through 6 have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on them.

Byler + Co., L.L.P.

El Paso, Texas
July 28, 2010

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2009

As management of El Paso Firemen and Policemen's Pension Fund and Subsidiary (the Fund), we offer readers of the Fund's financial statements this narrative overview and analysis of the financial activities of the Fund for the fiscal year ended December 31, 2009. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Fund's financial statements, which follow this narrative.

Financial Highlights

- The Fund's was up 26.3%, ranking in the 11th percentile for the year ending December 31, 2009.
- The assets of the Fund exceeded its liabilities at the close of the fiscal year 2009 by \$934,694,812.
- The Fund received \$110 million from the City of El Paso in May of 2009 in order to address the under-funding of the El Paso Firemen & Policemen's Pension Fund.
- The Fund's total net assets increased by \$280,099,821 in 2009 primarily due to the \$110 million received from the City of El Paso and the Fund's investment activities.
- Benefit payments made during fiscal year 2009 totaled \$48,989,041, an increase of \$3.40 million over fiscal year 2008 primarily due to the net increase in the number of retirees and cost of living increases.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Fund's basic financial statements. The Fund's basic financial statements contain three components; 1) the basic financial statements, 2) notes to the financial statements, and 3) supplementary schedules 1 & 2 required by the Governmental Accounting Standards Board. The financial statements have been consolidated and include the amounts to the Fund and its wholly owned subsidiary, Lomaland West, L.L.C.

The Fund is accounted for on an economic resource measurement focus using the accrual basis of accounting and Lomaland West, L.L.C. is accounted for using the equity method of accounting both in accordance with principals generally accepted in the United States of America.

The financial statements include the consolidated statements of plan net assets and the consolidated statements of changes in plan net assets. The notes provide additional information that is essential to a full understanding of the data provided in the Fund's financial statements. In addition to the basic financial statements and required supplementary schedules 1 and 2, this report contains other supplemental schedules 3 through 6 that will enhance the reader's understanding of the financial condition of the Fund.

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009

Summarized Financial Information

The following table displays the summary of the net assets available for benefits from fiscal year 2008 to fiscal year 2009 for the Fund:

	<u>2009</u>	<u>2008</u>	<u>Changes</u> <u>2009-2008</u>
Assets	\$ 935,024,856	\$ 655,377,550	42.67%
Liabilities	<u>330,044</u>	<u>782,559</u>	(57.82%)
Net assets	<u>\$ 934,694,812</u>	<u>\$ 654,594,991</u>	42.79%

Total net assets increased by \$280,099,821 or 42.79% during the fiscal year 2009 to \$934,694,812. The increase to net assets is primarily due to the \$110 million received from the City of El Paso and the Fund's investment activities.

The following table displays the summary of the change in net assets available for benefits from fiscal year 2008 to fiscal year 2009 for the Fund:

	<u>2009</u>	<u>2008</u>	<u>Changes</u> <u>2009-2008</u>
Contributions	\$ 149,381,195	\$ 38,493,208	288.07%
Net investment income (loss)	<u>182,253,878</u>	<u>(225,905,113)</u>	180.68%
Total revenues (loss)	<u>331,635,073</u>	<u>(187,411,905)</u>	276.96%
Benefit Payments	48,989,041	45,590,574	7.45%
Refunds	1,041,973	654,747	59.14%
Administrative expenses	<u>1,504,238</u>	<u>1,178,189</u>	27.67%
Total expenses	<u>51,535,252</u>	<u>47,423,510</u>	8.67%
Change in net assets	<u>\$ 280,099,821</u>	<u>\$(234,835,415)</u>	219.27%

Requests for Information

This report is designed to provide an overview of the Fund's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the El Paso Firemen & Policemen's Pension Fund, Chase Tower, 201 E. Main St., Ste. 1616, El Paso, TX 79901, (915) 771-8111, or email us at info@elpasofireandpolice.org.

