2011

El Paso International Airport

Financial Operating Report

CITY OF EL PASO, TEXAS

EL PASO INTERNATIONAL AIRPORT FUND

Years Ended August 31, 2011 and 2010

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Independent Accountants' Report on Financial Statements and Supplementary Information

The Honorable Mayor and Members
of the City Council
El Paso International Airport Fund
El Paso, Texas

We have audited the accompanying basic financial statements of the El Paso International Airport Fund (the Airport), a major enterprise fund of the City of El Paso, Texas, (the City) as of and for the years ended August 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the City of El Paso, Texas' 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.

As discussed in *Note 1*, the financial statements of the Airport are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Airport. They do not purport to, and do not, present fairly the financial position of the City as of August 31, 2011 and 2010, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport as of August 31, 2011 and 2010, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis and pension and other post-employment benefit (OPEB) information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Honorable Mayor and Members
of the City Council
El Paso International Airport Fund

Our audits were conducted for the purpose of forming an opinion on the basic financial statements. The Schedules of Operating Revenues and Expenses by Cost Center (Schedules) are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedules have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on them.

BKD, LLP

November 7, 2012

El Paso International Airport Fund
(Unaudited) Fiscal Year 2011 and 2010

INTRODUCTION

The City of El Paso's Department of Aviation is offering readers of the El Paso International Airport Fund's (Airport) financial statements this overview and analysis of the financial activities of the Airport for the fiscal years ended August 31, 2011 and 2010. This document is designed to:

- *Provide a concise overview of the Airport's financial activity, comparing fiscal year activity for the past two years and identifying specific economic factors contributing to changes.*

- *Help the reader focus on the Airport's financial statements as a whole, describing currently known facts, decisions or conditions expected to impact the Airport's financial condition and the availability of fund resources for future years.*

Management's Discussion and Analysis (MD&A) should be considered in conjunction with the Airport's financial statements. The information contained in the two sections of the Annual Report complement each other.

The Airport provides domestic air service for West Texas, Southern New Mexico, and Northern Mexico, offering approximately 6,744 daily seats for inbound passengers, and an equal number for outbound passengers. The Airport also serves as the region's air cargo hub and general aviation center. The Airport is self-supporting, using aircraft landing fees, terminal use fees, concessions, general aviation fees, non-aeronautical revenues, and other miscellaneous revenue sources to fund operating expenses. The Airport is not funded through the City of El Paso General Fund. Capital construction projects are funded through revenue bonds, federal grants, Passenger Facility Charges (PFCs), and Airport revenues.

2011 FINANCIAL HIGHLIGHTS

- The Airport's total assets exceeded its liabilities at August 31, 2011 by $221.5 million.
- The Airport's unrestricted net asset balance was $7.3 million, or 17.5% of total fiscal year 2011 operating expenses.
- The Airport's restricted net asset balance was $33.6 million.
- The Airport's total net assets decreased by .1 million from that of the prior year.
- The Airport's operating expenses were $7.1 million more than operating revenues for the 2011 fiscal year.
- The Airport's operating revenues, nonoperating revenues, and capital contributions totaled $40.7 million for the 2011 fiscal year.
- The Airport's operating expenses, nonoperating expenses, and transfers out totaled $43.8 million for the 2011 fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

Our basic financial statements have two components: fund financial statements and notes to the financial statements. This report also contains required supplementary information and other supplementary information presented after the notes to the financial statements.

Fund Financial Statements - Overview

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is based upon compliance with finance-related legal requirements underlying each fund.

Proprietary funds are generally used to account for services that the City of El Paso (City) charges its customers – either outside customers or internal cost centers of the City. Of the two types of proprietary funds that exist (enterprise and internal service), the Airport is considered to be an enterprise fund. Proprietary fund reporting differs from that of governmental fund reporting, where proprietary reporting has the following attributes:

Scope — *Reports the day-to-day operating activities of the Airport for its business-type activities.*

Accounting basis — *Reports activities using the accrual basis of accounting, meaning that all revenues earned and expenses incurred during the period are reflected regardless of when cash is received or paid.*

Type of asset and liability information — *Includes all asset and liability items and balances, including both financial and capital, classified as either short or long-term.*

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Type of asset and liability information — *Includes all asset and liability items and balances, including both financial and capital, classified as either short or long-term.*

Fund Financial Statements – Components

The ***Balance Sheet*** is designed to provide asset and liability information, where the difference between the two is presented as Net Assets.

The ***Statement of Revenues, Expenses, and Changes in Fund Net Assets*** is focused on both the gross and net cost of activities that are supported by the Airport's revenues. This is intended to summarize and simplify the user's analysis of the cost of all Airport services.

Our activities reflect private sector type operations where the fee for services typically covers all or most of the cost of operation, including depreciation.

The ***Statement of Cash Flows*** provides a detail of cash inflows and outflows for the year using the direct method for the operating, noncapital financing, capital and related financing and investing activities of the Airport.

The ***Notes to the Financial Statements*** provide additional information that is essential to a full understanding of the information provided in the Airport's financial statements. The notes immediately follow the financial statements.

Other Information

The ***Required Supplementary Information*** presents information concerning the City's funding of its pension benefits obligation.

Other ***Supplementary Information*** is presented concerning revenues and expenses for intra-departmental units, or cost centers of the Airport.

FUND FINANCIAL ANALYSIS

Analysis of the Airport's Net Assets

Net assets may serve over time as a useful indicator of the Airport's financial position. As of August 31, 2011, Airport assets exceeded liabilities by $221.5 million, a $.1 million increase from the previous year. As of August 31, 2010, Airport assets exceeded liabilities by $221.4 million, a $1.5 million decrease from the previous year.

The following presents comparative financial information for the current and two preceding fiscal years:

CITY OF EL PASO, TEXAS—EL PASO INTERNATIONAL AIRPORT FUND
CONDENSED BALANCE SHEETS
AUGUST 31, 2011, 2010 AND 2009

	2011	2010	2009
Assets			
Current and Other Assets	$ 66,867,588	$ 47,320,534	$ 43,173,617
Capital Assets	189,419,332	189,982,515	197,128,143
Total Assets	$ 256,286,920	$ 237,303,049	$ 240,301,760
Liabilities			
Current Liabilities	$ 6,851,704	$ 4,320,633	$ 5,760,516
Long-term obligations – due within one year	3,173,539	2,962,410	2,854,181
Long-term obligations – due in more than one year	24,775,594	8,644,259	8,835,723
Total Liabilities	$ 34,800,837	$ 15,927,302	$ 17,450,420
Net Assets			
Invested in capital assets, net of related debt	$ 180,614,584	$ 183,529,366	$ 189,754,469
Restricted	33,578,850	28,676,014	24,222,480
Unrestricted	7,292,649	9,170,367	8,874,391
Total Net Assets	**$ 221,486,083**	**$ 221,375,747**	**$ 222,851,340**

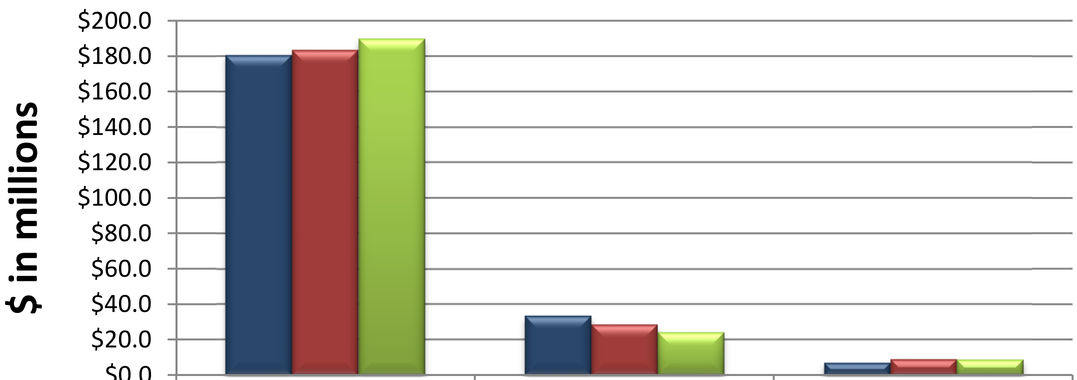
The largest portion of the Airport's net assets (82%, 83%, and 85% in 2011, 2010, and 2009, respectively) reflects its holdings in capital assets such as land, buildings, equipment, improvements, and construction in progress, less any debt used to acquire those assets that is still outstanding. The Airport uses these capital assets to provide services and generate revenues; consequently, these assets are not available for future spending. Although the Airport's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from Airport revenues, since the capital assets themselves cannot be used to liquidate these liabilities.

Current and other assets increased $19.5 million and $4.1 million in 2011 and 2010, respectively. Long-term obligations increased by $16.3 million and decreased by $.08 million in 2011 and 2010, respectively.

Long-term debt obligations, net of unamortized discounts, were $21,858,813, $6,453,149, and $7,373,674 as of August 31, 2011, 2010, and 2009 respectively, resulting in an increase of $15,405,664 in 2011 and a decrease of $920,525 in 2010.

A portion of the Airport's net assets (15.2% in 2011, 13.0% in 2010, and 10.9% in 2009) represents resources that are subject to external restrictions on how they may be used. These restricted net assets include reserves for debt service and construction and restrictions externally placed by other funding agencies. The $4.9 million increase in restricted net assets occurred primarily in the Passenger Facility Charge (PFC) account. These PFC funds will go toward payment of approved construction projects.

Airport Net Assets at 2011, 2010, and 2009



	Invested in capital assets	Restricted net assets	Unrestricted net assets
2011	$180.6	$33.6	$7.3
2010	$183.5	$28.7	$9.2
2009	$189.8	$24.2	$8.9

Net Asset Categories

Unrestricted net assets for the Airport totaled $7.3 million at August 31, 2011, decreasing $1.9 million, or 20.5%, less than the previous year. These resources must be used for the direct benefit of the Airport as stipulated under Federal Aviation Administration Grant Assurances and will be used to fund future capital needs of the airport.

Analysis of the Airport's Changes in Net Assets

The following table provides a comparative summary of the Airport's operations for the years ended August 31, 2011, 2010, and 2009.

City of El Paso, Texas

El Paso International Airport Fund

Schedule of Changes in Net Assets

	2011	2010	2009
Operating Revenues:			
Terminal Building Operations	$ 11,702,869	$ 11,868,699	$ 11,569,698
Parking Lot Operations	5,893,870	5,158,473	5,049,328
New Cargo Complex Operations	1,223,446	1,361,431	1,597,593
Landing Area Operations	5,302,849	5,982,602	5,323,919
Industrial Park Operations	1,409,932	1,506,135	1,479,104
Lone Star Golf Course	188,119	187,664	215,910
General and Commercial Aviation Operations	1,470,982	1,503,004	1,492,403
Butterfield Trail Industrial Park Operations	3,123,499	3,121,167	3,165,332
Air Freight Operations	376,587	386,291	458,995
Global Reach Retail Development Operations	77,125	79,723	83,109
Hotel Operations	1,579,775	1,585,595	1,581,981
Cottonwoods Development Operations	1,681,443	1,631,259	1,548,402
International Trade Processing Center	259,235	279,793	257,790
Other	405,211	255,740	27,787
Total Operating Revenues	34,694,942	34,907,576	33,851,351
Operating Expenses			
Terminal Building and Complex Operations	6,629,948	6,527,287	6,855,901
Parking Lot Operations	1,954,100	1,847,933	1,704,744
New Cargo Complex Operations	272,977	214,766	340,576
Landing Area Operations	4,139,725	3,934,800	4,112,722
Industrial Park Operations	251,427	278,985	240,659
General and Commercial Aviation Operations	607,977	575,739	534,322
Butterfield Trail Industrial Park Operations	173,947	144,578	147,837
Air Freight Operations	124,423	79,927	86,858
Global Reach Retail Development Operations	123,335	57,362	63,573
General and Administrative	9,728,820	9,365,090	9,356,501
Lone Star Golf Course	-	6,265	2,183
Cottonwoods Development Operations	2,892,063	2,839,727	2,547,427
Hotel Operations	50,185	55,186	72,379
International Trade Processing Center	241,577	247,449	240,315
Depreciation	14,581,758	14,557,577	14,537,992
Other	12,786	14,206	22,771
Total Operating Expenses	41,749,048	40,746,877	40,866,760
Operating Loss	(7,054,106)	(5,839,301)	(7,015,409)
Nonoperating Revenues (Expenses):			
Interest revenue	145,858	158,334	434,119
Interest expense	(490,076)	(439,943)	(472,637)
Net Increase in Fair Value of Investments	-	-	88,605
Gain (Loss) on sale/disposal of equipment	16,027	(15,159)	
Passenger Facility Charge	5,846,384	4,236,926	3,935,525
Total Nonoperating Revenues (Expenses)	5,518,193	3,940,158	3,985,612
Loss before Contributions and Transfers	(1,535,913)	(1,899,143)	(3,029,797)
Capital Contributions	3,244,337	2,157,840	7,924,088
Other Contributions	14,320	360,128	78,031
Transfers In	-	-	-
Transfers Out	(1,612,408)	(2,094,418)	(1,958,944)
Change in Net Assets	110,336	(1,475,593)	3,013,378
Net Assets - September 1	221,375,747	222,851,340	219,837,962
Net Assets - August 31	$ 221,486,083	$ 221,375,747	$ 222,851,340

Revenue Variance by Cost Center

Terminal Building Operations decreased 1.4% due to a decrease in airline terminal space rentals of $395,567, a decrease in airport advertising revenues of $24,206 a decrease in La Placita revenues of $18,625. There were increases in airport food and beverage of $84,001, airport giftshop/newstand of $22,245, airport car rentals of $61,196, ground rentals of $55,205 and other airport revenue of $37,214. The terminal renovation project which began in 2009 added approximately 20,000 square feet in concession space. The addition of new concession areas has contributed to increases in some of the revenue areas mentioned above.

