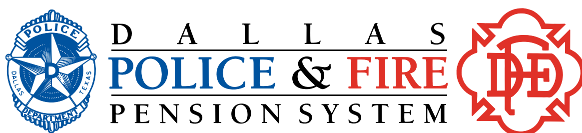
DALLAS POLICE & FIRE PENSION SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2015

AN INDEPENDENTLY GOVERNED COMPONENT UNIT OF THE CITY OF DALLAS, TEXAS

THE ROAD AHEAD

Serving those who protect the Dallas community.



An independently governed component unit of
the City of Dallas, Texas

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Comprehensive Annual Financial Report
For the fiscal year ended December 31, 2015

Kelly Gottschalk, *Executive Director*

Prepared through the combined efforts of the
Dallas Police & Fire Pension System Staff

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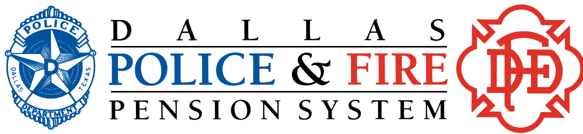
Introduction

All you need is the plan, the road map, and the courage to press on to your destination.

- Earl Nightingale

TRANSMITTAL LETTER



July 21, 2016

Board of Trustees
Dallas Police and Fire Pension System
4100 Harry Hines Blvd., Suite 100
Dallas, TX 75219

Dear Trustees and Members:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the Dallas Police and Fire Pension System (DPFP), including the Combined Pension Plan and the Supplemental Police and Fire Pension Plan of the City of Dallas (Supplemental Plan), collectively referred to as the Plans, for the fiscal year ended December 31, 2015.

The CAFR has five sections: Introduction, Financial, Investment, Actuarial and Statistical. Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with DPFP management.

Management is responsible for establishing a system of internal controls to safeguard assets. The cost of a control should not exceed the benefits to be derived, the objective of the system of internal controls is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. BDO USA, LLP (BDO) audited the accompanying basic financial statements and related disclosures. The financial statement audit provides reasonable assurance that DPFP's financial statements are presented in conformity with accounting principles generally accepted in the United States of America and are free from material misstatement.

The financial statements include a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of management's discussion and analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. MD&A can be found immediately following the independent auditor's reports in the Financial section.

PROFILE OF DPFP

DPFP is an independently governed component unit of the City of Dallas and serves to provide retirement, death and disability benefits to police officers and firefighters employed by the City. DPFP is a single employer contributory defined benefit plan. The general terms "police officers" and "firefighters" also include fire and rescue operators, fire alarm operators, fire inspectors, apprentice police officers, and apprentice firefighters.

A retirement plan for Dallas police officers and firefighters was first created in 1916 by City of Dallas ordinance. In 1933, the 43rd Legislature enacted 6243a, Vernon's Texas Civil Service Statutes, establishing DPFP in statutes. DPFP was restated and continued in 1989 by an Act of the 71st Legislature under Article 6243a-1. This plan is referred to as the Combined Pension Plan. At December 31, 2015, there were 9,971 members and beneficiaries in the Combined Pension Plan.

The Supplemental Plan was created by City ordinance in 1973. The intent of the Supplemental Plan is to provide additional retirement benefits to those members holding a rank higher than the highest corresponding civil service rank as provided in the Combined Pension Plan. At December 31, 2015, there were 169 members and beneficiaries in the Supplemental Plan.

The assets of the Combined Pension Plan and the Supplemental Plan are co-invested through a Group Master Trust. Administrative and professional expenses of DPFP are allocated to each plan on a pro-rata share based on the assets of each plan.

2015 FINANCIAL RESULTS

The Plans' net position decreased by $396 million in 2015 driven primarily by declines in real estate and private equity investments. Real estate performance was adversely impacted by changes in the estimated fair value of certain development stage properties, as well as declines in the estimated enterprise value of certain real estate related business ventures which were previously included in the private equity asset class and reclassified in 2015 to the real estate asset class. Private equity performance continued to be adversely impacted by exposure to the energy sector as well as changes in estimates of enterprise values of certain business ventures.

The rate of return on Group Trust investments during 2015 was (12.6%) net of fees, compared to a rate of return of 4.0% for 2014. The rate of return is provided by NEPC, LLC (NEPC), DPFP's investment consultant. The rate of return calculations for 2015 and 2014 were prepared using a time-weighted rate of return in accordance with the CFA Institute's Global Investment Performance Standards and, as such, cannot be recalculated from the information provided herein.

Additional information on financial results is provided in the Financial and Investment sections. The Investment Consultant's Report in the Investment section provides additional economic information and the rate of the return for 2015.