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY
A COMPONENT UNIT OF THE CITY OF EL PASO, TEXAS
CONSOLIDATED STATEMENTS OF PLAN NET ASSETS
AS OF DECEMBER 31, 2009 AND 2008

ASSETS	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 16,085,863	\$ 7,035,238
Receivables		
Employer contributions	866,137	1,078,673
Employee contributions	700,607	866,868
Deposit	<u>6,180</u>	<u>6,180</u>
Total receivables	<u>1,572,924</u>	<u>1,951,721</u>
Investments, at fair value		
Fixed income securities	314,942,050	320,323,158
Domestic equities	292,285,094	159,581,196
International equities	305,059,083	165,295,031
Private equities	198,484	-
Limited partnerships	<u>3,754,941</u>	<u>-</u>
Total investments	<u>916,239,652</u>	<u>645,199,385</u>
Property and equipment		
Furniture and fixtures	52,099	50,210
Computer equipment	52,874	48,034
Machinery equipment	5,756	5,756
Pension administration system software	<u>1,106,856</u>	<u>1,106,856</u>
Total property and equipment	1,217,585	1,210,856
Less: Accumulated depreciation and amortization	<u>(102,317)</u>	<u>(31,768)</u>
Net property and equipment	<u>1,115,268</u>	<u>1,179,088</u>
Other assets		
Organizational costs	14,543	14,543
Less: Accumulated amortization	<u>(3,394)</u>	<u>(2,425)</u>
Net other assets	<u>11,149</u>	<u>12,118</u>
 Total assets	 <u>935,024,856</u>	 <u>655,377,550</u>
 LIABILITIES		
Accrued expenses and other	<u>330,044</u>	<u>782,559</u>
 Total liabilities	 <u>330,044</u>	 <u>782,559</u>
 Net assets held in trust for pension benefits	 \$ <u>934,694,812</u>	 \$ <u>654,594,991</u>

See accompanying notes to consolidated financial statements. (A schedule of funding progress for each plan is presented on page 21)

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY
A COMPONENT UNIT OF THE CITY OF EL PASO, TEXAS
CONSOLIDATED STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
ADDITIONS		
Contributions		
Employer	\$ 22,301,859	\$ 21,036,077
Employee	17,079,336	17,457,131
Other	<u>110,000,000</u>	<u>-</u>
Total contributions	<u>149,381,195</u>	<u>38,493,208</u>
Investment income		
Master trust investment gain (loss)		
Net appreciation (depreciation) in fair value of investments	164,433,563	(239,042,647)
Interest	13,074,885	6,461,688
Dividends	7,390,918	8,110,125
Securities lending income	176,962	534,733
Net change accrued income	(328,643)	891,225
Less: Investment expenses	<u>(2,591,870)</u>	<u>(3,068,785)</u>
Net master trust investment gain (loss)	<u>182,155,815</u>	<u>(226,113,661)</u>
Other income (loss)		
Other income	98,063	71,117
Rental income	-	574
Gain on Sale	<u>-</u>	<u>136,587</u>
Total other income (loss)	<u>98,063</u>	<u>208,548</u>
Total additions	<u>331,635,073</u>	<u>(187,411,905)</u>
DEDUCTIONS		
Benefits paid to participants	48,989,041	45,590,574
Refunds of employee contributions	1,041,973	654,747
Administrative expenses	1,287,151	1,165,664
Interest expense	143,467	-
Depreciation and amortization expense	<u>73,620</u>	<u>12,525</u>
Total deductions	<u>51,535,252</u>	<u>47,423,510</u>
Net increase (decrease)	280,099,821	(234,835,415)
Net assets held in trust for pension benefits		
Beginning - January 1, 2008 and 2007	<u>654,594,991</u>	<u>889,430,406</u>
Ending - December 31, 2008 and 2007	\$ <u>934,694,812</u>	\$ <u>654,594,991</u>

See accompanying notes to consolidated financial statements.

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

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 is a component unit of the City of El Paso, Texas. It 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, 2009 and 2008, 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 of accounting. The wholly owned subsidiary, Lomaland West, LLC is accounted for using the equity method of accounting.

Valuation of Investments

Investments of the Fund were held by The Northern Trust Company in the custodian's name for the year ended December 31, 2008 and 2009.

