

**WESTERN STATES OFFICE & PROFESSIONAL  
EMPLOYEES PENSION FUND**

**FINANCIAL STATEMENTS**

**December 31, 2008 and 2007**



**WESTERN STATES OFFICE & PROFESSIONAL  
EMPLOYEES PENSION FUND  
FINANCIAL STATEMENTS  
December 31, 2008 and 2007**

**TABLE OF CONTENTS**

	<u>Page</u>
Independent auditor's report	2
EXHIBIT A: Statements of net assets available for benefits as of December 31, 2008 and 2007	3
EXHIBIT B: Statements of changes in net assets available for benefits for the years ended December 31, 2008 and 2007	4-5
Notes to the financial statements	6-13

## **INDEPENDENT AUDITOR'S REPORT**

Board of Trustees  
Western States Office & Professional  
Employees Pension Fund

We have audited the accompanying statements of net assets available for benefits of the Western States Office & Professional Employees Pension Fund as of December 31, 2008 and 2007, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, information regarding the Fund's net assets available for benefits as of December 31, 2008, and changes therein for the year then ended and its financial status as of December 31, 2007, and changes therein for the year then ended in conformity with accounting principles generally accepted in the United States of America.

San Francisco, California  
September 22, 2009

**WESTERN STATES OFFICE & PROFESSIONAL EMPLOYEES PENSION FUND**  
**STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS**  
**December 31, 2008 and 2007**

**ASSETS**

	<u>2008</u>	<u>2007</u>
<b>Investments (Notes 2C and 5)</b>	\$ <u>322,603,896</u>	\$ <u>509,042,725</u>
<b>Receivables:</b>		
Employer contributions (Notes 2B and 3)	760,372	643,245
Accrued interest and dividends	-	29,197
Due from other funds	-	14,029
Miscellaneous	-	3,311
	<u>760,372</u>	<u>689,782</u>
<b>Cash:</b>		
Transit savings	729,033	10,063
Commercial accounts	67,502	320,774
Benefit account	<u>2,772,011</u>	<u>2,860,512</u>
	<u>3,568,546</u>	<u>3,191,349</u>
<b>Other:</b>		
Prepaid expenses	<u>-</u>	<u>76,101</u>
Total assets	<u>326,932,814</u>	<u>512,999,957</u>
<b>LIABILITIES</b>		
<b>Liabilities:</b>		
Due to broker	66,862	770,150
Accounts payable	<u>292,739</u>	<u>602,543</u>
Total liabilities	<u>359,601</u>	<u>1,372,693</u>
<b>Net Assets Available for Benefits</b>	\$ <u>326,573,213</u>	\$ <u>511,627,264</u>

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

**WESTERN STATES OFFICE & PROFESSIONAL EMPLOYEES PENSION FUND**  
**STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**  
**For the Years Ended December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b>Additions:</b>		
Employer contributions (Notes 2B and 3)	\$ 8,277,807	\$ 7,678,247
Pension rollovers	48,918	112,610
Liquidated damages	<u>-</u>	<u>146</u>
	<u>8,326,725</u>	<u>7,791,003</u>
Investment income:		
Realized and unrealized gain/(loss) on investments, net (Note 5)	(161,455,420)	19,003,950
Interest and dividends	<u>3,986,472</u>	<u>7,457,609</u>
	(157,468,948)	26,461,559
Less investment expenses	<u>(2,126,263)</u>	<u>(2,418,263)</u>
	<u>(159,595,211)</u>	<u>24,043,296</u>
Other income	<u>70,961</u>	<u>82,255</u>
Total additions	<u>(151,197,525)</u>	<u>31,916,554</u>
<b>Deductions:</b>		
Pension benefits (Note 1B)	<u>32,853,989</u>	<u>32,970,957</u>
Administrative fees	<u>332,111</u>	<u>333,164</u>

(Continued)

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

**EXHIBIT B****WESTERN STATES OFFICE & PROFESSIONAL EMPLOYEES PENSION FUND  
STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS -  
(Continued)  
For the Years Ended December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
Professional services:		
Legal	87,410	62,996
Actuary	127,820	114,540
Investment consulting	126,150	114,199
Auditing:		
Financial	22,500	19,200
Payroll	<u>29,766</u>	<u>35,676</u>
	<u>393,646</u>	<u>346,611</u>
General expenses:		
Insurance	148,985	167,829
Printing and postage	36,992	28,805
Educational seminars and meetings	87,908	76,685
Miscellaneous	<u>2,895</u>	<u>5,086</u>
	<u>276,780</u>	<u>278,405</u>
 Total operating expenses	 <u>1,002,537</u>	 <u>958,180</u>
 Total deductions	 <u>33,856,526</u>	 <u>33,929,137</u>
 Decrease in net assets available for benefits	 (185,054,051)	 (2,012,583)
 <b>Net Assets Available for Benefits:</b>		
Beginning of year	<u>511,627,264</u>	<u>513,639,847</u>
End of year	\$ <u>326,573,213</u>	\$ <u>511,627,264</u>