FUNDING STATUS

In conjunction with the January 1, 2016 actuarial analysis, a five-year experience study was performed which resulted in adjustments to several actuarial assumptions, as well as a recommendation to reset the actuarial value of assets to the market value of assets as of January 1, 2016 as discussed in more detail below under Smoothing of Gains and Losses. Primarily as a result of the reset of asset value, the actuarial funding level of the Combined Pension Plan has declined to 45.1% as of January 1, 2016. The actuarial funding level was 75.6% and 63.8% at January 1, 2014 and 2015, respectively. The funding level of the Supplemental Plan declined to 45.8% as of January 1, 2016. The funding level of the Supplemental Plan was 62.0% and 51.2% at January 1, 2014 and 2015, respectively.

The contribution level of the Combined Pension Plan is set statutorily at 8.5% for employee contributions and 27.5% for employer contributions. For the January 1, 2016 valuation, the actual contribution rate is 37.61%, as calculated by the actuary, including both employer and employee contributions. The total recommended contribution for 2016 is 72.72% of Computation Pay, based on the normal cost and a 40-year amortization period. When comparing the recommended contribution to the actual contribution as set statutorily, there is a 35.11% shortfall. The City's contribution for the Supplemental Plan is actuarially determined and is $3,063,584 for 2016, an increase of approximately $620 thousand from the prior year.

Current contributions are not sufficient to fund the Combined Pension Plan over a finite period. The Combined Pension Plan is projected to become insolvent within 15 years if no changes to the plan provisions or contribution rates are made and all assumptions are met in the aggregate. The Texas Pension Review Board requires that municipal plans develop a Funding Soundness Restoration Plan if their effective amortization period exceeds 40 years for three consecutive years. This is the second year the funding period has exceeded 40 years for the Combined Pension Plan.

Additional information on the funding status, actuarial assumptions and asset values can be found in MD&A, notes to the financial statements, Required Supplementary Information, and the Actuarial and Investment sections.

MAJOR INITIATIVES AND SIGNIFICANT EVENTS

The theme of this annual report is "The Road Ahead". The Road Ahead is reflective of where we are now with the work that has been completed and where we are headed in the very critical next few years to ensure that the assets are available to meet the obligations of the Plans. Following are some of the major initiatives and significant events from 2015 and year-to-date 2016.

In July 2015, the former actuarial consultant provided information to the Board of Trustees (Board) concluding, for the first time, that assets were not projected to be sufficient to meet the long term obligations of the Plans. The January 1, 2016 actuarial valuation report as summarized in the accompanying Actuary's Report from our new actuary, Segal Consulting, also indicates that assets are not sufficient to meet the long term obligations of the Plans. The outlook is based on recent reductions in the valuation of certain real estate and private equity investments and recognition that the investment portfolio is not expected to earn the rate of return previously projected. DPFP has been in a state of transition since 2014 and many difficult decisions and changes have been made and continue to be made. The most significant changes in the last year include revising the investment program, including adopting a new asset allocation and a revised investment policy, completing an actuarial experience study and adopting revised assumptions, and the ongoing extensive evaluation process of possible plan design changes for a potential plan amendment election in the fall of 2016 to address the projected funding shortfall. Additional information regarding these changes is included in MD&A and the notes to the financial statements in the Financial section, as well as the Investment and Actuarial sections of this report.

INVESTMENT PROGRAM

DPFP, working with our investment consultant NEPC, recently studied the liquidity needs of the Plans and compared anticipated needs to the liquidity offered by the existing investment portfolio. In conjunction with this liquidity study, an analysis of the existing portfolio, expected future capital market assumptions, the adopted 7.25% assumed rate of return and the Board's risk tolerance were considered in developing a new strategic asset allocation. The asset allocation was adopted by the Board in March 2016. The new asset allocation is designed to enhance DPFP's cash flow production while reducing overall portfolio volatility. However, due to the nature of our existing portfolio, it will take several years to fully transition the portfolio to the new allocation targets. In April 2016, the Board adopted a new Investment Policy Statement which, among other things, clearly defines the roles and responsibilities of the Board, DPFP staff and the investment consultant. Investment performance reporting to the Board and members was enhanced in 2016.

REAL ESTATE PORTFOLIO

In August 2014, the Board initiated a real estate portfolio reallocation process with goals of more broadly diversifying the investment manager base and adding third party fiduciary management of separate account and direct investment real estate assets where an investment manager was previously not in place. The reallocation process resulted in the transfer of approximately $600 million in DPFP real estate investments to four new investment managers during 2015. The newly appointed managers conducted detailed asset-level reviews of their takeover portfolios and reported their findings and strategic recommendations to the Board over the course of 2015 and into 2016. A significant portion of the real estate losses in 2015 were a direct result of the new managers' evaluations of the assets. The real estate asset class target allocation was reduced to 12% in the new asset allocation adopted in 2016. At December 31, 2015, real estate accounted for 23.48% of the total portfolio.