Investments are stated at fair value in the accompanying combined statements of plan net assets. The fair value of marketable investments is determined by the latest bid price, closing exchange price at year end, institutional bid evaluation and net asset value as considered appropriate for each investment type by The Northern Trust Company.

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

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

Valuation of Investments - continued

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.

Net appreciation (depreciation) in fair value of investments reflected in the accompanying combined statements of changes in plan net assets available for benefits 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.

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.

Foreign Currency Transactions

The Fund is a party to certain financial arrangements, utilizing put or call options, future contracts, options on futures, and any other type of financial futures transactions, only when used by international managers, Index manager if such transactions are for the purpose of currency hedging, investing cash to efficiently obtain market exposure prior to the purchase of actual securities or due to the delay in settlement of accrued dividends which have not yet been received as paid, respectively, or when used by core plus fixed income managers. 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.

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

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

Foreign Currency Transactions - continued

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 consolidated statements of changes in plan net assets and are included in net master trust investment gain (loss).

Investments and broker accounts denominated in foreign currencies outstanding at December 31, 2009 and 2008 were converted to the Fund's functional currency (United States dollars) at the foreign exchange rates quoted at December 31, 2009 and 2008. These foreign exchange gains and losses are included in net appreciation (depreciation) in fair value of investments in the accompanying consolidated 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, refunds and expenses paid are recognized as incurred.

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 \$17,307 and \$11,555 for the years ended December 31, 2009 and 2008, respectively.

The fund has finalized modifications to the new pension administration system software package with total costs of \$1,106,856. The system has been in use since June of the current year. Depreciation expense for this asset amounted to \$55,343.

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, 2009 and 2008 respectively.

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2009 AND 2008

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

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. Cost-of-living adjustment (COLAs) are provided upon the earlier of the retiree having attained age 60 or the fifth anniversary for firemen or second anniversary for policemen of the pension commencement date and on each January first thereafter. The Fund is established by state statute and administered by a Board of Trustees comprised of eleven trustees as follows:

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 City of El Paso is the only participating employer.

The Fund's membership is estimated as follows as of December 31, 2009 and 2008:

	<u>2009</u>		<u>2008</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	634	851	627	828
Inactive employees entitled to benefits but not yet receiving them	<u>3</u>	<u>8</u>	<u>1</u>	<u>6</u>
Total retired and inactive members	<u>637</u>	<u>859</u>	<u>628</u>	<u>834</u>
Current active members	<u>829</u>	<u>1,093</u>	<u>842</u>	<u>1,135</u>

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

NOTE 2: Description of the Retirement Plans - continued

The Pension Fund was originally enacted under Chapter 101, Acts of the 43rd Legislature, 1st 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. Non-employer contributions are limited to participating employees.

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. Non-employer contributions are limited to participating employees.

Any person duly appointed and enrolled as a fireman or policeman in the fire police departments of the city shall automatically become a member of the pension fund, provided such person shall have attained eighteen (18) years of age. 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, 2007. 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 complete Plan Document containing benefit and vesting provision in their entirety is available at the Pension office.

Payment of Benefits

Benefit payments to participants are recorded upon distributions.

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

NOTE 3: Cash, Investments, and Security Lending

Custodial Risk- Cash and Cash Equivalents

For cash deposits and cash equivalents, custodial risk is the risk that in the event of bank failure, the Fund's deposits may not be returned to it. The Fund's deposits are held by the Custodian, referred to as cash and cash equivalent in the statement of plan net assets. As of December 31, 2009 and 2008, the Fund's cash and cash equivalents in the custodian bank totaled \$16,085,863 and \$7,035,238, respectively. For purposes of this note, cash and cash equivalents is to include cash and short-term investments. The Fund does not have a deposit policy for custodial credit risk; however, management believes that the Fund's credit risk exposure for amounts not covered by Federal depository insurance is mitigated by the financial strength of the banking institution in which the deposits are held.