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

**WESTERN STATES OFFICE & PROFESSIONAL EMPLOYEES  
PENSION FUND  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1 - DESCRIPTION OF THE PLAN**

The following brief description is provided for general information purposes only. Participants should refer to the Summary Plan Description for more complete information.

**A. General:**

The Western States Office and Professional Employees Pension Trust is a defined benefit plan which was established on May 3, 1960 for the purpose of providing pension, disability and death benefits to eligible participants covered by collective bargaining agreements between the local unions and various employers in the union's jurisdiction. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA) and is exempt from federal and California taxes on income under the current provisions of the Internal Revenue Code and the California Revenue and Taxation Code, respectively.

**B. Plan Benefits:**

In general, participants who are age 62 and have five years of credited service are entitled to a normal pension benefit. A disability pension benefit, a death benefit, a reduced early pension benefit and pension enhancement benefits are available for qualified participants.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Accounting:**

The Fund's financial statements are prepared on the accrual basis of accounting.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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 those estimates.

**B. Employer Contributions:**

Employer contributions reported in the financial statements include amounts relating to hours worked by participants through December 31, plus material delinquent contributions.

The Fund has an employer payroll audit system in place in which the employers are randomly audited to verify that they are contributing in accordance with their signed agreement. Delinquencies may arise due to these payroll audits, but due to the uncertainty of collections, no estimates of the contributions will be accrued.

**WESTERN STATES OFFICE & PROFESSIONAL  
EMPLOYEES PENSION FUND  
NOTES TO THE FINANCIAL STATEMENTS - (Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**C. Valuation of Investments:**

Common stocks and mutual funds are stated at fair market value based on closing market quotations at December 31. Cash equivalents are valued at cost, which equals fair market value. Real estate funds are valued at the most recent independent appraisal value of the underlying real estate held, as well as quarterly internal evaluations, which equals fair market value. The common collective funds and 103-12 Investment entities are valued based upon closing market quotations and estimates of fair market value of the underlying assets, which equals fair market value. The insurance contract is valued based upon closing market quotation of the S&P 500.

**NOTE 3 - FUNDING POLICY**

During the years ended December 31, 2008 and 2007, the Fund received contributions from employers in various contracted payment types and amounts. The principal type of contributions were received as follows:

	<u>Hourly</u>
January, 2007 - December, 2007	\$ .05 - 7.69
January, 2008 - December, 2008	.005 - 8.19

The contribution rates are established by collective bargaining agreements to provide such amounts as are necessary on an actuarial basis to provide the Fund with assets sufficient to meet the benefits to be paid to the Fund participants. The contributions are designed to fund the Fund's current service costs on a current basis. The minimum funding requirements of ERISA have been met.

**NOTE 4 - PLAN TERMINATIONS**

The Board of Trustees has the right to discontinue or terminate the Fund in whole or in part. The rights of all affected participants to any benefit accrued to the date of the termination, partial termination or discontinuance will be governed by ERISA sections 404A and 4281 and the regulations there under.

Certain benefits under the Plan are insured by the Pension Benefit Guaranty Corporation (PBGC) if the Plan terminates.

**WESTERN STATES OFFICE & PROFESSIONAL  
EMPLOYEES PENSION FUND  
NOTES TO THE FINANCIAL STATEMENTS - (Continued)**

**NOTE 5 - INVESTMENTS**

**A. General**

The following information included in the Fund's financial statements as of December 31, 2008 and 2007, was prepared by Bank of New York, Barclays Global Investors, AXA Rosenberg, Western Asset Management Company, Mellon Capital Management, Alliance Bernstein, AEGON Institutional Markets, American Realty Advisors, Morgan Stanley and Company and Invesco. Investments are invested in accordance with an investment policy and program directed by the Board of Trustees and their selected financial advisor. The investment managers are selected by the Board of Trustees. The Administrator has obtained certification from the companies that such information is complete and accurate at December 31, 2008 and 2007.