Parking Lot Operations increase by $734,617 as a result of an increase in the airport parking lot fees.

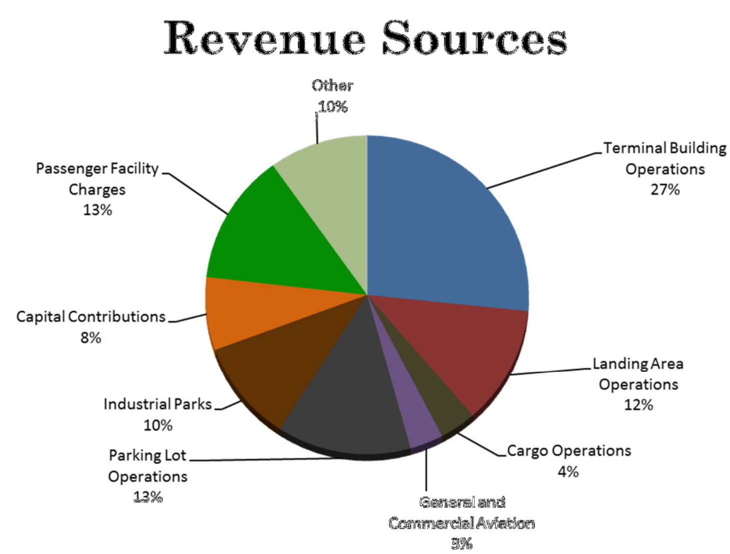
New Cargo Complex Operations revenue declined 10.1% due to decreases in airport building lease revenue of $99,909, aircraft parking fees of $34,131 and airport equipment parking rent of $4,459.

The 11.4% decrease in the Landing Area Operations cost center can be attributed to a decrease of $949,850 in airline scheduled landing fees. To offset the decrease there were increases in the nonscheduled landing fees of $80,935, along with an increase in fuel flowage fees $106,261 and an increase of cargo scheduled landing fees of $97,615.

Industrial Park Operations decreased 6.4% due to a decline in ground rentals of $96,427.

The Airport received Capital Contributions from the federal government via federal grant proceeds in the amount of $3.2 million. The application of those funds is described in the Capital Assets section.

The following graph compares revenue sources:



The “Other” in the graph represents revenues from the seven hotels on airport property, two golf courses, the International Trade Processing Center (ITPC) also known as Foreign Trade Zone 68 (FTZ), easement revenue (from the El Paso Water Utilities in consideration for access to airport land where multiple water well sites are located), and interest income.

Expense Variance by Cost Center

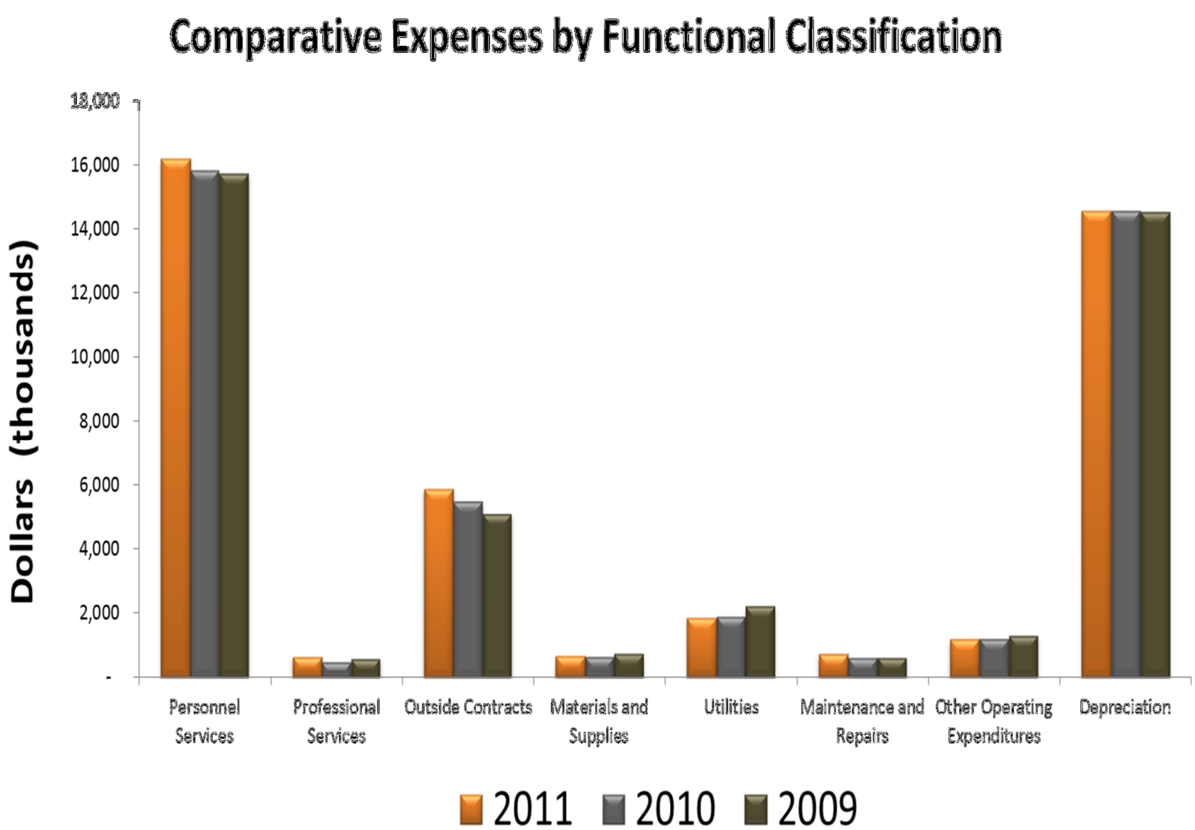
Several cost centers had increases in expenses for fiscal year. The cost centers that were impacted the most were the General and Administrative, Landing Area Operations, Terminal, and Parking Lot, and General and Commercial Aviation Operations. The expense increases were $363,730, $204,925, $102,661, and $106,167 respectively.

Global Reach Retail Development Operations and New Cargo Complex Operations experienced increases of $65,973, and $58,211.

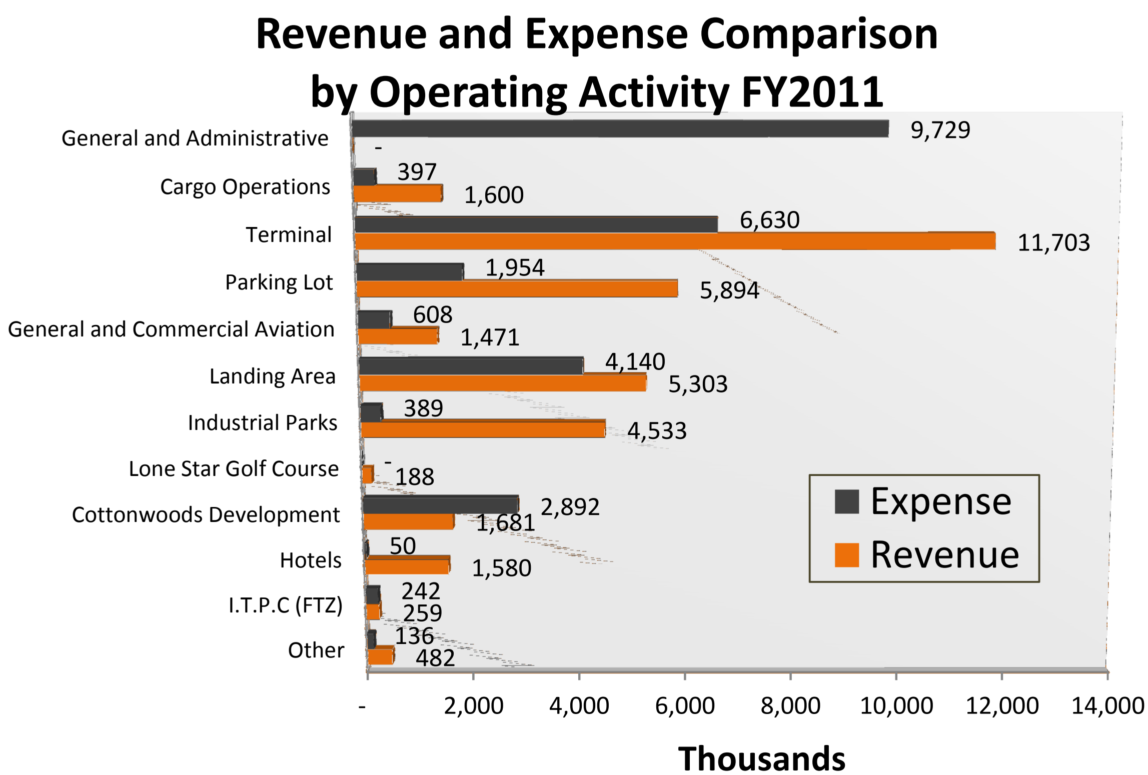
General and Commercial Aviation Operations and Butterfield Trail Industrial Park Operations increased $32,238 and $29,369 respectively.

Expenses in the Cottonwoods Development cost center increased by $52,336.

The following chart compares functional expense classifications for 2011, 2010, and 2009.



The following chart compares revenues to expenses by operating activity (cost center) for 2011.



Operating revenues decreased $212,634 in 2011 compared to 2010 a decrease of .01% from the previous fiscal year.

Operating loss in fiscal year 2011 that amounted to $7.1 million can be attributed to increases in personnel service, professional services, outside contracts, and increases in maintenance and repairs.

CAPITAL ASSETS

The Airport's investment in capital assets as of August 31, 2011 and 2010 amounts to $189.4 and $190 million, respectively, net of accumulated depreciation. This investment in capital assets includes land, buildings and related improvements, equipment, and construction in progress. Additional information on the Airport's capital assets can be found in Note 4 of this annual report.

Major capital asset events during fiscal year 2011 include the items noted here. (Federally funded projects were matched with Airport funds where related percentages are noted. All other projects were paid for exclusively with Airport funds.)

Runway 8R/26L Extension

This project will extend Runway 8R/26L and relocate the Runway 8R threshold. The extension on the eastern end of the runway will allow for Runway 8R arrival threshold to be relocated by 1,100 feet, alleviating Part 77 surface penetration issues in the area of the terminal ramp and Concourse B gates west of the runway. The design phase of the project began in fiscal year 2010 with project costs totaling $534,000. The project will be funded by both Passenger Facility Charge and Airport Improvement Program Funds. The total cost of the project is estimated at $13.2 million.

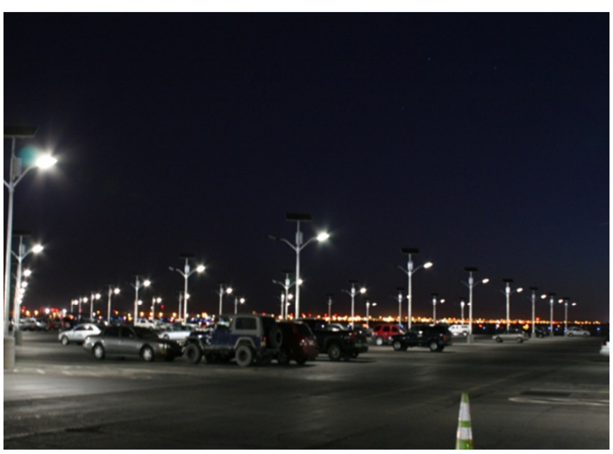
Terminal Renovation and Expansion

The 20,000 square foot expansion of the terminal involves the renovation and expansion of public areas in Concourse A and B. The expansion added new restrooms, concession space, and hold rooms. Project costs in fiscal year 2011 totaled $1.3 million. The total actual cost of the project as of August 31, 2011 was $12.7 million. The project is estimated at $14.7 million, all of which will be funded by the Airport Enterprise Funds.