Investments

The board has adopted a Statement of Investment Policy (Investment Policy) with the objective to invest the Funds assets in a manner consistent with generally accepted standards of fiduciary responsibility. The safeguards which would guide a prudent man will be observed. Safety of principal shall be emphasized and the Fund will be diversified so as to avoid the risk of large loss. All transactions undertaken on behalf of the fund will be for the sole benefit of the Fund participants and beneficiaries and for the exclusive purpose of providing benefits to them and defraying reasonable administrative expenses.

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 custodian and are accessible by the 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 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.

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

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

<u>Asset Type</u>	<u>Fair Value Measurement Method</u>
Common Stock	
Corporate Stock	Last Trade or Official Close
Fixed Income	
Government Bonds	Net Asset Value
Municipal Provincial Bonds	Net Asset Value
Corporate Bonds	Net Asset Value
Venture Capital & Partnerships	
Limited Partnerships	Bid Evaluation or Total Market Value

The fair values of the Fund's investments as of December 31, 2009 and 2008, by type, are as follows:

<u>Investment Description</u>	<u>Fair Value at December 31, 2009</u>	<u>Fair Value at December 31, 2008</u>
Fixed Income –		
Corporate, Government &		
Municipal/		
Provincial Bonds	\$ 314,942,050	\$ 320,323,158
Domestic Equities	292,285,094	159,581,196
International Equities	305,059,083	165,295,031
Private Equities	198,484	-
Limited Partnerships	<u>3,754,941</u>	<u>-</u>
Total	\$ <u>916,239,652</u>	\$ <u>645,199,385</u>

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.

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 1.5 times the annual standard deviation of the Russell 2000 Index.

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

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

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 1.5 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.

Real Estate Portfolio

The annual standard deviation of returns for the Fund's real estate portfolio, if actively managed, is not expected to exceed 1.5 times the annual standard deviation of the returns for the NCREIF Index.

Private Equity Portfolio

The annual standard deviation for the Fund's private equity portfolio is not to exceed 1.5 times the annual standard deviation of the S&P 500 returns.

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.

Concentration of Credit Risk

The asset allocation contains guideline percentages, at market value, of total Fund Assets to be invested in various asset classes. Actual asset allocations will be dictated by current and anticipated market conditions, the independent actions of the board and/or investment managers, and required cash flows to and from the Fund.

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

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

Concentration of Credit Risk – continued

As of December 31, 2009 and 2008, the Funds' investment portfolio had no single holdings in excess of 5% Fund net assets.

Custodial Credit Risk – Investments

For an investment, custodial credit is the risk that, in the event of the failure of the counterparty, the Fund will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Fund, and are held by either the counterparty or the counterparty's trust department or agent but not in the Fund's name. At December 31, 2009 and 2008, the Fund's security investments that were not subject to custodial credit risk were the investments not registered on an exchange.

Foreign Currency Risk

The Fund's exposure to foreign currency risk at December 31, 2009 and 2008 was follows:

<u>Investment</u>	<u>Currency</u>	<u>2009</u> <u>Fair Value</u>	<u>2008</u> <u>Fair Value</u>
Cash and equivalents	(1)	\$ -	\$ 99,447
Corporate stocks	Canadian Dollar	-	2,797,095
Corporate stocks	European Union Euro	-	34,586,515
Corporate stocks	Hong Kong Dollar	-	1,617,974
Corporate stocks	Japanese Yen	-	13,087,041
Corporate stocks	South Korean Won	-	1,814,198
Corporate stocks	Norwegian Krone	-	1,209,421
Corporate stocks	Swedish Kronor	-	2,501,714
Corporate stocks	Swiss Franc	-	4,464,557
Corporate stocks	British Pound Sterling	<u>3,556,942</u>	<u>10,782,731</u>
	Total	\$ <u>3,556,942</u>	\$ <u>72,960,693</u>

(1) Investments 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, 2009 AND 2008

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

Securities Lending

The lending agent is authorized to enter into securities lending transactions of U.S. and non-U.S. Securities (securities) in accordance with the terms of the Securities Lending Authorization Agreement (the agreement). The Lending Agent is authorized to lend the Funds securities to one or more borrowers as seen appropriate but limited to the listed or described borrowers on Schedule A, an attachment to the aforementioned agreement.