NOTE PAYABLE REPAYMENT

DPFP has a credit agreement with Bank of America, N.A. which provides both a revolving line of credit and a term loan. During 2015, DPFP paid down the amount of debt outstanding to Bank of America by nearly $100 million. At December 31, 2015 the revolving loan had $103 million outstanding compared to $163 million at December 31, 2014. The term loan was reduced from $170 million at December 31, 2014 to $130 million at December 31, 2015. Additional aggressive debt repayment has continued into 2016 and as of the date of this report, the combined balances have been reduced to $160 million. Additional information on notes payable is available in Note 6 of the financial statements.

BENEFIT PAYMENT INCREASE

Payments to members increased by $38.2 million or 15.4% over 2014. The rate of increase in distributions accelerated over prior year as the increase between 2013 and 2014 was 12.5%. The increase in 2015 is due to a growing number of benefit recipients, post retirement increases to base benefits as provided by the terms of the Combined Pension Plan, and growth in distributions from DROP accounts. The increase in 2015 consists of an $11.4 increase in the monthly benefits and a $26.9 million increase in DROP distributions. A portion of the growth in DROP distributions reflects the implementation of the new Required Annual Distribution requirement that was part of the 2014 plan amendment.

ACTUARIAL FIRM

DPFP hired Segal Consulting (Segal), to provide actuarial services to DPFP beginning January 1, 2016. Prior to this change, DPFP had used the same actuarial firm since the mid-1990's. Segal conducted a comprehensive experience study, prepared the actuarial valuations for the Combined Plan and the Supplemental Plan, provided the required Governmental Accounting Standards Board (GASB) 67 requirements for the Plans and assisted an ad-hoc committee of the Board with developing and evaluating numerous potential plan design changes.

ACTUARIAL EXPERIENCE STUDY

Pursuant to current actuarial industry standards, an actuarial experience study should be prepared at least every five years. Segal's review included the five-year period ending December 31, 2014. The purpose of such a study is to modify current assumptions to reflect emerging experience as well as expected experience in future years. The experience study included a review of all assumptions and methods used in the actuarial valuation. At the April 2016 Board meeting, the Trustees adopted new actuarial assumptions based on the results of the experience study and the advice of Segal. These new assumptions are the basis for the January 1, 2016 valuations and GASB 67 reports. Additional information can be found in MD&A and the Actuarial section.

SMOOTHING OF GAINS AND LOSSES

In the January 1, 2013, 2014 and 2015 valuations, the actuarial value of assets reflected ten-year smoothing of market gains and losses. Prior to January 1, 2013, the smoothing period was five years. Over the last two years, there have been significant write-downs of some of DPFP's real estate asset holdings. Since these adjustments are not expected to be recurring events and are not directly related to changes in the investment markets, the Board has decided to recognize them immediately for actuarial valuation purposes as opposed to smoothing them over future years. Therefore, the actuarial value of assets has been reset to market value as of December 31, 2015. The assets for actuarial valuation purposes are approximately $1 billion less than last year. Future actuarial gains and losses will be recognized over a five-year smoothing period. This modification is not expected to have a material impact on the long-term funding level, but does reduce the actuarial value of assets and will be reflected in short-term solvency projections used for evaluation of possible plan amendments.

2014 PLAN AMENDMENT CHANGES

The plan amendment changes adopted by the members in 2014 are still the subject of ongoing litigation and are discussed in detail in Note 9 in the notes to financial statements.

Additional information on the 2014 plan amendments is available in MD&A and in Note 5 in the notes to the financial statements in the Financial section of this report.

AWARDS

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

The Government Finance Officers Association (GFOA) of the United States and Canada awarded the Certificate of Achievement for Excellence in Financial Reporting to DPFP for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2014. To be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents meet or exceed program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid only for one year. This was the first year DPFP received the Certificate of Achievement. We believe our current report continues to meet the Certificate of Achievement program requirements and are submitting it to the GFOA for consideration again this year.

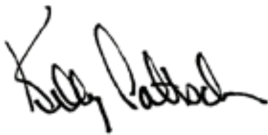
PUBLIC PENSION STANDARDS AWARD FOR ADMINISTRATION

The Public Pension Coordinating Council (PPCC) gave the 2015 Public Pension Standards Award for Administration to DPFP in recognition of meeting professional standards for plan administration as set forth in the Public Pension Standards. We believe we continue to meet the requirements and are applying to the PPCC for consideration again this year.