Cottonwoods/Global Reach Drive Landscaping Improvements

This project consists of landscape improvements for medians and parkways on Global Reach Street from Montana Avenue to George Perry Boulevard and Cottonwoods from Global Reach to the Butterfield Trail Golf Club parking lot. Capital costs totaled $957,195 in fiscal year 2011 which was paid for by Airport Enterprise Funds. Total actual cost of the project as of August 31, 2011 was $1.2 million.

Extension of Long Term-Parking Lot (Solar Lights)



This project involved demolition of two buildings previously occupied by Fixed Based Operators to make way for 2,500 additional long-term parking spaces. The project was substantially completed in fiscal 2009; however work continued into fiscal year 2010, specifically the addition of solar lighting to the area. The project cost was estimated to be $2.3 million, of which $657,000 was expended in fiscal year 2010. The project was funded entirely from the Airport Enterprise Funds.

DEBT ADMINISTRATION

At the end of the fiscal year, the Airport had total bonded debt of $22.3 million, net of the unamortized discount, which is secured solely by fees for services rendered. This debt represents the Airport Revenue Bonds, Series 2011 and Refunding Bonds, Series 2003.

On June 1, 2011, the City issued $16.3 million in Airport Revenue Bonds, Series 2011. Proceeds from the sale of the Bonds, will be used to (i) improve, enlarge, extend or repair the Airport of a building improvement, landing field, or other facility the City considers necessary, desirable or convenient for the efficient operation and maintenance of the Airport.

On September 15, 2003, the City issued $18 million in Airport Revenue Refunding Bonds, Series 2003. Proceeds from the sale of the Bonds, along with other funds of the Airport, were used to refund the outstanding Airport Revenue Bonds, Series 1996, in order to lower the overall debt service requirements, fund the Debt Service Reserve Fund Requirement with respect to the Bonds, and pay the related costs of issuing the Bonds. The City provided $12.5 million of PFC restricted funds to facilitate the refunding and lower the overall remaining debt service. These funds were not eligible for other uses.

The insured debt is rated A+ by both Fitch and Standard and Poor's and A2 by Moody's Investors Service.Additional information on the Airport's long-term debt can be found in Note 11 of this Annual Report.

ECONOMIC CONDITIONS AND OUTLOOK

The financial condition of the Airport is dependent upon the number of passengers using the Airport, the amount of cargo moved through the facility, and the relative health of the aviation industry and community as a whole. In addition to aviation related income, the Airport generates revenue through multiple industrial park leases, hotel leases, and numerous other non-aeronautical use contracts. These leases provide stable income streams not directly associated with the aviation industry and provide a diverse revenue stream for the Airport.

Passenger Activity

Passenger levels are dependent upon several factors including the economic conditions of the airline industry, which influence the airlines' willingness and ability to provide service, the local and international economy, which influences the willingness and ability of consumers to purchase air travel, and the cost and associated price elasticity of air travel.

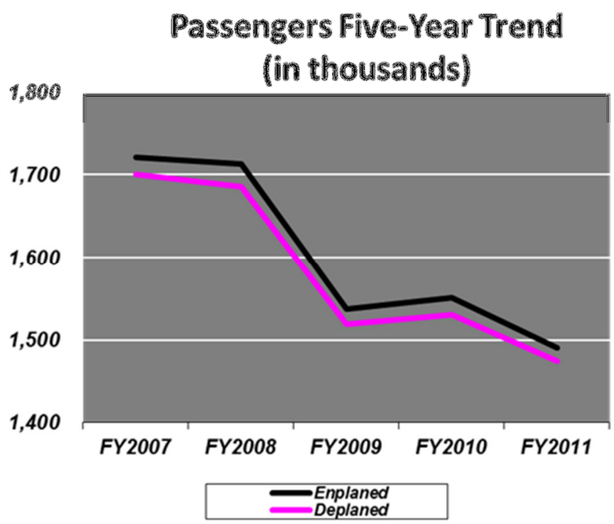
The Airport hosted 2.9 million passengers via six commercial airlines and their subsidiaries during fiscal year 2011. The Airport hosted 3.1 million passengers via six commercial airlines and their subsidiaries through 63 daily domestic departures during fiscal year 2010.

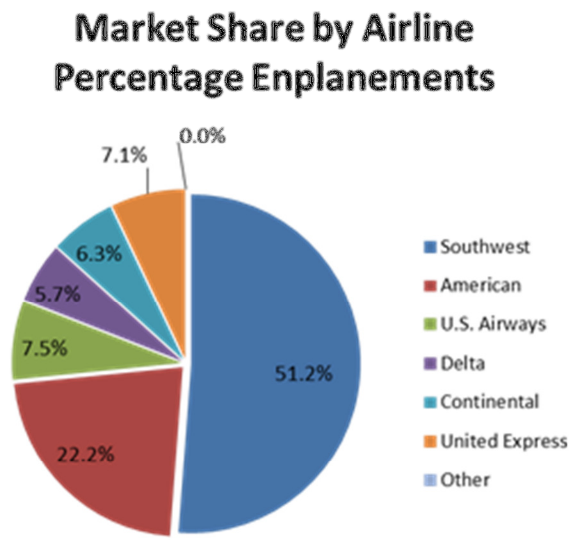
Enplaned and Deplaned Passengers Five-Year Trend

Fiscal Year	Passengers	% Change over Prior Year
2011	2,965,855	-3.77%
2010	3,082,170	0.85%
2009	3,056,073	-10.09%
2008	3,398,946	- 0.66%
2007	3,421,548	3.47%

There was a decrease in passenger traffic of -3.77% between fiscal years 2011 and 2010; however, the average annual decline in passenger traffic between fiscal years 2008 and 2011 was 2.04%.

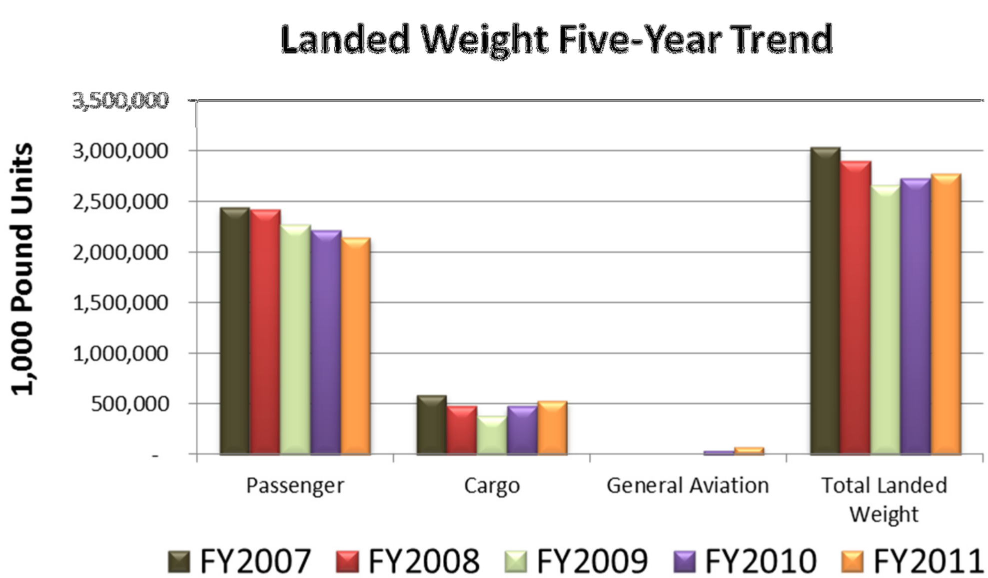
The following charts depict a five-year trend of both enplanements and deplanements and denote the commercial airlines operating at the airport and their respective market share.





Cargo Activity

In addition to serving the area's passenger needs, the Airport is the air cargo hub for the El Paso/Juarez border plex. Although Juarez has an airport providing passenger service to Mexico's major cities, it lacks air cargo facilities. As such, the air cargo facilities of the El Paso International Airport are used to meet the air transportation needs of the region. The graph below depicts the trend in landed weight for both passenger and air cargo traffic, highlighting a decrease in passenger landed weight but an increase in cargo freight. The landed weight in the General Aviation category is shown below. This represents aircraft exceeding 60,000 lbs serviced by our Fixed Based Operators.



Economic Outlook of the Airline Industry and the Airport Strategy

The national trend of declining airport traffic which began in fiscal year 2008, continued into fiscal year 2011 as a result of the national economy and its impact on consumers' discretionary spending. The airline industry, as a whole, continued to struggle with the impact of high fixed costs and the decrease in demand for travel. Despite the financial pressures faced by the airlines, the Airport attempts to balance its level of exposure to the industry economic shifts by diversifying revenue streams with non-aviation revenue sources.

Airline Industry

The U.S. Aviation industry continued to be affected in fiscal year 2011 by the slowdown in the economy and the resulting decrease in the demand for travel. Many airlines responded by reducing capacity and increased ticket prices.

Airport Strategy

The decline in airport revenue is directly attributable to the decline in passenger traffic. Airport staff responded immediately by closely monitoring revenues and expenses to ensure that cash flows were available for operations and for ongoing capital projects. Part of the evaluation included a close look at the timing of capital projects and focus was placed on cost control for both operations and capital project expenses.

Airline Agreement

The agreement currently in place with the Airlines establishes how the signatory or the participating airlines will be assessed annual rates and charges for their use of Airport facilities. These agreements determine the methodology by which annual rates and charges are calculated for signatory airlines. Landing fees are calculated on a residual basis, which means the airlines are responsible for the net cost of operating the airfield after an application of reductions for certain airfield revenues. The terminal rental rate is calculated on a compensatory basis, representing the airlines' portion of the cost of operating the terminal. Annual rates vary and are based on the City's budget for the subsequent year. Landing fees and terminal rental rates for non-signatory airlines are set by Ordinance and are assessed at 125% of the signatory rates. The current contract expired August 31, 2011. Negotiations began in fiscal year 2011 for a proposed five-year term.

Revenue Diversification

In addition to aeronautical revenue derived from the operation of the Airlines, the Airport strategically maintains and continues to expand diverse non-aviation revenue streams. The Airport's leasing activity includes both variable and fixed rate contracts. Variable contracts typically include percent-of-revenue clauses for hotel, car rental, and other similar leasing activities. Fixed rate contracts typically include fixed land and improvement rental rates for property owned and leased by the City's Department of Aviation. Such leasing and concessions activity is significant to the overall revenue streams of the Airport, accounting for 52% of non-aeronautical revenue and 30% of total operating revenue each year.

This type of activity helps to diversify the revenue sources of the Airport so that financial strength can be maintained despite economic fluctuations within the airline industry. The fact that Net Assets of the Airport have increased a combined $22.9 million over the past six years despite the multiple airline bankruptcies, increases in fuel costs, and the economic slowdown of 2008-2010 further sustains this premise and validates the Department of Aviation strategy.

Business Climate

The outlook for the region and the International Airport remains optimistic because of major endeavors in process with the City of El Paso and the surrounding region that could translate into increased passenger activity at the Airport.

The transfer of approximately 21,000 troops and as many as 30,000 family members to Fort Bliss resulting from Base Realignment and Closure (BRAC) Act and other various Army and Department of Defense initiatives will represent a significant gain in area military personnel. The influx of personnel should be complete by 2013.

In 2007, the 80th Texas Legislature passed a bill that provided the startup funds for the full four-year El Paso School of Medicine. The Texas Tech University Paul L. Foster School of Medicine welcomed its first class of four-year medical students in August 2009. A recent Texas Tech study showed the school will have a $1.5 billion economic impact to the community and will create more than 500 jobs. El Paso's First Children's Hospital opened on February 14, 2012 on the University Medical Center (formerly Thomason General Hospital) location.

In the coming years, Texas Tech University Health Sciences Center at El Paso will be the catalyst for enhancing first-rate medical care in the region, training more physicians and bringing more equity to the health care status of El Pasoans.