The Lending Agent shall indemnify, defend and hold the Fund harmless from and against any losses, damages, costs and expenses (other than special, incidental, indirect or consequential losses, damages, costs or expenses) the Fund may incur if the Lending Agent is unable to recover borrowed securities and distributions made during the term of the loans with respect to those securities as a result of the Lending Agent's failure (a) to make a reasoned determination of the creditworthiness of a borrower, (b) to demand adequate and appropriate collateral on a prompt and timely basis and (c) to perform its duties and responsibilities under the agreement.

The agreement states that collateral must have a market value equal to no less than 100% of the market value of the borrowed securities.

Each business day the Lending Agent and the Fund shall determine the market value of the collateral and the borrowed securities. If on any business day the market value of all the collateral shall be less than the required value, the Lending Agent shall demand from the borrower, subject to a de minimis rule of change in value appropriate to the type of borrowed securities, additional collateral so that the market value of the additional collateral, when added to the market value of the collateral previously delivered to the Lending Agent, shall equal the required value. If on any business day the market value of all the collateral shall be greater than the required value, the Lending Agent shall, upon request from the borrower, subject to a de minimis rule of change in value appropriate to the type of borrowed securities, redeliver the borrower such amount of collateral selected by the borrower so that the market value of all collateral equals the required value.

As of December 31, 2009 and 2008, \$63,121,059 and \$38,564,334 of Fund owned investments were loaned to borrowers respectively. The cash collateral received from borrowers as of December 31, 2009 and 2008 were \$65,129,273 and \$39,233,388, respectively. Because cash collateral received from borrowers exceeds lent investments, the Fund has no credit risk exposure. There were no losses from securities lending transactions during the years ended December 31, 2009 and 2008 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, 2009 AND 2008

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, 2009 and 2008:

	<u>2009</u>		<u>2008</u>	
	<u>Actual Amount</u>	<u>Stated % of Covered Payroll</u>	<u>Actual Amount</u>	<u>Stated % of Covered Payroll</u>
Firemen Division				
Employer contributions	\$ 9,416,943	18.50%	\$ 8,607,484	18.50%
Employee contributions	7,612,243	15.28%	7,529,738	15.28%
Other contributions	<u>68,000,000</u>	N/A	-	N/A
Total contributions	<u>\$ 85,029,186</u>		<u>\$ 16,137,222</u>	
Policemen Division				
Employer contributions	\$ 12,884,916	18.50%	\$ 12,428,593	18.50%
Employee contributions	9,467,093	13.89%	9,927,392	13.89%
Other contributions	<u>42,000,000</u>	N/A	-	N/A
Total contributions	<u>\$ 64,352,009</u>		<u>\$ 22,355,985</u>	
Firemen and Policemen Divisions Combined				
Employer contributions	\$ 22,301,859	18.50%	\$ 21,036,077	18.50%
Employee contributions	17,079,336	N/A	17,457,130	N/A
Other contributions	<u>110,000,000</u>	N/A	-	N/A
Total contributions	<u>\$ 149,381,195</u>		<u>\$ 38,493,207</u>	

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

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

The Fund leases a postage meter on a quarter-to-quarter basis from Pitney Bowes Inc. The rate depends on the amount of postage that is used by the Fund. Pitney Bowes Inc. charged the Fund \$1,641 in 2009.

The Fund leases a copier/printer at the base rate of \$17 per month plus a usage charge of \$0.023901 per page. The Fund was charged \$2,299 in 2009. This lease is through the City of El Paso and is cancelable by the Fund.

On April 1, 2008, Lomaland West, L.L.C., the wholly owned subsidiary of the Fund, entered into a Lease Agreement with Borderplex 201 E. Main, L.L.C., for the rental of office space in the Chase Tower in downtown El Paso. This lease is a 5 year lease due to terminate on March 31, 2013. At the start of 2009 the lease monthly payment was \$6,179.78 and on April 1, 2009 it went up 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.