ACKNOWLEDGEMENTS

I would like to take this opportunity to thank the members of DPFP for their support as we continue to progress through a difficult transition. Also, I would like to express my sincere thanks to the Board for its dedicated effort in supporting DPFP and their commitment to making the tough decisions that are required to ensure that benefit obligations are met over the long term, as promised. Additionally, I would like to thank the staff and consultants for their commitment to DPFP and their diligent work to assure DPFP’s success. Lastly, I would like to expressly recognize the work of Summer Loveland, John Holt and Ryan Wagner for their efforts in preparing this annual report.

Respectfully submitted,



Kelly Gottschalk
Executive Director

BOARD OF TRUSTEES

AS OF JULY 2016

The DPFP plan document establishes the makeup and the role of the Board of Trustees. The Board is responsible for the administration of DPFP and investment of the assets of the Combined Pension Plan and Supplemental Police and Fire Pension Plan of the City of Dallas.

The Board consists of twelve Trustees who are selected as follows:

- The City Council names from among its members, four Trustees. The City Council Trustees are to serve for the term of office to which they were elected as Council members.
- Six Trustees are elected by the members. The police and fire-rescue department members of DPFP who are on active service separately, by department, elect from among their respective departments three active police officer and three active firefighter members. Active police and fire Trustees serve four-year staggered terms.
- The remaining two Trustees are elected by the pensioners. One Trustee is a pensioner who has retired from the police department and the other Trustee is a pensioner who has retired from the fire-rescue department. The pensioner Trustees serve terms of four years.

The Board serves without compensation and meets not less than once each month. Seven Trustees of the Board constitute a quorum at any meeting.

SAMUEL L. FRIAR
Fire-Rescue Department
Chairman
Term: Feb. 2011 - June 2017

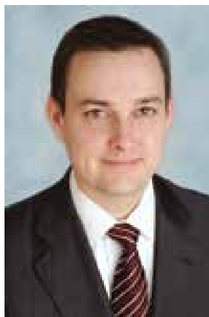
KEN HABEN
Police Department
Vice Chairman
Term: June 2013 - June 2017

JOSEPH SCHUTZ
Police Department
Deputy Vice Chairman
Term: July 2013 - June 2019

GERALD BROWN
Fire-Rescue Pensioner
Term: June 2013 - June 2017
(previous service 1983-2010)

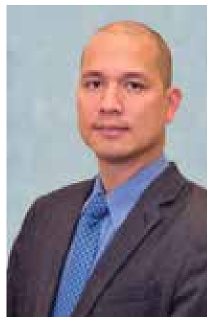
JENNIFER STAUBACH GATES
City Council
Term: June 2016 - June 2017

CLINT CONWAY
Fire-Rescue Department
Term: June 2015 - June 2019

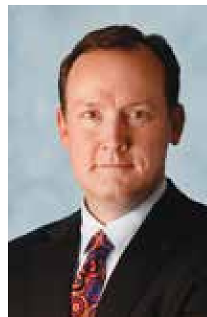


SCOTT GRIGGS
City Council
Term: Jan. 2012 - June 2017

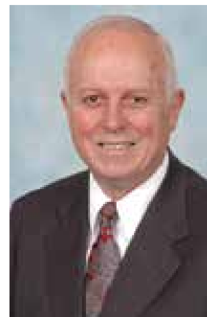
BRIAN HASS
Fire-Rescue Department
Term: June 2015 - June 2019