	2008		2007	
	Fair Value	Cost	Fair Value	Cost
Common stock	\$ -	\$ -	\$ 16,323,246	\$ 16,456,038
Common collective funds	127,449,146	131,481,231	272,976,442	239,118,410
103-12 Investment entities	68,971,471	126,685,181	157,475,017	160,047,249
Mutual funds	35,920,805	33,677,610	-	-
Cash equivalents	3	3	-	-
Other:				
Real estate funds	57,875,639	55,748,765	62,268,020	51,416,017
Insurance contract	<u>32,386,832</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 322,603,896</u>	<u>\$ 347,592,790</u>	<u>\$ 509,042,725</u>	<u>\$ 467,037,714</u>

Included in investments at December 31, 2008 are the following which represent five percent or more of net assets available for benefits.

	Fair Market Value
Loomis Core Plus Full Discretion Trust	\$ 33,037,264
Intech Enhanced Plus Fund, LLC	24,769,669
American Core Realty Fund, LLC	29,345,281
Mellon Bank – EB Global Alpha 1 Fund	47,277,263
BGI – Alpha Tilts Fund	28,127,803
McMorgan Institutional Real Estate Fund I, LLC	27,307,013
Monumental Life – S&P 500 Total Return Index	32,386,832
Vanguard Star Total International Stock Index Fund	19,639,213
AXA Rosenberg Second Tier Trust Fund	18,747,333

**WESTERN STATES OFFICE & PROFESSIONAL  
EMPLOYEES PENSION FUND  
NOTES TO THE FINANCIAL STATEMENTS - (Continued)**

**NOTE 5 - INVESTMENTS – (Continued)**

**A. General – (Continued)**

**Net Appreciation (Depreciation) in Fair Value:**

During the years ended December 31, 2008 and 2007, the Fund's investments (including investments bought, sold as well as held during the year) appreciated/(depreciated) in value as follows:

	2008	2007
<b>Investments at fair value as determined by quoted market price:</b>		
Common stock	\$ (1,738,665)	\$ 4,305,427
Government obligations	-	591,500
Corporate obligations	-	(1,521,453)
Mutual funds	2,323,057	-
Other: insurance contract	(17,802,189)	-
	(17,217,797)	3,375,474
<b>Investments at estimated fair value:</b>		
Common collective funds	(90,681,090)	11,596,446
103-12 Investment entities	(44,832,757)	(827,435)
Other:		
Real estate funds	(8,723,776)	4,781,940
Real estate	-	139,082
Mortgage	-	(61,557)
	(144,237,623)	15,628,476
	\$ (161,455,420)	\$ 19,003,950

**WESTERN STATES OFFICE & PROFESSIONAL  
EMPLOYEES PENSION FUND  
NOTES TO THE FINANCIAL STATEMENTS - (Continued)**

**NOTE 5 – INVESTMENTS - (Continued)**

**B. Fair Value Measurements**

The Fund adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, Fair Value Measurements (“FAS 157”). In accordance with FAS 157, fair value is defined as the price that the Fund would receive upon selling an investment in a timely transaction to an independent buyer in the principal or most advantageous market of the investment. FAS 157 established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, for example, the risk inherent in a particular valuation technique used to measure fair value including such a pricing model and/or the risk inherent in the inputs to the valuation technique. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are assets that reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The three-tier hierarchy of inputs is summarized in the three broad Levels listed below.

- Level 1 – quoted prices in active markets for identical investments
- Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 – significant unobservable inputs (including the Fund’s own assumptions in determining the fair value of investments)

The following is a summary of the inputs used as of December 31, 2008 in valuing the Fund’s investments carries at value:

	Level <u>1</u>	Level <u>2</u>	Level <u>3</u>	Total <u>2008</u>
Common collective funds	\$ -	\$ 127,449,146	\$ -	\$ 127,449,146
103-12 Investment entities	-	68,971,471	-	68,971,471
Mutual funds	35,920,805	-	-	35,920,805
Cash equivalents	3	-	-	3
Other:				
Real estate funds	-	-	57,875,639	57,875,639
Insurance contract	<u>-</u>	<u>32,386,832</u>	<u>-</u>	<u>32,386,832</u>
	<u>\$ 35,920,808</u>	<u>\$ 228,807,449</u>	<u>\$ 57,875,639</u>	<u>\$ 322,603,896</u>

**WESTERN STATES OFFICE & PROFESSIONAL  
EMPLOYEES PENSION FUND  
NOTES TO THE FINANCIAL STATEMENTS - (Continued)**

**NOTE 5 – INVESTMENTS - (Continued)**

**B. Fair Value Measurements – (Continued)**

	Fair Value Measurement Using Significant Unobservable Inputs (Level 3)	
	Other - Real Estate Funds	Total 2008
Beginning balance	\$ 62,268,020	\$ 62,268,020
Unrealized gains (losses)	(8,723,776)	(8,723,776)
Purchases	<u>4,331,395</u>	<u>4,331,395</u>
Ending balance	<u>\$ 57,875,639</u>	<u>\$ 57,875,639</u>

**NOTE 6 - ACTUARIAL PRESENT VALUE OF ACCUMULATED PLAN BENEFITS**

Accumulated plan benefits are those future periodic payments that are attributable, under the Fund's provisions, to the service participants have rendered. Accumulated plan benefits include benefits expected to be paid to: (a) retired or terminated participants or their beneficiaries, (b) beneficiaries of participants who have died, and (c) present participants or their beneficiaries.