On September 1, 2009, the Fund entered into a Service Level Agreement (SLA) with ElectroSystems Engineers, Inc. (dba ESEI) for the maintenance of a disaster recovery server located off the Fund's premises. The lease agreement is for \$300 a month plus any a la carte services explained in the SLA and it is for successive six month terms unless either party provides the other with written notice of its election not to renew this SLA at least 30 days prior to the expiration of the then existing term.

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2009 AND 2008

NOTE 7: Operating Leases - continued

On the accompanying financial statements for the years ended December 31, 2009 and 2008, total lease expenses for these operating leases were shown as part of administrative expenses as follows:

	<u>2009</u>	<u>2008</u>
Firemen Division	\$ 40,661	\$ 24,496
Policemen Division	<u>40,661</u>	<u>24,945</u>
 Total lease expenses	 <u>\$ 81,322</u>	 <u>\$ 49,441</u>

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 Division</u>	<u>Policemen Division</u>	<u>Combined Total</u>
2010	\$ 38,362	\$ 38,362	\$ 76,724
2011	39,324	39,324	78,648
2012	39,645	39,645	79,290
2013	9,911	9,911	19,822

NOTE 8: Risks and Uncertainties

The Fund invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of plan net assets.

The Fund's contribution rates and the actuarial information included in the notes and schedules 1 and 2 are based on certain assumptions pertaining to interest rates, health care inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

EL PASO FIREMEN AND POLICEMEN'S PENSION FUND AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
 DECEMBER 31, 2009 AND 2008

NOTE 8: Risks and Uncertainties (continued)

The information presented in the required supplemental schedules 1 and 2 was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

	<u>Retirement Plan</u>
Actuarial valuation date	1/1/2010
Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll over 30 years
Remaining amortization period	Rolling 30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.75% per year
Salary increase	4.5% to 11.5%
General inflation rate	3.5% per year
Cost-of-living adjustment	3% annually
Mortality rates	1994 GAM – set back two years for males
Termination rates – Firemen	.5% to 2.0%
Termination rates – Policemen	1.0% to 3.0%

REQUIRED SUPPLEMENTARY INFORMATION

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

Actuarial Valuation Date **	Actuarial Value of Assets (AVA) (a)*	Actuarial Accrued Liability (AAL) - Entry Age (b)*	Unfunded AAL (UAAL) (b - a)*	AVA as Percentage of AAL (a / b)	Covered Payroll (c)*	UAAL as a Percentage of Covered Payroll ((b - a) / c)
Firemen						
01/01/2005						
01/01/2006	215,036,027	374,484,359	159,448,332	57.4	38,326,296	416.0
01/01/2007						
01/01/2008	317,924,960	431,938,611	114,013,651	73.6	41,165,230	277.0
01/01/2009						
01/01/2010	403,748,151	493,320,462	89,572,311	81.8	48,172,561	185.9
Policemen						
01/01/2005						
01/01/2006	388,533,219	547,072,188	158,538,969	71.0	53,274,624	297.6
01/01/2007						
01/01/2008	515,354,403	613,942,215	98,587,812	83.9	56,840,063	173.4
01/01/2009						
01/01/2010	588,622,976	715,715,343	127,052,367	82.2	65,537,734	203.2

* Amounts reported in whole dollars (\$)

** For financial reporting purposes, an actuarial valuation is performed biennially in accordance with GASB 25.

Analysis of the dollar amounts of actuarial value of assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one indication of the Fund's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the Fund is becoming financially stronger or weaker, generally, the greater this percentage, the stronger the Fund. Trends in unfunded actuarial accrued liability and covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of covered payroll approximately adjusts for the effects of inflation and aids analysis of the Fund's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the Fund.

See accompanying note to required supplemental schedules.

See accompanying independent auditor's report.

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

	YEAR ENDED 12/31	ANNUAL REQUIRED CONTRIBUTION	PERCENTAGE CONTRIBUTION
FIREMEN	2004	\$ 13,019,605	57%
	2005	13,807,421	56%
	2006	15,343,321	52%
	2007	15,794,257	404%
	2008	13,255,005	65%
	2009	13,785,205*	562%
	POLICEMEN	2004	\$ 17,422,817
2005		18,427,235	60%
2006		20,153,124	57%
2007		20,800,595	263%
2008		16,746,050	74%
2009		17,415,892*	316%

* Amounts are estimated. The actual amounts will be based on payroll to be provided by the City.