THO TANG HO
Police Department
Term: June 2015 - June 2019



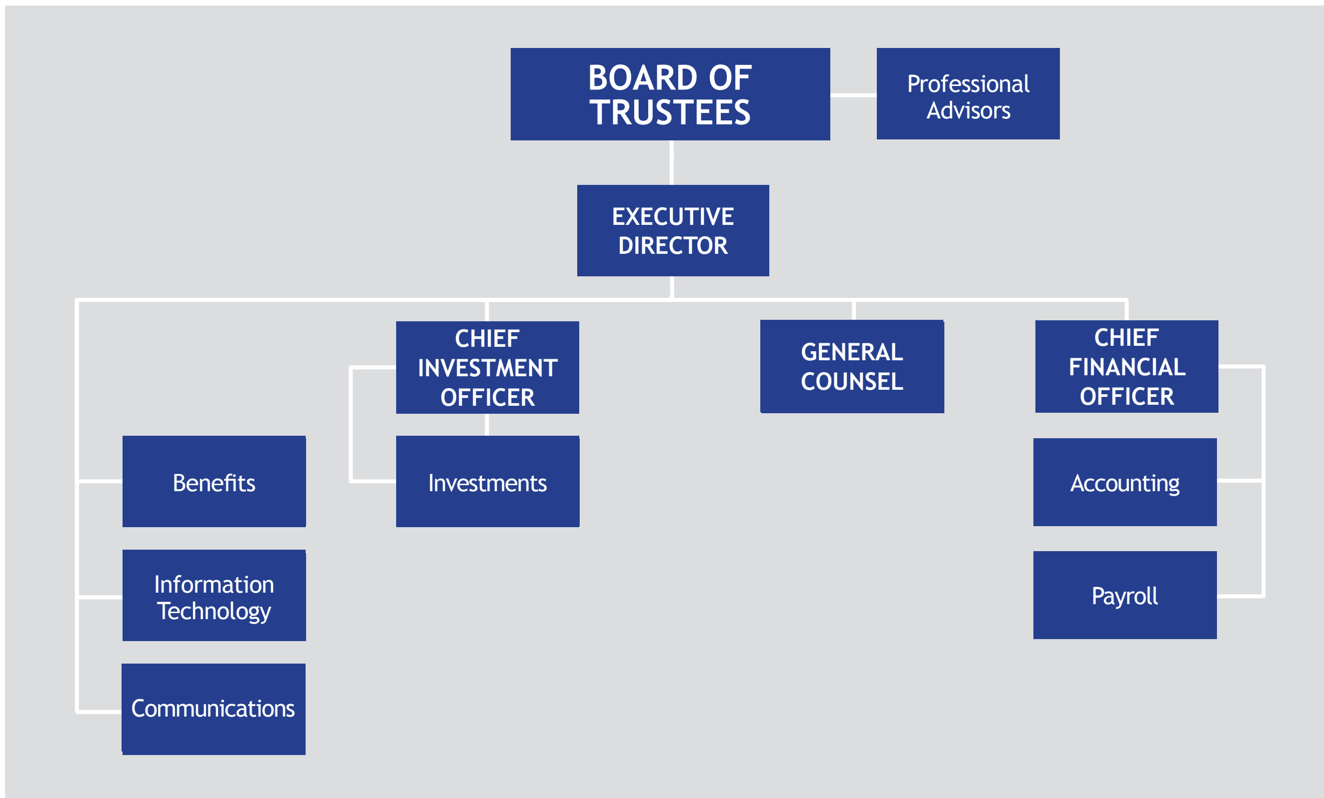
PHILIP T. KINGSTON
City Council
Term: Aug. 2013 - June 2017



JOHN MAYS
Police Pensioner
Term: June 2001 - June 2017
(previous service 1981-2000)

ERIK WILSON
City Council
Term: Aug. 2015 - June 2017

ADMINISTRATIVE ORGANIZATION



PROFESSIONAL ADVISORS

ACTUARY
Segal Consulting

AUDITOR
BDO USA, LLP

CUSTODIAN BANK
JPMorgan Chase Bank, N.A.

INVESTMENT ACCOUNTING FIRM
Financial Control Systems, Inc.

INVESTMENT CONSULTANT
NEPC, LLC

INVESTMENT MANAGERS
(See page 71)

LEGISLATIVE CONSULTANTS
HillCo Partners, LLC
Locke Lord, LLP

EXECUTIVE STAFF

EXECUTIVE DIRECTOR
Kelly Gottschalk

GENERAL COUNSEL
Joshua Mond

CHIEF FINANCIAL OFFICER
Summer Loveland

CHIEF INVESTMENT OFFICER
Vacant

Note: A schedule of investment management fees is provided in the Investment section of this report at page 69.

Financial Information

Looking back isn't going to help you. Moving forward is the thing you have to do.

- McKayla Maroney

INDEPENDENT AUDITOR'S REPORTS

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700 North Pearl, Suite 2000
Dallas, Texas 75201

Independent Auditor's Report

To the Board of Trustees
Dallas Police and Fire Pension System

Report on the Financial Statements

We have audited the accompanying financial statements of the Dallas Police and Fire Pension System (DPFP), including the Combined Pension Plan and the Supplemental Police and Fire Pension Plan of the City of Dallas (Supplemental Plan), collectively referred to as the "Plans", for the fiscal years ended December 31, 2015 and 2014, which comprise the combining statements of fiduciary net position, and the related combining statements of changes in fiduciary net position for the years then ended, and the related notes to the combining financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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BDO is the brand name for the BDO network and for each of the BDO Member Firms.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of DPFP as of December 31, 2015 and 2014, and the changes in fiduciary net position for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (MD&A) and the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A and required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying supplementary schedule of Administrative, Investment and Professional Services Expenses is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of DPFP management and was derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated July 21, 2016 on our consideration of DPFP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering DPFP's internal control over financial reporting and compliance.