REQUEST FOR INFORMATION

The Airport's Annual Report is designed to provide citizens, customers, investors and creditors with a general overview of the Airport's finances. If you have questions about this report or need any additional information, contact the Airport as follows:

Attn: Director of Aviation
6701 Convair Road
El Paso, Texas 79925-1091
(915) 780-4724

CITY OF EL PASO, TEXAS

Balance Sheets

EL PASO INTERNATIONAL AIRPORT FUND

August 31, 2011 and 2010

	2011	2010
ASSETS		
Current assets:		
Cash and Cash Equivalents	$ 29,710,481	$ 15,278,927
Trade Receivables, net	1,713,367	1,717,546
Due From Other Government Agencies	199,585	103,699
Restricted Assets:		
Cash and Cash Equivalents	33,083,859	28,050,521
Trade Receivables	550,849	599,845
Prepaid Items	363,373	317,145
Inventories	1,231,251	1,241,863
Fuel Inventory	14,823	10,988
Total current assets	66,867,588	47,320,534
Noncurrent assets:		
Unamortized Bond Issue Expense	711,519	-
Capital Assets:		
Land	1,382,217	1,382,217
Buildings, Improvements and Equipment, net	176,641,143	174,091,669
Construction in Progress	10,684,453	14,508,629
Total noncurrent assets	189,419,332	189,982,515
TOTAL ASSETS	$ 256,286,920	$ 237,303,049
LIABILITIES		
Current liabilities:		
Accounts Payable	$ 3,394,467	$ 1,658,682
Accrued Payroll	675,974	627,499
Revenue Bonds Payable	1,000,798	960,525
Taxes Payable	53,796	50,225
Interest Payable on Bonds and Notes	93,650	13,265
Deferred Revenue	1,749,602	1,525,222
Compensated Absences	2,172,741	2,001,885
Construction Contracts and Retainage Payable	884,215	445,740
Total current liabilities	10,025,243	7,283,043
Noncurrent liabilities:		
Compensated Absences	612,825	564,634
Net Pension Obligation	1,093,764	941,997
Other Postemployment Benefits	2,210,990	1,645,004
Revenue Bonds, net	20,858,015	5,492,624
Total noncurrent liabilities	24,775,594	8,644,259
TOTAL LIABILITIES	34,800,837	15,927,302
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	180,614,584	183,529,366
Restricted for:		
Debt Service	11,413,172	10,132,496
Airport Operations	4,990,272	4,795,023
Passenger Facilities	17,263,226	13,748,495
Unrestricted	7,204,829	9,170,367
TOTAL NET ASSETS	221,486,083	221,375,747
TOTAL LIABILITIES AND NET ASSETS	$ 256,286,920	$ 237,303,049

The accompanying notes are an integral part of these financial statements.

CITY OF EL PASO, TEXAS

Statements of Revenues, Expenses, and Changes in Fund Net Assets

EL PASO INTERNATIONAL AIRPORT FUND

Years Ended August 31, 2011 and 2010

	2011	2010
OPERATING REVENUES:		
Charges of Rentals and Fees	$ 34,694,942	$ 34,907,576
TOTAL OPERATING REVENUES	34,694,942	34,907,576
OPERATING EXPENSES:		
Personnel Services	16,204,181	15,837,850
Professional Services	649,812	484,854
Outside Contracts	5,884,801	5,495,666
Fuel and Lubricants	311,469	277,954
Minor Equipment and Furniture	108,006	183,696
Materials and Supplies	668,565	640,428
Communications	219,209	206,735
Utilities	1,852,751	1,913,570
Operating Leases	35,068	27,620
Travel and Entertainment	127,746	147,977
Maintenance and Repairs	724,532	614,040
Other	381,151	358,910
Depreciation	14,581,757	14,557,577
TOTAL OPERATING EXPENSES	41,749,048	40,746,877
OPERATING LOSS	(7,054,106)	(5,839,301)
NONOPERATING REVENUES (EXPENSES):		
Investment Income	145,858	158,334
Interest Expense	(490,076)	(439,943)
Gain (Loss) on the Sale/Disposal of Equipment	16,027	(15,159)
Passenger Facility Charge	5,846,384	4,236,926
TOTAL NONOPERATING REVENUES (EXPENSES)	5,518,193	3,940,158
LOSS BEFORE CONTRIBUTIONS AND TRANSFERS	(1,535,913)	(1,899,143)
Capital Contributions	3,244,337	2,157,840
Other Contributions	14,320	360,128
Transfers Out	(1,612,408)	(2,094,418)
CHANGE IN NET ASSETS	110,336	(1,475,593)
TOTAL NET ASSETS-BEGINNING	221,375,747	222,851,340
TOTAL NET ASSETS-ENDING	$ 221,486,083	$ 221,375,747

The accompanying notes are an integral part of these financial statements.

CITY OF EL PASO, TEXAS

Statements of Cash Flows

EL PASO INTERNATIONAL AIRPORT FUND

Years Ended August 31, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities:		
Receipts from Customers	$ 34,976,066	$ 34,631,823
Payments to Suppliers	(9,266,776)	(11,071,942)
Payments to Employees	(15,218,906)	(14,882,750)
Net Cash Provided by Operating Activities	10,490,384	8,677,131
Cash from Noncapital Financing Activities		
Transfers to Other Funds	(1,612,408)	(2,094,418)
Net Cash Used for Noncapital Financing Activities	(1,612,408)	(2,094,418)
Cash Flows from Capital and Related Financing Activities:		
Proceeds from Capital Debt	15,654,945	-
Interest Paid on Bonds	(310,216)	(342,077)
Principal Paid on Bonds	(1,060,275)	(1,020,000)
Payments on Capital Assets Acquired through Construction Payables	(445,740)	(1,023,515)
Acquisition and Construction of Capital Assets	(12,422,842)	(6,966,208)
Proceeds from Sale of Equipment	16,027	(15,159)
Capital Contributions from Federal Government	3,148,451	2,171,984
Capital Contributions from Customer Forfeiture	14,320	325,000
Proceeds from Passenger Facility Charges	5,846,384	4,236,926
Net Cash Used for Capital and Related Financing Activities	10,441,054	(2,633,049)
Cash Flows from Investing Activities:		
Purchase of Investments	-	-
Proceeds from the Sale and Maturities of Investments	-	12,113,534
Interest on Investments	145,858	229,786
Net Cash Provided by Investing Activities	145,858	12,343,320
Net Increase (Decrease) in Cash and Cash Equivalents	19,464,888	16,292,984
Cash and Cash Equivalents, Beginning of Year	43,329,448	27,036,464
Cash and Cash Equivalents, End of Year	$ 62,794,336	$ 43,329,448
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:		
Operating Loss	$ (7,054,106)	$ (5,839,301)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:		
Depreciation	14,581,757	14,557,577
(Increase) Decrease in Assets:		
Accounts Receivable	53,175	75,194
Inventories	6,777	(90,539)
Prepaid Items	(46,227)	(2,590)
Increase (Decrease) in Liabilities:		
Accounts Payable	1,735,772	(627,362)
Accrued Payroll	48,475	117,810
Taxes Payable	3,571	1,873
Deferred Credits/Revenues	224,380	(352,820)
Compensated Absences	219,047	87,473
Net Pension Obligation	151,767	196,915
Other Post Employment Benefits	565,986	552,901
Net Cash Provided by Operating Activities	$ 10,490,374	$ 8,677,131
Noncash Activities:		
Building & Walk-In Freezer Acquired from Lease Termination		$ 325,000
Amortization of Bond Discount	99,476	99,476
Capital Assets Acquired through Payables	884,215	445,740
Bond Issue Costs	716,909	

The accompanying notes are an integral part of these financial statements.

YEARS ENDED AUGUST 31, 2011 AND 2010

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of significant accounting policies of the El Paso International Airport Fund (Airport).

A. Reporting Entity

The Airport opened in September 8, 1928 as a Class A municipal airport, for both day and night flying. The Airport is a fund of the City of El Paso, Texas (City), and its activities and functions are controlled by or dependent upon its governing body, the Mayor and City Council of El Paso, Texas (Mayor and Council). The City, as the primary government entity, reports the activities of the Airport as an enterprise fund in its financial statements. The accompanying financial statements do not purport to present the financial position and changes in financial position of the City, taken as a whole in accordance with GAAP.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The activities of the Airport, including Airport operations and leasing activities on Airport property, are accounted for as an enterprise fund. Under GASB Statement Number 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (Statement Number 34), enterprise funds may be used to account for activities that provide services to the general public for a fee and are required for any activity whose principal revenue sources meet any of the following criteria: 1) any activity that has issued debt backed solely by the fees and charges of the activity; 2) if the cost of providing services for an activity, including capital costs such as depreciation or debt service must legally be recovered through fees and charges; or 3) pricing policies establish activity fees or charges to recover the cost of providing services, including capital costs. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The financial statements of the Airport are presented on the flow of economic resources measurement focus and use the accrual basis of accounting. Revenues are recorded when earned. The Airport's operating revenues are derived from charges to users (i.e., airlines, tenants, and others) based upon usage of the Airport's facilities in accordance with rates established either by the Airport or under agreements with signatory airlines. Expenses are recognized when a liability is incurred, regardless of the timing of related cash flows.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Net assets are displayed in three components: 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation reduced by the outstanding balance of any bonds, notes, or other borrowings (excluding unspent proceeds) that are attributable to the acquisition, construction, or improvements of capital assets. Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (through debt covenants), grantors, or law or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net assets not classified as invested in capital assets, net of related debt or restricted are reported as unrestricted. Generally, the Airport would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

GASB Statement Number 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* requires that governments' proprietary activities apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins. Governments are given the option whether or not to apply to enterprise funds all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. The Airport has chosen not to implement FASB Statements and Interpretations issued after November 30, 1989.

C. Cash, Cash Equivalents, and Investments

Cash balances of the Airport, except for the portion relating to passenger facility charge revenues, are pooled with other City funds cash balances and invested. Earnings from pooled investments are allocated to funds based upon their share of pooled cash. The Airport's equity in the pooled cash and investments, currency on hand, cash held by trustee, and demand deposits with banks is presented as "Cash and Cash Equivalents" and "Investments."

All investments with an original maturity greater than one year from date of purchase are stated at fair value based upon quoted market prices as of year-end. Investments with an original maturity of less than one year are reported at amortized cost. Premiums and discounts on investments are amortized or accreted using the straight-line method, which approximates the interest method, over the terms of the related securities.

For purposes of the statement of cash flows, the Airport considers all highly liquid investments with an original maturity of approximately 90 days or less to be cash equivalents.

D. Inventories and Prepaid Items

Inventories, consisting of materials, supplies, and fuel held for future consumption, are valued at cost, which is determined by application of the first-in, first-out inventory valuation method. The expense for inventory costs is recognized at the time individual inventory items are consumed.

Prepaid items are goods or services that are paid for in advance and are applicable to future accounting periods. Using the consumption method, prepaid items are recorded as expenses as the goods or services are used.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Capital Assets

Capital assets are defined as assets with an initial, individual cost of more than $5,000 and an estimated useful life greater than one year. Capital assets are stated at cost or estimated historical cost if purchased or constructed, and at estimated fair value when acquired by donation. Maintenance and repairs are charged to operations as incurred, and improvements that extend the useful lives of fixed assets are capitalized and depreciated over the remaining useful lives of the related capital asset.

Interest costs incurred during the construction of capital assets are capitalized into the cost of the assets being constructed.

Depreciation of capital assets is calculated using the straight-line method over the following estimated useful lives:

Buildings	5 - 50 years
Improvements other than buildings	5 - 25 years
Vehicular equipment	3 - 10 years
Furniture and office equipment	3 - 10 years
Machinery and shop equipment	3 - 10 years

Improvements other than buildings include runways, roadways, and other infrastructure assets. When fixed assets of the Airport are retired from service or otherwise disposed of, a gain or loss on disposal of assets is recorded.

F. Compensated Absences

Leave benefits are accrued as a liability as the benefits are earned by employees, but only to the extent that it is probable the Airport will compensate the employees through paid time off or cash payments conditioned on the employees' termination or retirement.

Airport employees earn vacation leave, which may either be taken or accumulated (up to a maximum of 400 hours) until paid upon termination or retirement. In accordance with GASB Statement Number 16, *Accounting for Compensated Absences,* an accrual for unused vacation leave is reflected in the accompanying financial statements as compensated absences.

G. Transactions Between Funds

During the course of normal operations, the Airport has transactions with other funds of the City. Transactions between funds that represent exchange-like transactions are accounted for as revenues or expenses of the Airport.

Transactions that constitute reimbursements for expenses initially made from one fund and are properly applicable to another fund are recorded as expenses in the reimbursing fund and as reductions of the expense in the fund receiving reimbursement. All other transactions with other funds of the City are reported as "Transfers In" and "Transfers Out" and are included in the change in net assets.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Use of Estimates

The preparation of financial statements in conformity with GAAP requires that management make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates.

I. Due from Other Government Agencies

The Airport had $199,585 and $103,699 due from other government agencies at August 31, 2011 and 2010, respectively. These amounts reflect receivables from the United States Department of Transportation for federally funded security requirements and renovation and improvement projects of Airport facilities and property. The Airport expects to collect the $199,585 during fiscal year 2012.

J. Restricted Net Assets

Restricted net assets were $33,578,850 and $28,676,014 at August 31, 2011 and 2010, respectively, and are related to funds restricted by the Federal Aviation Administration for future airport improvement, operations, maintenance, and debt service.

Where both restricted and unrestricted assets can be used toward the same expense, the restricted asset will be first applied.