See accompanying note to required supplemental schedules.
 See accompanying 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, 2008

	Pension Fund			Lomaland West, LLC			Eliminating Entries			Consolidated		
	Firemen Division	Policemen Division	Combined Total	Firemen Division	Policemen Division	Combined Total	Firemen Division	Policemen Division	Combined Total	Firemen Division	Policemen Division	Combined Total
ASSETS												
Cash and cash equivalents	\$ 6,575,058	\$ 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	825,833	1,119,708	1,945,541	2,206	3,974	6,180	-	-	-	2,206	3,974	6,180
Total receivables				2,206	3,974	6,180	-	-	-	828,039	1,124,682	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												
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	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)	(2,425)	(849)	(1,576)	(2,425)	-	-	-	(849)	(1,576)	(2,425)
Net other assets	-	4,241	7,877	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
LIABILITIES												
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	\$ 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 Division	Policeman Division	Firemen Division	Policeman Division	Firemen Division	Policeman Division	Firemen Division	Policeman Division
ADDITIONS								
Contributions								
Employer	\$ 8,607,484	\$ 21,056,077	\$ -	\$ -	\$ -	\$ -	\$ 8,607,484	\$ 21,056,077
Employee	7,529,739	17,457,131	-	-	-	-	7,529,739	17,457,131
Other	16,137,223	38,493,208	-	-	-	-	16,137,223	38,493,208
Total contributions	22,274,452	76,986,416	-	-	-	-	22,274,452	76,986,416
Investment income								
Net appreciation (depreciation) in fair value of investments	(90,560,802)	(147,947,112)	-	-	-	-	(90,560,802)	(147,947,112)
Interest	2,452,857	4,008,831	-	-	-	-	2,452,857	4,008,831
Dividends	3,078,773	5,031,352	-	-	-	-	3,078,773	5,031,352
Net change accrued income	341,825	549,400	-	-	-	-	341,825	549,400
Less: Investment expenses	(1,214,937)	(1,853,848)	-	-	-	-	(1,214,937)	(1,853,848)
Net investment income (loss)	(85,902,284)	(140,211,377)	-	-	-	-	(85,902,284)	(140,211,377)
Other income (loss)								
Net income (loss) in subsidiary	52,978	95,462	-	-	(52,978)	(95,462)	-	-
Other Income	25,381	45,736	-	-	-	-	25,381	45,736
Rental Income	205	574	-	-	-	-	205	574
Gain on sale	48,844	88,013	-	-	-	-	48,844	88,013
Total other income	52,978	95,462	-	-	(52,978)	(95,462)	74,430	134,118
Total additions	(69,712,083)	(117,759,930)	74,430	134,118	(52,978)	(95,462)	(69,690,631)	(117,721,274)
DEDUCTIONS								
Benefits paid to participants	19,927,497	25,663,077	-	-	-	-	19,927,497	25,663,077
Refunds of employee contributions	120,357	534,390	-	-	-	-	120,357	534,390
Administrative expenses	526,398	580,128	21,106	38,032	-	-	547,504	618,160
Depreciation and amortization expense	5,778	11,555	346	624	-	-	6,124	12,525
Total deductions	20,580,030	26,789,372	21,452	38,656	-	-	20,601,482	26,822,028
Net increase (decrease)	(90,292,113)	(144,543,302)	52,978	95,462	(52,978)	(95,462)	(90,292,113)	(144,543,302)
Net assets held in trust for pension benefits								
Beginning - January 1, 2008	338,222,091	551,208,315	291,249	521,264	(291,249)	(521,264)	338,222,091	551,208,315
Cash investment from Pension Fund	-	-	(350,894)	(596,239)	330,894	596,239	-	-
Ending - December 31, 2008	\$ 247,929,978	\$ 406,665,013	\$ 13,333	\$ 20,487	\$ (13,333)	\$ (20,487)	\$ 247,929,978	\$ 406,665,013

See independent auditor's report.