BDO USA, LLP

Dallas, Texas, July 21, 2016

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700 North Pearl, Suite 2000
Dallas, Texas 75201

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

To the Board of Trustees
Dallas Police and Fire Pension System

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Dallas Police and Fire Pension System (DPFP), including the Combined Pension Plan and the Supplemental Police and Fire Pension Plan of the City of Dallas (Supplemental Plan), collectively referred to as the "Plans", for the fiscal years ended December 31, 2015 and 2014, which comprise the combining statements of fiduciary net position, and the related combining statements of changes in fiduciary net position for the years then ended, and the related notes to the combining financial statements, and have issued our report thereon dated July 21, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered DPFP's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DPFP's internal control. Accordingly, we do not express an opinion on the effectiveness of DPFP's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of DPFP's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Dallas Police and Fire Pension System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of DPFP's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering DPFP's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

Dallas, Texas
July 21, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

OVERVIEW

Management's Discussion and Analysis (MD&A) provides an overall review of the financial activities of the Dallas Police and Fire Pension System (DPFP), including the Combined Pension Plan and the Supplemental Police and Fire Pension Plan of the City of Dallas (Supplemental Plan), collectively referred to as the Plans, for the fiscal years ended December 31, 2015 and 2014. This discussion and analysis is intended to serve as an introduction to the financial statements which reflect the Plans' resources available for payment of benefits and other related expenses. MD&A should be read in conjunction with the combining financial statements, notes to the combining financial statements, required supplementary information, and supplementary information provided in this report.

FINANCIAL STATEMENTS

The combining financial statements consist of:

The Combining Statements of Fiduciary Net Position which reflect a snapshot of the Plans' financial position and reflect resources available for the payment of benefits and related expenses at year end. The resulting Net Position (Assets – Liabilities = Net Position) represents the value of the assets held in trust for pension benefits net of liabilities owed as of the financial statement date.

The Combining Statements of Changes in Fiduciary Net Position which reflect the results of all transactions that occurred during the fiscal year and present the additions to and deductions from the net position. Effectively, this presents the changes in plan net position during the fiscal year. If change in net position increased, additions were more than deductions. If change in net position decreased, then additions were less than deductions.

Notes to Combining Financial Statements which are an integral part of the combining financial statements and include additional information that may be needed to obtain an adequate understanding of the overall financial status of the Plans.

Required Supplementary Information (Unaudited) and additional Supplementary Information provide historical and additional information considered useful in obtaining an overall understanding of the financial position and activities of the Plans.

FINANCIAL HIGHLIGHTS

The Plans present the combining financial statements solely on the accounts of the Plans. The accrual basis of accounting is utilized, whereby revenues are recognized when they are earned and collection is reasonably assured, and expenses are recognized when the related liability has been incurred. Investments are reported at fair value.

A summary of the Combining Statements of Fiduciary Net Position of the Plans is as follows (in thousands):

DECEMBER 31:	2015	2014	2013
Assets			
Investments, at fair value	$ 2,827,859	$ 3,389,263	$ 3,737,002
Invested securities lending collateral	94,246	147,070	174,237
Receivables	58,568	43,895	72,913
Cash and cash equivalents	77,072	32,451	20,863
Prepaid expenses	202	194	-
Capital assets, net	12,192	12,400	-
Total assets	**3,070,139**	**3,625,273**	**4,005,015**
Liabilities			
Notes payable	235,315	345,004	420,343
Securities purchased	37,341	32,495	48,083
Securities lending obligations	94,246	147,070	174,237
Accounts payable and accrued liabilities	3,656	5,104	3,515
Total liabilities	**370,558**	**529,673**	**646,178**
Net position	**$ 2,699,581**	**$ 3,095,600**	**$ 3,358,837**

See accompanying independent auditor's report.

The assets of the Combined Pension Plan and the Supplemental Plan are co-invested through a Group Master Trust (Group Trust). The rate of return on Group Trust investments during 2015 was (12.6%) net of fees, compared to a rate of return of 4.0% for 2014 and 4.4% for 2013. The rate of return is provided by NEPC, LLC (NEPC), DPFP's investment consultant. The rate of return calculations for 2015 and 2014 were prepared using a time-weighted rate of return in accordance with the CFA Institute's Global Investment Performance Standards and, as such, cannot be recalculated from the information provided herein. In 2014, the methodology used by NEPC to calculate the rate of return was adjusted to incorporate a one quarter lag on market value adjustments for private equity, debt, and real assets investments. This "lagged with cash flow adjustments" methodology, which was recommended by NEPC, is consistent with standard industry practice and allows for more timely reporting to the Board of Trustees. Gains and losses on lagged investments which occur in the fourth quarter are recognized in the following year's rate of return.

The Plans' net position decreased by $396 million in 2015 predominately caused by declines in real estate and private equity investments. Real estate performance was adversely impacted by changes in the estimated fair value of certain development stage properties, as well as declines in the estimated enterprise value of certain real estate related business ventures which were previously included in the private equity asset class and reclassified in 2015 to the real estate asset class due to the high correlation of the nature of the business to the real estate industry.