The actuarial present value of accumulated benefits is the amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of reductions such as for death, disability, withdrawal or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuation performed by the actuary at December 31, 2007, the most recent valuation, were (a) life expectancy of participants (the 1983 Group Annuity Mortality Table was used,) (b) retirement age assumptions (age 62 and 5 years of service) and (c) investment return (assumed at 7.25% per annum).

**WESTERN STATES OFFICE & PROFESSIONAL  
EMPLOYEES PENSION FUND  
NOTES TO THE FINANCIAL STATEMENTS - (Continued)**

**NOTE 6 - ACTUARIAL PRESENT VALUE OF ACCUMULATED  
PLAN BENEFITS – (Continued)**

The actuarial present value of accumulated plan benefits, at December 31, 2007 and 2006 and the changes in accumulated plan benefits for the years then ended, as developed by the Fund's actuary, follows:

STATEMENTS OF ACCUMULATED PLAN BENEFITS  
(as of December 31, 2007 and 2006)

	<u>2007</u>	<u>2006</u>
Actuarial present value of accumulated plan benefits:		
Vested benefits in a payment status	\$ 311,315,406	\$ 301,144,285
Other participants' vested benefits	<u>214,653,404</u>	<u>191,053,114</u>
Total vested benefits	525,968,810	492,197,399
Nonvested benefits	<u>17,483,917</u>	<u>40,444,167</u>
Total year end actuarial present value	\$ <u>543,452,727</u>	\$ <u>532,641,566</u>

STATEMENTS OF CHANGE IN ACCUMULATED PLAN BENEFITS  
(for years ended December 31, 2007 and 2006)

	<u>2007</u>	<u>2006</u>
Actuarial present value of accumulated plan benefits at beginning of plan year	\$ <u>532,641,566</u>	\$ <u>517,006,396</u>
Increase during year due to:		
Plan amendments*	1,383,243	1,475,698
Benefits accumulated	4,977,559	7,680,295
Increase for lesser discount period	37,421,316	36,398,392
Benefits paid	<u>(32,970,957)</u>	<u>(29,919,215)</u>
Net increase	<u>10,811,161</u>	<u>15,635,170</u>
Actuarial present value of accumulated plan benefits at end of plan year	\$ <u>543,452,727</u>	\$ <u>532,641,566</u>

\* A combination of higher average contribution rates with higher than expected average hours worked.

**WESTERN STATES OFFICE & PROFESSIONAL  
EMPLOYEES PENSION FUND  
NOTES TO THE FINANCIAL STATEMENTS - (Continued)**

**NOTE 7 – COMMITMENTS**

Effective May 2008, the Fund has committed a total of \$12,000,000 to the Invesco Real Estate Fund II, \$10,000,000 to the JP Morgan Infrastructure Investment Fund, and \$10,000,000 to the IFM Infrastructure Fund. As of December 31, 2008, \$3,000,000 of the \$12,000,000 commitment to Invesco has been invested while no amounts have been invested with JP Morgan or IFM.

**NOTE 8 – CONCENTRATION OF CREDIT RISK**

The following footnote is a general description of the deposit insurance as outlined by The Federal Deposit Insurance Corporation (FDIC). The FDIC is an independent agency of the United States government that protects against the loss of insured deposits if an FDIC insured bank or savings association fails. Effective October 3, 2008, the FDIC deposit insurance temporarily increased from \$100,000 to \$250,000 per depositor until December 31, 2009. For some employee benefit plans, the FDIC provides coverage known as “pass-through” insurance in which the coverage passes through the plan administrator to each participant’s interest or share. Additionally, the FDIC established the Temporary Liquidity Guarantee Program (TLG Program). The TLG Program provides an unlimited coverage for noninterest-bearing transaction accounts. This coverage became effective October 14, 2008 and will continue through December 31, 2009. The rules are a general description and may be applied differently to specific Trust Funds and specific situations.

**NOTE 9 – RISKS AND UNCERTAINTIES**

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