K. Bond Discount Amortization

The discount on the Airport Revenue Bonds is deferred and amortized over the term of the bonds using a method that approximates the effective interest method. Unamortized bond discounts are presented as a reduction of the face amount of bonds payable.

L. Long-Term Debt

Interest costs for debt service on general long-term debt are expensed during the reporting period, net of amounts capitalized for construction.

M. Adoption of GASB Statements

Effective September 1, 2009 the Airport adopted GASB Statements No. 51, *Accounting and Financial Reporting for Intangible Assets*, No. 53 *Accounting and Financial Reporting for Derivative Instruments* and No. 58 *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. Implementing these pronouncements did not have a material effect on net assets.

NOTE 2. DEPOSITS AND INVESTMENTS

The Airport is subject to the same legal and policy restrictions as the City with respect to its cash deposits and investments.

A. Pooled Cash and Investments

The City maintains a cash and investment pool (Pool) that is available for use by the Primary Government and Private-Purpose Trusts. Each fund's portion of the Pool is proportionately reported in these statements as "Cash and cash equivalents" and "Investments." Participation in the Pool is restricted and does not include cash on hand (petty cash and change funds) and other funds that are restricted because of statutory or contractual considerations. A fund may overdraw its account in the Pool, with the overdraft reported as a liability (Due to other funds) on the balance sheet. Earnings from the Pool are allocated to the funds based upon each fund's daily balance in the Pool in accordance with the City's investment policy.

The Airport held cash and cash equivalents and investments of $62,794,340 and $43,329,448 at August 31, 2011 and 2010, respectively. Of these amounts, $46,407,064 and $30,188,105 were in City cash pooled accounts and $16,387,276 and $13,141,343 were in non-pooled accounts at August 31, 2011 and 2010, respectively.

B. Deposits

Deposits of the Airport at August 31, 2011 and 2010 consisted of cash held separately with financial institutions of $71,006 and $2,418,567, respectively.

NOTE 2. DEPOSITS AND INVESTMENTS (Continued)

C. Investments

The Airport's investments are included in a pool of investments managed by the City Treasury. As of August 31, 2011 and 2010, investments of the City Treasury are as follows:

August 31, 2011:

		Maturity in years		
Investment Type	**Fair Value**	**Less than 1**	**1-5**	**Rating / Agency**
FHLB	$ 4,007,000		$ 4,007,000	AA+/S&P
FHLMC Bond	4,008,280		4,008,280	AA+/S&P
FNMA Bond	4,010,200		$ 4,010,200	AA+/S&P
Repurchase Agreements	45,886,637	45,886,637		AA+/S&P
External investment pools	$ 176,625,822	$ 176,625,822		AAAm / S&P

August 31, 2010:

		Maturity in years		
Investment Type	**Fair Value**	**Less than 1**	**1-5**	**Rating / Agency**
External investment pool	$ 171,271,862	$ 171,271,862		AAAm / S&P

The Airport follows GASB Statement Number 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* This statement requires that governmental entities report investments at fair value and that all investment income, including changes in the fair value of investments, be reported as revenue in the statement of activities. The Airport reports the change in fair value as "Investment Income."

The Airport, through the City, participates in TEXPOOL, LOGIC, Texas Term, TexSTAR and Wells Fargo Government Investment Fund, which are external investment pools. The State Comptroller of Public Accounts maintains oversight responsibility for TEXPOOL. This responsibility includes the ability to influence operations, designation of management and accountability for fiscal matters. LOGIC, Texas Term and TexSTAR are public funds investment pools organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code and are privately managed. Although TEXPOOL, LOGIC, Texas Term, TexSTAR and Wells Fargo Government are not registered with the SEC as investment companies, they operate in a manner consistent with the SEC's Rule 2(a)7 of the Investment Company Act of 1940. GASB Statement 31 allows 2(a)7-like pools to use amortized cost (which excludes unrealized gains and losses) rather than fair value to report net assets to compute share price. The fair value of the City's position in TEXPOOL, LOGIC, Texas Term, TexSTAR and Wells Fargo Government is the same as the value of TEXPOOL, LOGIC, Texas Term, TexSTAR and Wells Fargo Government shares.

NOTE 2. DEPOSITS AND INVESTMENTS (Continued)

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

The City has adopted an investment policy to minimize the inherent risks associated with deposits and investments. The primary objective of the City's investment policy is to invest funds to provide for the maximum safety of principal. After consideration of the City's safety and liquidity requirements, this policy seeks the highest possible investment return. The Airport adheres to the City's investment policy. The policy defines:

1. The requirements for authorized financial institutions, depositories, and broker/dealers;
2. Investments authorized and prohibited;
3. The maximum maturity for any single investment as three years;
4. The maximum dollar-weighted average maturity for investment pools as two years.

Custodial Credit Risk (Deposits) - Collateralization is required for deposits in demand deposit accounts, certificates of deposit and repurchase agreements. The collateralization level is 105% of principal and accrued interest. Collateral is held in the City's name by an independent third party with whom the City has a current custodial agreement and collateral instruments are limited to those instruments authorized by the City's investment policy.

Custodial Credit Risk (Investments) - Securities are held by the City's agent in the City's name.

Credit Risk – The investment policy authorizes the following securities:

1. Obligations of the United States or its agencies and instrumentalities.
2. Direct obligations of the State of Texas or its agencies and instrumentalities.
3. Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by the agency of instrumentality of the United States.
4. Other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities.
5. Obligations of states, agencies, counties or cities rated A or better by a national investment rating firm.
6. Certificates of deposit and share certificates.
7. Repurchase agreements.
8. Mutual funds that invest in securities described above.
9. Investment pools that invest in securities described above.

Concentration of Credit Risk – While the investment policy does not limit the percentage of authorized investment in the portfolio, investment diversification is required.

Interest Rate Risk– The City will minimize interest rate risk, which is the risk that the market value of securities will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature in a manner consistent with projected cash requirements, thereby avoiding the need to sell securities in the open market prior to maturity.

NOTE 3. ACCOUNTS RECEIVABLE

Accounts receivable are reported net of an allowance for doubtful accounts. Balances as of August 31 were:

	2011	2010
Unrestricted:		
Trade	$ 3,726,800	$ 3,702,293
Due from other government agencies	199,585	103,699
Allowance for doubtful accounts	(2,013,433)	(1,984,747)
	1,912,952	1,821,245
Restricted:		
Trade	550,849	599,845
Receivables, net of allowances	$ 2,463,801	$ 2,421,090

NOTE 4. CAPITAL ASSETS

Changes in capital assets were as follows:

	August 31, 2010	Transfers	Increases	Decreases	August 31, 2011
Capital assets not being depreciated:					
Land	$ 1,382,217	$ -	$ -	$ -	$ 1,382,217
Art and Historical Treasures	965,317	-	14,320	-	979,637
Construction in progress	14,508,629	(16,644,985)	12,820,809	-	10,684,453
Total capital assets not being depreciated	16,856,163	(16,644,985)	12,835,129	-	13,046,307
Capital assets being depreciated:					
Buildings	120,212,837	14,213,814	-	-	134,426,651
Improvements other than buildings	212,740,450	2,118,187	-	-	214,858,637
Vehicles and major equipment	14,801,287	312,984	471,927	(422,651)	15,163,547
Total capital assets being depreciated	347,754,574	16,644,985	471,927	(422,651)	364,448,835
Less accumulated depreciation for:					
Buildings	54,390,292	-	4,069,135	-	58,459,427
Improvements other than buildings	108,318,245	-	9,608,851	-	117,927,096
Vehicles and major equipment	11,919,685	-	903,772	(422,651)	12,400,806
Total accumulated depreciation	174,628,222	-	14,581,758	(422,651)	188,787,329
Total capital assets, being depreciated, net	173,126,352	16,644,985	(14,109,831)	-	175,661,506
	$ 189,982,515	$ -	$ (1,274,702)	$ -	$ 188,707,813

	August 31, 2009	Transfers	Increases	Decreases	August 31, 2010
Capital assets not being depreciated:					
Land	$ 1,382,217	$ -	$ -	$ -	$ 1,382,217
Art and Historical Treasures	965,317	-	-	-	965,317
Construction in progress	11,231,654	(3,127,017)	6,403,992	-	14,508,629
Total capital assets not being depreciated	13,579,188	(3,127,017)	6,403,992	-	16,856,163
Capital assets being depreciated:					
Buildings	119,217,536	680,301	315,000	-	120,212,837
Improvements other than buildings	210,489,548	2,295,135	-	(44,233)	212,740,450
Vehicles and major equipment	14,102,508	151,581	710,293	(163,095)	14,801,287
Total capital assets being depreciated	343,809,592	3,127,017	1,025,293	(207,328)	347,754,574
Less accumulated depreciation for:					
Buildings	50,983,972	(567,719)	3,974,039	-	54,390,292
Improvements other than buildings	98,287,379	567,719	9,507,380	(44,233)	108,318,245
Vehicles and major equipment	10,989,286	-	1,076,158	(145,759)	11,919,685
Total accumulated depreciation	160,260,637	-	14,557,577	(189,992)	174,628,222
Total capital assets, being depreciated, net	183,548,955	3,127,017	(13,532,284)	(17,336)	173,126,352
	$ 197,128,143	$ -	$ (7,128,292)	$ (17,336)	$ 189,982,515

Depreciation expense for the years ended August 31, 2011 and 2010 was $14,581,757 and $14,557,577, respectively.

The $315,000 increase to the Buildings category in the schedule above for fiscal year 2010 represents a building whose title reverted to the Airport. The City exercised its right to take title to the building after the expiration of a multi-year lease. The value of the building was determined through an appraisal. This transaction can also be seen in the Other Contributions category on the Statement of Revenues, Expenses, and Changes in Fund Net Assets and the Noncash Activities category of the Statement of Cash Flows.

NOTE 4. CAPITAL ASSETS (Continued)

At August 31, 2011 and 2010, respectively, the Airport had $5,716,933 and $2,448,171 in funds committed for significant construction contracts in progress.

Construction in progress, financed with FAA grants and/or Airport funds, consists of Runway Pavement rehabilitation, Industrial Park Development, Terminal Renovations and other infrastructure projects. Substantial portions of the capital assets owned by the Airport are leased to third parties through operating leases. The majority of these include certified passenger airline leases, commercial and non-commercial aviation ground leases, industrial site lease, auto rental concession leases, and food and beverage concession leases.

Assets leased to third parties as of August 31 were as follows:

	2011	2010
Terminal Building and Complex Operations	$ 61,708,495	$ 62,112,950
General and Commercial Aviation Operations	13,070,589	3,590,821
Industrial Park Operations	1,547,243	1,108,096
Air Freight Operations	5,117,261	1,801,853
New Cargo Operations	42,198,732	31,140,881
Parking Lot Operations	973,062	954,173
Golf Course Operations	2,859,502	2,859,502
Butterfield Trail Industrial Park Operations	6,565,703	6,565,703
Total Leased Assets	134,040,587	110,133,979
Less Accumulated Depreciation	(70,165,090)	(55,657,193)
Leased Assets, Net of Accumulated Depreciation	$ 63,875,497	$ 54,476,786

These leases are for varying periods and require the payment of minimum annual rentals. Leases with concessionaires also require payment of percentage rents based on sales in excess of stipulated amounts. Rental income in connection with these operating leases and various other monthly rental agreements for the years ended August 31 was as follows:

	2011	2010
Minimum Rental Income	$ 14,936,586	$ 14,698,110
Contingency Rentals	3,200,637	3,101,017
Total Rental Income	$ 18,137,223	$ 17,799,127

The following is a schedule of future minimum rental income to be received on non-cancelable operating leases as of August 31, 2011:

Year Ending	Amount
2012	$ 9,424,447
2013	8,303,710
2014	8,159,545
2015	7,745,514
2016	7,643,396
2017 - 2021	35,007,939
2022 - 2026	22,398,213
2027 - 2031	14,370,189
2032 - 2036	8,462,521
2037 - 2041	3,362,531
2042 - 2046	2,249,804
2047 - 2050	1,204,561
	$ 128,332,370

NOTE 5. RESTRICTED NET ASSETS

The Airport has net assets meeting the GASB 34 and 46, *Net Assets Restricted by Enabling Legislation - an amendment of GASB Statement No. 34*, requirement of external restriction, whereby such net assets are presented as restricted. The Airport is subject to three types of external restrictions, as described below:

1. The Airport has net assets that are restricted based upon an agreement with the United States Government entered into in 1950, whereby 1,907 acres of land were donated to the Airport. Any revenues derived from the sale, lease, or other use of this land must be utilized for the development, improvement, operation, and maintenance of the Airport. Under this agreement, these assets must be utilized for Airport activity subject to FAA approval.