In contrast to most real estate indices, DPFP's real estate portfolio continues to be highly concentrated in retail and raw land investments. The focused transition out of these assets is an ongoing process which made significant progress during 2015 by way of a reallocation process which began in August 2014. This process resulted in the transfer of approximately $600 million in DPFP real estate investments to four new investment managers in 2015. The natural resources portfolio saw strong performance from permanent crop and farmland investments, while returns for the timberland portfolio were negative due to the impact of foreign currency losses related to international timber investments. Infrastructure investments generally performed in line with expectations, with maritime and Asian holdings being the exceptions due to slower emerging market growth and currency declines. Private equity performance continued to be adversely impacted by exposure to the energy sector as well as changes in estimates of enterprise values of certain business ventures, but fund holdings in retail, particularly food and food service, performed relatively well. Global equities were essentially flat for the year as concerns over a slower Chinese economy, an oversupplied crude oil market, and aggressive central bank stimulus in Europe and Japan all had varying implications for the global economy. The fixed income portfolio underperformed its benchmark in 2015. Poor performance was driven primarily by the rise in high yield defaults of utility and energy companies and emerging market local currencies struggled to gain ground against the strong US dollar due to the poor performance of the Euro and other developed countries' currencies. The performance of the global asset allocation (GAA) portfolio, which is classified as alternative investments in the accompanying financial statements and includes tactical asset allocation and risk parity managers, was negatively affected by volatility in the markets. Commodities and US high yield, plagued by energy issues, were the largest detractors in the GAA portfolio's performance in 2015. Overall, US and international equities were able to post gains for the year, but only slightly offset the losses experienced by other asset classes.

The Plans' net position decreased by $263 million in 2014 driven primarily by declines in private equity and real estate investments. Private equity performance was impacted negatively by exposure to the energy sector for a second consecutive year, as well as changes in estimates of enterprise value of certain business ventures and declines in estimated fair values of underlying development stage real estate holdings. The real assets portfolio was significantly adversely impacted by declines in fair value estimates of certain real estate assets due to specific market conditions impacting such properties in the current year and by the heavier weighting to assets in the developmental stage. Global equities continued to be led by the US in 2014, while conditions for companies in Europe remained challenging. In a volatile, but generally upward-trending environment for US interest rates, DPFP's global fixed income portfolio outperformed its benchmark, the Barclays Global Aggregate Index. During 2014, DPFP's GAA portfolio experienced gains from nominal interest rates and equities which more than offset losses incurred in commodities. The global natural resources portfolio was also affected adversely by the sharp decline in oil prices. As in 2013, the global infrastructure portfolio performed as expected since many of the assets remain in the developmental stage. Other factors impacting the global economy in 2014 included a declining unemployment rate, the Bank of Japan surprisingly increasing its target of asset purchase, the European Central Bank loosening monetary policy, and the Federal Reserve bringing an end to its quantitative easing program in December without significant market volatility. The outperformance of the US economy and the end of quantitative easing helped lift the US stock markets to new highs in 2014, trumping problems overseas.

Changes in receivables are primarily a result of the timing of settlement of pending investments trades, as well as the timing of the last payroll of the year for the City of Dallas as such timing impacts the collection of benefit contributions. Beginning December 31, 2014, DPFP's office building and related land are classified as capital assets. Prior to December 31, 2014, the building and land were held by a limited liability investment in which DPFP is the sole member. The transfer of the building and land to DPFP at fair value of $12.4 million resulted in an increase in capital assets which was offset by an equal reduction in investment assets as of December 31, 2014. For additional discussion regarding capital assets, see Note 8 of the accompanying financial statements. Notes payable has decreased significantly as a result of the pay down of amounts drawn on agreements with Bank of America, N.A. in 2015 and 2014, as well as payment in full of the revolving lines of credit with Texas Capital Bank, N.A. and BBVA Compass in 2014. For further discussion regarding debt transactions, see Note 6 of the accompanying financial statements.

A summary of the Combining Statements of Changes in Fiduciary Net Position of the Plans is as follows (in thousands):