2. The Aviation and Safety and Capacity Expansion Act of 1990 (Public Law 101-508, Title II, Subtitle B) authorized the local imposition of Passenger Facility Charges (PFCs) and use of PFC revenue on FAA approved projects. On October 4, 1996, the FAA approved a $3.00 PFC collection at the Airport, effective January 1, 1997. The Airport submitted an application to FAA requesting that the collection amount increase from $3.00 to $4.50. The application was approved May 20, 2010 with an effective date of August 1, 2010. The total approved amount of net PFC revenue plus interest that the Airport is authorized to collect is $76,826,242 by March 1, 2013.

3. The City issued Airport Revenue Bonds, Series 2003 on September 15, 2003. The related Bond Ordinance requires funding of certain debt service and reserve funds limited in use to debt service and other requirements as stipulated within the Ordinance and Official Statement.

Changes in restricted net assets for the years ending August 31 are summarized below:

	2011	2010
Operating Revenues:		
Charges of Rentals and Fees	$ 199,322	$ 200,331
Operating Expense:		
External Legal Counsel	(11,836)	(13,806)
Non-Operating Revenues:		
Interest Revenue	25,581	23,684
Interest Expense	(491,026)	(440,343)
Passenger Facility Charge	5,846,384	4,236,926
Transfer to/(from) Unrestricted Net Assets:		
Transfer to Debt Service	402,724	445,776
Transfer to Legal Reserves	1,281,159	-
Transfer from Passenger Facility Charge	(2,349,471)	(47,185)
Transfer to Restricted Net Assets	-	48,151
Increase in Restricted Net Assets	4,902,837	4,453,534
Restricted Net Assets, Beginning	28,676,014	24,222,480
Restricted Net Assets, Ending	$ 33,578,851	$ 28,676,014

NOTE 6. DUE FROM OTHER FUNDS

There were no interfund receivables or payables as of August 31, 2011 or 2010.

NOTE 7. CITY CHARGES and TRANSFERS

The Airport uses services of other City departments. In some cases, charges for these services are paid by the City and reimbursed by the Airport. In other cases, the payments are made directly by the Airport.

Reimbursements to the City for the years ending August 31 paid as indirect expenses were:

	2011	2010
Indirect Cost Allocation	$ 1,572,000	$ 1,900,825
Total Indirect Charges	$ 1,572,000	$ 1,900,825

Reimbursements to the City for services for the years ended August 31 paid as direct expenses were:

	2011	2010
Police Services	$ 2,689,085	$ 2,915,858
Airport Rescue and Fire Fighting Expenses	2,616,435	2,571,958
Fire Medical Services	530,580	474,502
Environmental Services	161,964	93,713
El Paso Water Utilities	692,401	427,855
City Manager	146,173	113,405
City Attorney	273,113	223,539
Financial Services	60,375	43,640
Engineering Services	247,308	160,624
Department of Transportation	1,481	2,763
Museum	-	632
Economic Development	43,629	193,593
Total Direct Charges	$ 7,462,544	$ 7,222,082

Direct expenses increased $240 thousand in fiscal year 2011 from the prior year. The increase is attributed to the increase in current year charges for water at the Butterfield Trail Golf Club and the cost of Engineering and Environmental services for Airport projects offset by declines in charges for Police services and Economic Development.

NOTE 8. RISK MANAGEMENT

The Airport is exposed to various risks of loss related to torts, theft of property, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters.

Claim liabilities are estimated considering the effects of inflation, recent claim settlement trends (including frequency and amounts of payouts) and other economic and social factors (including the effects of specific, incremental claim adjustment expense, salvage and subrogation.

NOTE 8. RISK MANAGEMENT (Continued)

Provisions for the various types of risks are presented below:

The Airport maintains a $25,000,000 comprehensive Airport liability insurance policy with a $100,000 annual deductible. The Airport also has in force an excess aviation liability policy with a limit of $75,000,000. Additionally, the Airport has liability and indemnity coverage through contractual agreements with various Airport tenants.

Airport employees are covered by a $2,000,000 liability insurance policy with an aggregate of $5,000,000 and a $100,000 deductible per occurrence.

The Airport participates in the self-insurance plans administered by the City (i.e., employees' health coverage, workers' compensation, and unemployment benefits).

Employer contributions towards such benefits are recognized as expenses/expenditures in the General Fund of the City and other applicable funds, including the Airport. The City offers life insurance benefits to eligible employees of the City through policies purchased from independent insurance carriers. The Airport also participates in property insurance coverage of the City.

NOTE 9. PENSION PLAN

The Airport contributes to the City Employee's Pension Fund (CEPF) and the Firemen and Policemen's Pension Funds (FPPF). The FPPF consists of separate divisions for firemen (FPPF-Firemen Division) and policemen (FPPF-Policemen Division). The following disclosures relate to the City's obligations and relationship with CEPF and FPPF.

The CEPF is a single-employer defined benefit pension plan administered by the Fund's Board of Trustees and was established in accordance with authority granted by Chapter 2.64 of the City Code. The CEPF Board of Trustees is comprised of two citizens designated by the Mayor who are not officers or employees of the City, four elected City employees, a retiree, and two City district representatives. The CEPF issues stand-alone financial statements, which may be obtained from the fund's administrative office:

City of El Paso Employee's Pension Fund
Two Civic Center Plaza
El Paso, TX 79901

The FPPF was established in accordance with authority granted by Article 6243b of *Vernon's Annotated Texas Statutes* and is not considered a component unit of the City. The FPPF issues stand-alone financial statements, which may be obtained from the fund's administrative office:

El Paso Firemen and Policemen's Pension Fund
8201 Lockheed Drive
Suite 229
El Paso, TX 79925

NOTE 9. PENSION PLAN (Continued)

A. Membership

Membership (City-wide) of each plan consisted of the following:

	CEPF		FPPF	
			December 31, 2010	
	August 31		Firemen	Policemen
	2011	2010	Division	Division
Retirees and beneficiaries receiving benefits	2,357	2,193	642	862
Terminated plan members entitled to but not yet receiving benefits	57	86	9	8
Active plan members	4,113	4,172	806	870
Total	6,527	6,451	1,457	1,740

B. City Employees' Pension Fund

1. Plan Description

The CEPF covers substantially all full-time employees of the City, except for uniformed fire fighters and police officers who are covered under the FPPF. Non-employer contributions are limited to participating employees of the respective entities.

The designated purpose of the CEPF is to provide retirement, death, and disability benefits to participants or their beneficiaries. The CEPF is administered by the CEPF Board, which is comprised of two citizens designated by the Mayor who are not officers or employees of the City, four elected City employees, a retiree, and two district representatives. The CEPF Board contracts with an independent pension custodian, investment managers, a pension consultant and an actuary to assist in managing the CEPF.

Through August 31, 2011, the City is the only contributing employer. The CEPF pays direct administrative costs. The City provides indirect administrative support such as office space, utilities, and payroll processing at no charge to the CEPF. The CEPF reimburses the City for various direct costs of processing pension checks, such as postage and supplies.

The CEPF is not required to maintain any legally required reserves.

Participation is mandatory for classified employees (except permanent part-time employees). For non-classified employees, participation is mandatory for employees hired after July 1997. Classified employees include all persons who are permanent, full-time employees and are not otherwise excluded from the CEPF. Participants who leave the plan before completion of five years of service receive a refund of their contributions. Participants leaving the plan with more than five years of service may receive a refund of their contributions plus interest at 5.5%, compounded annually.

NOTE 9. PENSION PLAN (Continued)

B. City Employees' Pension Fund (Continued)

1. Plan Description (Continued)

Participants become vested after reaching 40 years of age and 10 years of service. Normal retirement is the earlier of: (i) 55 years of age with 10 years of service or (ii) 30 years of service, regardless of age. Participants who have both completed 10 years of service and attained age 40 may retire, but defer receiving pension payments until they reach normal retirement age. Alternatively, such vested participants may elect an early retirement which will provide an actuarially reduced pension benefit payment upon termination. Persons retiring and eligible to receive benefits receive monthly pension payments in the amount of 2.5% of average monthly gross earnings received by the employee during the three years immediately prior to retirement or 2.5% of the average monthly base salary and longevity pay received by the employee during the year immediately prior to retirement, or 2.5% of the monthly base salary and longevity pay for the month immediately prior to retirement, whichever is greater, multiplied by the number of completed years of service, plus .2083 of 1% of such average for each additional completed or fractional part of a month of service. A reduced pension benefit is available to surviving spouses and dependents. The plan includes no automatic increase in retirement benefits; however, the Board at its discretion after consideration of a recent actuarial review of the funding status, may provide ad hoc cost of living or other increases in retirement benefits.

2. Basis of Accounting

The accounting policies of the CEPF 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 CEPF is accounted for on an economic resources measurement focus using the accrual basis of accounting.

The preparation of financial statements in conformity with generally accepted accounting principles requires the CEPF's 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 those estimates.

3. Method Used to Value Investments

Investments are stated at fair value in the Plan's statements of net assets available for benefits. The fair value of marketable investments, including U.S. government securities and corporate bonds and stocks, is determined by the latest bid price or by the closing exchange price at balance sheet dates (fair value). The fair value of investments in bank collective investment funds is determined by the investment funds based on the market values of the underlying securities in the funds. Bank collective investment funds are governed by Section 9.18 of Regulation 9 issued by the Office of Comptroller of the Currency and by other applicable regulations as defined by the Mellon Bank, N.A. Employee Benefit Collective Investment fund Plan.

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 in fair value of investments reflected in the accompanying statements of changes in net assets available for benefits represents gains or losses realized during the year plus or minus the change in the net unrealized gains or losses on investments. Net unrealized gains or losses on investments represent the change in the difference between the cost and market value of investments at the beginning versus the end of the year.

NOTE 9. PENSION PLAN (Continued)

B. City Employees' Pension Fund (Continued)

4. Concentration of Investments

The following table presents the fair value of investments that represent 5% or more of the CEPF's net assets available for benefits at August 31, 2011 and 2010. These investments are in bank collective investment funds which consist of diversified portfolios of investments.

	Shares/	Fair value
August 31, 2011:		
EB MCM Government Bond Index Fund		
Mellon Capital Management Corporation	163,703.872	$ 70,929,106
Winslow Large Capital Growth Fund		
Wilmington Trust Company	2,022,614.800	40,755,688
Touchstone Emerging Markets Equity Fund		
Wilmington Trust Company	3,237,719.111	40,439,119
MCM EB Daily Valued Treasury		
Mellon Capital Management Corportation	37,579.551	33,242,171
EB Daily Valued Treasury		
Mellon Capital Management Corportation	199,340.438	33,061,428
Shenkman Capital Convertible Bonds		
Shenkman Capital Management, Inc.	29,133,379.000	29,133,379
August 31, 2010:		
EB MCM Government Bond Index Fund		
Mellon Capital Management Corporation	156,454	$ 64,805,660
AIG Global Emerging Market Equity Fund		
AST Capital Trust Company	4,499,214	36,488,627
Winslow Large Capital Growth Fund		
Wilmington Trust Company	3,175,092	32,703,453
EB Daily Valued Treasury		
Mellon Capital Management Corportation	199,438	29,836,655
EB MCM Daily Valued Large Capital Index Fund		

NOTE 9. PENSION PLAN (Continued)

B. City Employees' Pension Fund (Continued)

5. Contributions

Contribution rates for the CEPF are based upon local statutes and are not actuarially determined. However, each time a new actuarial valuation is performed, contribution requirements are compared to the actuarially determined amount necessary to fund service costs and amortize the unfunded actuarial accrued liability (using entry-age-normal cost method) over 40 years. As of the most recent actuarial valuation, the contribution rate was 17% of annual covered payroll.

Contributions (City-wide) were made as follows:

	Year Ended August 31		Stated % of Covered Payroll	
	2011	2010	2011	2010
Employer contributions	$ 17,948,799	$ 17,626,236	11.65%	11.65%
Employee contributions	11,938,545	11,814,128	7.75%	7.75%
Total contributions	$ 29,887,344	$ 29,440,364	19.40%	19.40%

The Airport's contribution to the City Employees' Pension Fund was $905,480 and $905,843 for the years ended August 31, 2011 and 2010, respectively.

6. Securities Lending

The CEPF enters into securities lending transactions with broker / dealers for which fees were paid to the CEPF. The CEPF Board may legally and contractually authorize the use of CEPF's securities for lending transactions. Parameters are set with CEPF's investment guidelines for securities lending transactions. These guidelines require that all securities lending occur with specified broker / dealers and securities be collateralized using U.S. issuer securities at 102% and non U.S. issuer securities at 105% of the fair value of the securities. U.S. issuer securities used as collateral are marked to market on a daily basis to ensure that the collateralization of the fair value of investments is always maintained. The CEPF may not pledge or sell the collateral securities except on default of the borrower. Because of this, CEPF administration believes there is minimal credit risk associated with securities lending transactions. There is no loss indemnification provided to CEPF by the investment managers or broker / dealers. There is no cost associated with securities lending.

As of August 31, 2011 and August 31, 2010, securities loaned to others, at fair value, consisted of $38,721,884 and $52,893,772 in corporate stocks, respectively.

NOTE 9. PENSION PLAN (Continued)

B. City Employees' Pension Fund (Continued)

7. Annual Pension Cost and Net Pension Obligation

The City's annual pension cost and net pension obligation to CEPF for the current year were as follows:

Annual required contribution	$ 17,904,542
Interest on net pension obligation	34,334
Adjustment to annual required contribution	(23,936)
Annual pension cost	17,914,940
Contributions made	17,817,179
Increase in net pension obligation	97,761
Net pension obligation - 8/31/2010	429,175
Net pension obligation - 8/31/2011	$ 526,936

The City's annual pension cost, the percentage of annual pension cost contributed to the plan, and the net pension obligation for 2011 is as follows:

Fiscal Year Ended August 31	Annual Pension Cost	Percentage of Annual Pension Cost Contributed	Net Pension Obligation (Asset)
2011	$17,917,056	99.9%	$529,052
2010	$16,970,907	100.0%	$429,175
2009	$17,153,736	100.5%	$432,214

The Airport's share of the net pension obligation at August 31, 2011 and 2010 was $41,847 and $35,550, respectively.

8. Funded Status and Funding Progress:

The funded status of the plan as of September 1, 2010, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	$ 709,997,366
Actuarial value of plan assets	569,723,124
Unfunded AAL	140,274,242
Funded Ratio (actuarial value of plan assets/AAL)	80.2%
Covered payroll (active plan members)	$ 143,107,477
Unfunded AAL as a percentage of covered payroll	97.5%

NOTE 9. PENSION PLAN (Continued)

B. City Employees' Pension Fund (Continued)

9. Actuarial Methods and Assumptions:

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

For the September 1, 2010 actuarial valuation, the entry age normal cost method was used. The actuarial value of pension benefit assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The actuarial assumptions included an 8.0% investment rate of return (net of administrative expenses), projected salary increases of 4.5% to 7.75%, which includes an inflation rate of 4.0% and no costs of living increases. The remaining amortization period at September 1, 2010, was 30 years using a level percent, open basis, amortization period. There were no factors that significantly affected the identification of trends such as changes in benefits, actuarial methods or assumptions.

NOTE 9. PENSION PLAN (Continued)

C. Firemen and Policemen's Pension Fund

1. Plan Description

The designated purpose of the FPPF is to provide retirement, death, and disability benefits to participants or their beneficiaries.

The FPPF 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 City's contributions to the FPPF are limited to 18% of compensation as provided by the City Charter. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of the legal funding limitations.

The FPPF - Firemen Division 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 FPPF.

The FPPF - Policemen Division 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 FPPF.

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 FPPF 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 FPPF are terminated if contributions are refunded.

Upon completion of ten or more years of service, a participant may terminate his service for reasons other than disability or death and receive a pension commencing at age fifty or immediately upon date of termination of service if at least fifty years of age at the time of termination. The pension benefit is equal to 2.75% times final compensation, times the number of years of service, not to exceed 28 years. Normal retirement occurs when employees reach age forty-five and have twenty years of service. Retirement benefits are computed based upon 2.75% of the participant's final compensation times the number of years of service, not to exceed 77% of a participant's final compensation. A reduced pension benefit is permitted with twenty years of service and before age forty-five. The pension benefit is equal to 2.75% times final compensation times the number of years of service, not to exceed twenty-eight, multiplied by the appropriate actuarial reduction factor.

NOTE 9. PENSION PLAN (Continued)

C. Firemen and Policemen's Pension Fund (Continued)

1. Plan Description (Continued)

Final compensation is based upon the participant's highest wages in any calendar month, within the 12 months preceding retirement, excluding overtime pay. Except for disability pensions, a participant's final rank must have been held for at least six months in order to use the monthly pay at the higher rank. A surviving spouse receives 100% of the retiree's pension subject to certain provisions. A participant may receive disability benefits resulting from a total and permanent disability from an injury in the line of duty or any injury not due to the member's own fault. The disability benefit is equal to 2.75% of final compensation times the number of years of service, not to exceed twenty-eight years, with a minimum benefit of 50% of final compensation. Cost-of-living adjustments are granted to individuals retiring after March 23, 1980, subject to applicable waiting periods, except for deferred retirees. Participants who are fifty years old and have twenty and one-half years of service may elect the Back Deferred Retirement Option Program (Back DROP). The Back DROP benefit is a lump sum payment and a reduced monthly benefit. The Back DROP period must be at least six months and not more than 36 months.

2. Basis of Accounting

The FPPF is maintained under the provisions of Article 6243b of *Vernon's Annotated Texas Statutes.* All current FPPF provisions are set forth in a resolution entitled "El Paso Firemen and Policemen's Pension Fund" effective October 16, 1996 and amended July 17, 2002, as well as state statute. Benefit provisions, contribution obligations, and funding policy of the FPPF are established and amended in accordance with authority granted by Article 6243b of *Vernon's Annotated Texas Statutes.* The costs of administering the FPPF are paid out of the Fund's assets.

The FPPF financial statements are prepared using the accrual basis of accounting. Employer and participant contributions are recognized in the period in which employees provide services to the entity. Benefits and refunds are recognized when paid in accordance with the terms of each plan.

3. Method Used to Value Investments

Investments are reported at fair value. The fair value of investments is determined by the latest bid price or by the closing exchange price at balance sheet dates (market value). 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.

4. Contributions Required and Contributions Made

Funding policies provide for periodic employer and participant contributions as established by the City Charter, 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 FPPF. The FPPF's actuary has indicated that, under the current contribution rate, the FPPF will never accumulate sufficient assets to cover the Unfunded Actuarial Accrued Liability (UAAL). Based upon the results of the actuarial evaluations, if present contribution requirements are insufficient to accumulate sufficient assets to amortize the unfunded actuarial accrued liability, the FPPF's Board of Trustees, after approval by secret ballot of the rank and file policemen or firemen, could increase participant contributions or decrease participant benefits to maintain the actuarial integrity of the system. The City's contribution is determined by a formula set forth in the City Charter.

NOTE 9. PENSION PLAN (Continued)

C. Firemen and Policemen's Pension Fund (Continued)

5. Securities Lending

The FPPF entered into securities lending transactions with its custodian bank, Mellon Bank, N.A. (the Lending Agent), under which FPPF owned investments are loaned 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.

Concurrent with the delivery of the FPPF's securities to a borrower, the Lending Agent obtains from the borrower collateral in an amount equal, as of such date, to the required percentage, of the market value of any security loaned, including 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 that are denominated and payable in U.S. dollars, in which event the required percentage is 102%.

At December 31, 2010, $63,640,698 of FPPF owned investments were loaned to others.

6. Annual Pension Cost and Net Pension Obligation

The City's annual pension cost and net pension assets to FPPF for the current year were as follows:

Firemen Division

Annual required contribution	$11,747,947
Interest on net pension obligation	(4,289,096)
Adjustment to annual required contribution	3,232,662
Annual pension cost	10,691,513
Contributions made	9,634,416
Increase in net pension obligation	1,057,097
Net pension asset - August 31, 2010	(55,446,607)
Net pension asset - August 31, 2011	($54,389,510)

Policemen Division

Annual required contribution	$17,595,473
Interest on net pension obligation	(1,553,475)
Adjustment to annual required contribution	1,170,843
Annual pension cost	17,212,841
Contributions made	13,020,570
Increase in net pension obligation	4,192,271
Net pension asset - August 31,2010	(20,847,846)
Net pension asset - August 31, 2011	($16,655,575)

The Airport's share of the net pension obligation at August 31, 2011 and 2010 was $1,051,917 and $906,447, respectively.

NOTE 9. PENSION PLAN (Continued)

C. Firemen and Policemen's Pension Fund (Continued)

6. Annual Pension Cost and Net Pension Obligation (Continued)

The City's annual pension cost, the percentage of annual pension cost contributed to the plan, and the net pension obligation for 2011 is as follows:

Firemen Division

Fiscal Year Ended August 31	Annual Pension Cost	Percentage of Annual Pension Cost Contributed	Net Pension Obligation (Asset)
2011	$10,691,513	90.1%	($54,389,510)
2010	15,167,718	511.0%	(55,446,607)
2009	13,310,426	64.7%	6,990,462

Policemen Division

Fiscal Year Ended August 31	Annual Pension Cost	Percentage of Annual Pension Cost Contributed	Net Pension Obligation (Asset)
2011	$17,212,841	75.6%	($16,655,575)
2010	18,057,960	304.6%	(20,847,846)
2009	17,043,925	72.9%	16,910,248

7. Funded Status and Funding Progress:

Firemen Division:

As of January 1, 2010, the most recent actuarial valuation date, the plan was 81.8% funded. The actuarial accrued liability for benefits was $493,320,462 and the actuarial value of assets was $403,748,151, resulting in an unfunded actuarial accrued liability (UAAL) of $89,572,311. The covered payroll (annual payroll of active employees covered by the plan) was $48,172,561 and the ratio of the UAAL to the covered payroll was 185.9%.

Policemen Division:

As of January 1, 2010, the most recent actuarial valuation date, the plan was 82.2% funded. The actuarial accrued liability for benefits was $715,715,343 and the actuarial value of assets was $588,662,976, resulting in an unfunded actuarial accrued liability (UAAL) of $127,052,367. The covered payroll (annual payroll of active employees covered by the plan) was $62,537,734 and the ratio of the UAAL to the covered payroll was 203.2%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NOTE 9. PENSION PLAN (Continued)

C. Firemen and Policemen's Pension Fund (Continued)

8. Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

For the January 1, 2010 actuarial valuation, the entry age normal cost method was used. The actuarial value of pension benefit assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The actuarial assumptions included an 8.0% investment rate of return (net of administrative expenses), projected salary increases of 5.5% to 10.5%, which includes an inflation rate of 4.0% and a cost of living adjustment of 3%. The remaining amortization period at January 1, 2010, was 30 years using a level percent, open basis, amortization period. Factors that significantly affected the identification of trends were changes in contribution rates for the Policeman Division employees from 11.89% to 13.89% effective July 1, 2007.

NOTE 10. POSTEMPLOYMENT HEALTH CARE BENEFITS

Plan Description: The City sponsors and administers an informal single-employer defined benefit health care plan. Texas statute provides that retirees from a municipality with a population of 25,000 or more and that receive retirement benefits from a municipal retirement plan are entitled to purchase continued health benefits coverage for the retiree and the retiree's dependents unless the retiree is eligible for group health benefits coverage through another employer. The State of Texas has the authority to establish and amend the requirements of this statute. The City does not issue standalone financial statements of the health care plan but all required information is presented in this footnote.

Funding Policy: The contribution requirements of plan members are established by City ordinance and may be amended as needed. Retiree coverage is the same as the coverage provided to active City employees. Retirees pay premiums ranging from $171.56 per month to $1,249.79 per month depending on the coverage elected. The City's adopted budget policy maintains that retirees must pay 45% of the cost of premiums and the City will fund the remaining 55%. Retirees are responsible for the full cost of coverage for their dependents who participate in the plan. Retiree health care benefits are financed on a pay-as-you-go method and are recorded as an expense in the Internal Service Self-Insurance Fund as liabilities are incurred. Of 2,421 retirees eligible, there were 920 retirees covered under this plan at August 31, 2011. Dependent coverage was provided for 347 of the retirees. Total benefits paid by the City for retirees during the fiscal year were $6,135,654. Retirees contributed $2,625,357 or 45% of the total current year cost.

Annual OPEB Cost and Net OPEB Obligation: The City's annual other postemployment benefit (OPEB) expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

Annual required contribution	$ 15,101,458
Interest on net OPEB obligation	1,449,313
Adjustment to annual required contribution	(1,977,099)
Annual OPEB cost	14,573,672
Total annual employer contribution (pay-as-you-go)	(3,337,506)
Increase in net OPEB obligation	11,236,166
Net OPEB Obligation - September 1, 2010	32,206,950
Net OPEB Obligation - August 31, 2011	$ 43,443,116

The Airport's share of the Net OPEB obligation amounted to $2,210,990 and $1,645,004 for the years ended August 31, 2011 and 2010, respectively.

NOTE 10. POSTEMPLOYMENT HEALTH CARE BENEFITS Continued

The components of the annual required contribution (ARC) calculation reflecting a 30 year amortization period is as follows:

Normal Cost	$	5,602,685
Interest		252,121
Amortization Cost		9,246,652
Annual required contribution (ARC)	$	15,101,458

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of August 31 is as follows:

Fiscal Year Ended August 31		Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed		Net OPEB Obligation
2011	$	14,573,672	22.9%	$	43,443,116
2010	$	14,464,994	25.2%	$	32,206,950
2009	$	13,567,807	20.6%	$	21,394,214

Funded Status and Funding Progress: As of September 1, 2010, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was $147,776,597, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $147,776,597. The covered payroll (annual payroll of active employees covered by the plan) was $253,818,000 and the ratio of the UAAL to the covered payroll was 58.2%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the September 1, 2010, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.5% investment rate of return based on the City's rate of return on investments for 2007, and an annual health care cost trend rate of 10% for 2009 and then reduced by decrements of one percent annually to an ultimate rate of 5% after five years. Both rates included a 4.5% inflation assumption. The UAAL is being amortized as a level dollar of projected payroll on an open basis. The remaining amortization period at August 31, 2011, was thirty years.

NOTE 11. LONG-TERM OBLIGATIONS

A. Airport Revenue Bonds

The Series 2003 revenue bonds are payable solely from the net revenues of the Airport and PFC revenues. However, PFC revenues may only be used for debt service on amounts allocable to projects approved by the FAA.

The interest rates on the bonds range from 3.0% to 4.625%, with final payment due on August 15, 2016. The principal balance at August 31, 2011 and 2010 was $5,990,000 and $7,050,000, respectively. The balance of the discount on the bonds at August 31, 2011 and 2010 was $497,376 and $596,851, respectively.

Under the provisions of the Airport Revenue Bond Ordinance (Series 2003) adopted September 16, 2003, the City's covenants include but are not limited to: 1) the punctual payment of bond principal and interest; 2) the continued ownership, maintenance, and operation of the Airport; 3) the maintenance of insurance for Airport facilities and activities; and 4) the proper and complete keeping of accounting records.

In addition, the City further covenants that it will not acquire any properties that could materially affect its financial operations nor will the City construct, operate, or lease any additional airport or similar facilities that would result in a reduction of minimum required net revenues.

On June1, 2011, the City issued $16,330,000 of Airport Revenue Bonds. These bonds were issued at a premium of $36,463, issuance costs were $716,909, and interest rates are from 3.25% to 5.25%. The first payment is due on February 15, 2012 and the last payment is due August 15, 2028. These bonds were issued to improve Airport infrastructure.

B. Changes in Long-Term Obligations

Changes in long-term obligations were as follows:

	August 31, 2010	Additions	Reductions	August 31, 2011	Due Within One year
Revenue Bonds	$ 7,050,000	$ 16,330,000	$ 1,060,000	$ 22,320,000	$ 1,100,000
Unamortized Premium		36,464	275	36,189.00	273
Unamortized Discount	(596,851)	-	(99,475)	(497,376)	(99,475)
Total Bonds Payable	6,453,149	16,366,464	960,800	21,858,813	1,000,798
Compensated Absences	2,566,519	2,220,932	2,001,885	2,785,566	2,172,741
Net Pension Obligation - CEPF	35,550	1,129,634	1,123,337	41,847	-
Net Pension Obligation - FPPF	906,447	845,250	699,780	1,051,917	-
Other Postemployment Benefits	1,645,004	752,711	186,725	2,210,990	-
Long-term Liabilities	$ 11,606,669	$ 21,314,991	$ 4,972,527	$ 27,949,133	$ 3,173,539

	August 31, 2009	Additions	Reductions	August 31, 2010	Due Within One year
Revenue bonds	$ 8,070,000	$ -	$ 1,020,000	$ 7,050,000	$ 1,060,000
Unamortized discount	(696,327)	-	(99,476)	(596,851)	(99,475)
Total bonds payable	7,373,673	-	920,524	6,453,149	960,525
Compensated absences	2,479,046	2,021,129	1,933,656	2,566,519	2,001,885
Net Pension Obligation - CEPF	35,746	1,092,372	1,092,568	35,550	-
Net Pension Obligation - FPPF	709,336	1,025,421	828,310	906,447	-
Other Postemployment Benefits	1,092,103	739,626	186,725	1,645,004	-
Long-term liabilities	$ 11,689,904	$ 4,878,548	$ 4,961,783	$ 11,606,669	$ 2,962,410

NOTE 11. LONG-TERM OBLIGATIONS (Continued)

B. Changes in Long-Term Obligations (Continued)

Principal and interest payments on the bonds are as follows:

Year Ending August 31	Principal	Interest	Total
2012	1,100,000	1,108,829	2,208,829
2013	1,145,000	980,750	2,125,750
2014	1,195,000	932,088	2,127,088
2015	1,245,000	879,806	2,124,806
2016	1,305,000	823,781	2,128,781
2017 - 2021	3,675,000	3,557,250	7,232,250
2022 - 2026	4,470,000	2,763,801	7,233,801
2027 - 2031	5,655,000	1,576,788	7,231,788
2032 - 2033	2,530,000	196,613	2,726,613
	22,320,000	12,819,706	35,139,706

NOTE 12. COMMITMENTS AND CONTINGENCIES

A. Claims, Litigation, and Contingencies

A number of claims against the City are pending with respect to various matters arising in the normal course of the City's operation of the Airport.

Airport management and legal counsel are of the opinion that the settlement of these claims and pending litigation will not have a materially adverse effect on the Airport's financial statements.

B. Commitments

The Airport has continued to expend funds for capital projects subsequent to year-end. The sources of these funds are previously approved capital projects funded from the operating fund and through Federal aid contributions. Amounts committed were $445,740 and $7,387,676 at August 31, 2011 and 2010, respectively.

C. Grants

The Airport has received Federal financial assistance in the form of grants and entitlements that are subject to review and audit by the grantor agencies. Such audits could result in requests for reimbursement by the grantor agency for expenses disallowed under terms and conditions specified in the grant agreements. In the opinion of Airport management, such disallowances, if any, will not be significant.

D. Current Economic Condition

The current economic environment presents the Airport with unprecedented circumstances and challenges, which in some cases could result in large declines in the fair value of investments and other assets, declines in the volume of business, constraints on the liquidity, and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Airport.

Current economic conditions could result in a significant decline in airline passenger volume and governmental support. This could have an adverse impact on the Airport's future operating results.

In addition, given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change in the near term, resulting in material future adjustments in investment values, allowances for accounts, etc., that could negatively impact the Airport's ability to maintain sufficient liquidity.

NOTE 13. DEFERRED REVENUE

A. Deferred Revenue

In 2008 the Airport entered into a long-term easement agreement for the placement and operation of a gas pipeline with a 40-year term. The Airport accepted $1,025,887 as the net present value of the forty year revenue stream. The total amount was recorded as deferred revenue and is being recognized over the forty years of the lease in increments that equate to the net present value of the lease payment for each year. In both fiscal year 2011 and 2010, $11,957 was recognized as earned. The remaining amount will be recognized according to the following schedule.

Year Ending	Amount
2012	$ 14,349
2013	14,349
2014	14,349
2015	14,349
2016	14,349
2017 to 2021	86,093
2022 to 2026	103,312
2027 to 2031	123,974
2032 to 2036	148,769
2037 to 2041	178,523
2042 to 2046	214,227
2047	51,415
TOTAL	$ 978,057

The Airport also has deferred revenue of $771,545 that consists of funds received in advance from customers.

CITY OF EL PASO, TEXAS
Required Supplementary Information
Schedules of Funding Progress (in thousands) (Unaudited)
August 31, 2011

Actuarial valuation Date		Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal Cost Method (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (a/b)		Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Other Postemployment Benefits								
9/1/2010	$	-	147,777	147,777	-	$	253,818	58.2%
9/1/2007		-	138,637	138,637	-		234,513	59.1%
City Employees Pension Plan (CEPF) (1) (2)								
9/1/2010	$	569,723	709,997	140,274	80.2%	$	143,107	98.0%
9/1/2008		552,815	631,591	78,776	87.5%		136,508	57.7%
9/1/2006		471,232	568,602	97,370	82.9%		123,982	78.5%
Firemen and Policemen's Pension Fund (FPPF): (3)								
Firemen Division:								
1/1/2010	$	403,748	493,320	89,572	81.8%	$	48,173	185.9%
1/1/2008		317,925	431,939	114,014	73.6%		41,165	277.0%
1/1/2006		215,036	374,484	159,448	57.4%		38,326	416.0%
Policemen Division:								
1/1/2010	$	588,663	715,715	127,052	82.2%	$	62,538	203.2%
1/1/2008		515,354	613,942	98,588	83.9%		56,840	173.4%
1/1/2006		388,533	547,072	158,539	71.0%		53,275	297.6%

(1) Funding progress is evaluated by the Fund's enrollment actuary every other year.

(2) Beginning May 1, 2007, employee contributions increased from 6.75% to 7.75% and employer contributions increased from 10.25% to 11.65% of total salaries.

(3) Beginning May 1, 2007, employee contributions increased from 11.89% to 13.89%.

(4) All plans use the age normal cost method with the exception of the other post employment benefit plan which uses the projected unit credit cost method.

Unaudited - See accompanying independent auditors' report.

CITY OF EL PASO, TEXAS

Other Supplementary Information

EL PASO INTERNATIONAL AIRPORT FUND

Years Ended August 31, 2011 and 2010

Schedule of Operating Revenues and Expenses by Cost Center (Unaudited)
For the Year Ended August 31, 2011

	Operating Revenues	Operating Expenses Before Depreciation	Operating Income (Loss) Before Depreciation	Depreciation Expense	Operating Income (Loss)
General and Administrative	$ 205,891	9,728,835	(9,522,944)	482,207	$ (10,005,151)
Parking Lot Operations	5,893,870	1,954,100	3,939,770	223,780	3,715,990
Landing Area Operations	5,302,849	4,139,725	1,163,124	5,587,981	(4,424,857)
Terminal Building Operations	11,702,867	6,629,934	5,072,933	3,039,803	2,033,130
New Cargo Complex Operations	1,223,446	272,977	950,469	1,965,775	(1,015,306)
Industrial Park Operations	1,409,932	215,427	1,194,505	69,914	1,124,591
Lone Star Golf Course	188,119	-	188,119	133,248	54,871
Air Freight Operations	376,587	124,423	252,164	122,625	129,539
General and Commercial Aviation Operations	1,470,982	607,977	863,005	941,461	(78,456)
Butterfield Trail Industrial Park Operations	3,123,499	173,947	2,949,552	67,398	2,882,154
Global Reach Retail Development Operations	77,125	123,335	(46,210)	891,006	(937,216)
Cottonwoods Development	1,681,443	2,892,063	(1,210,620)	673,190	(1,883,810)
Hotel Operations	1,579,775	50,185	1,529,590	-	1,529,590
Science and Technology Park	-	-	-	380,036	(380,036)
International Trade Processing Center	259,235	241,577	17,658	3,333	14,325
Non-Cost Center Funds (in Aggregate)	199,322	12,786	186,536	-	186,536
TOTAL COST CENTERS (MEMO ONLY)	$ 34,694,942	27,167,291	7,527,651	14,581,757	$ (7,054,106)

Schedule of Operating Revenues and Expenses by Cost Center (Unaudited)
For the Year Ended August 31, 2010

	Operating Revenues	Operating Expenses Before Depreciation	Operating Income (Loss) Before Depreciation	Depreciation Expense	Operating Income (Loss)
General and Administrative	$ 55,409	9,365,090	(9,309,681)	483,188	$ (9,792,869)
Parking Lot Operations	5,158,473	1,847,933	3,310,540	199,320	3,111,220
Landing Area Operations	5,982,602	3,934,800	2,047,802	6,119,572	(4,071,770)
Terminal Building Operations	11,868,699	6,527,287	5,341,412	3,031,211	2,310,201
New Cargo Complex Operations	1,361,431	214,766	1,146,665	1,966,649	(819,984)
Industrial Park Operations	1,506,135	278,985	1,227,150	84,655	1,142,495
Lone Star Golf Course	187,664	6,265	181,399	133,248	48,151
Air Freight Operations	386,291	79,927	306,364	25,620	280,744
General and Commercial Aviation Operations	1,503,004	575,739	927,265	885,655	41,610
Butterfield Trail Industrial Park Operations	3,121,167	144,578	2,976,589	48,474	2,928,115
Global Reach Retail Development Operations	79,723	57,362	22,361	891,006	(868,645)
Cottonwoods Development	1,631,259	2,839,727	(1,208,468)	682,313	(1,890,781)
Hotel Operations	1,585,595	55,186	1,530,409	-	1,530,409
International Trade Processing Center	279,793	247,449	32,344	6,666	25,678
Non-Cost Center Funds (in Aggregate)	200,331	14,206	186,125	-	186,125
TOTAL COST CENTERS (MEMO ONLY)	$ 34,907,576	26,189,300	8,718,276	14,557,577	$ (5,839,301)

Unaudited - See accompanying independent auditors' report.

2011

El Paso International Airport
Financial Operating Report

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