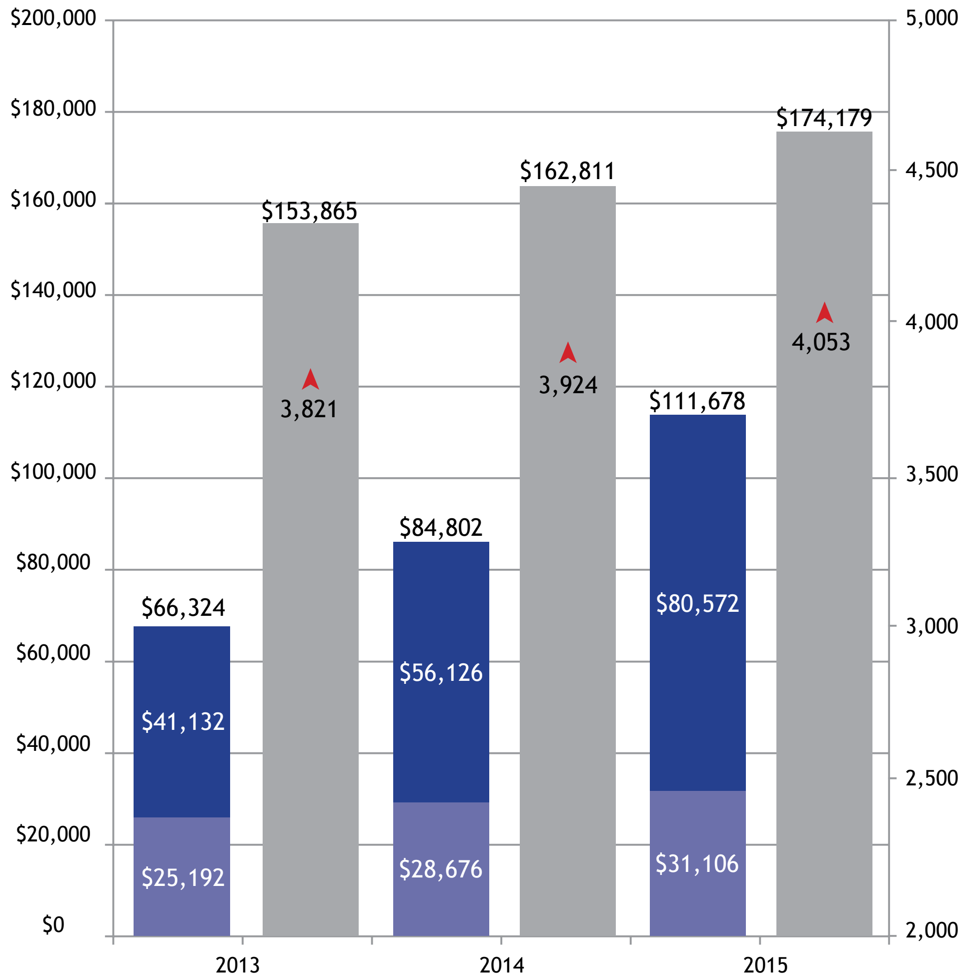
YEARS ENDED DECEMBER 31:	2015	2014	2013
Contributions			
City	$ 117,328	$ 111,609	$ 108,010
Members	25,720	29,382	26,272
Total contributions	**143,048**	**140,991**	**134,282**
Net income (loss) from investing activities	(237,572)	(140,039)	170,604
Net income from securities lending activities	544	628	781
Other income	132	-	-
Total additions (reductions)	**(93,848)**	**1,580**	**305,667**
Deductions			
Benefits paid to members	285,857	247,613	220,189
Refunds to members	1,786	1,733	900
Interest expense	6,049	7,412	5,903
Professional and administrative expenses	8,479	8,059	7,465
Total deductions	**302,171**	**264,817**	**234,457**
Net increase (decrease) in net position	(396,019)	(263,237)	71,210
Net position			
Beginning of period	3,095,600	3,358,837	3,287,627
End of period	$ 2,699,581	$ 3,095,600	$ 3,358,837

See accompanying independent auditor's report.

Member contributions for those active service members not participating in DPFP's Deferred Retirement Option Plan (DROP) are 8.5% of base pay rate plus education and longevity pay (Computation Pay). The decline in member contributions from 2014 to 2015 is the result of a member election held in 2014 which reduced member contributions for members in active service who participate in DROP effective in 2015 from 8.5% to 4%. The increase in member contributions from 2013 to 2014 was the result of a change to the Plans which became effective in 2011. This change required members in active service who participate in DROP to pay pension contributions while in DROP. The contribution rate increased from 3% of Computation Pay beginning with the first pay period ended after October 1, 2011, to 6% of Computation Pay beginning with the first pay period ended after October 1, 2012, and increased from 6% to 8.5% of Computation Pay with the first pay period ended after October 1, 2013. City contributions represent 27.5% of total salary and wages of all members in active service in the Combined Pension Plan. The City is required by ordinance to contribute amounts, as determined by an actuary, necessary to maintain the Supplemental Plan.

Distributions to members consist of lump sum payments and monthly payments of retirement, disability, and survivor benefits, as well as monthly installment payments of DROP balances. The chart below compares the components of distributions paid to members for the years ended December 31, 2015, 2014, and 2013.

DISTRIBUTIONS PAID TO MEMBERS
TWELVE MONTHS ENDED DECEMBER 31



Benefits paid in 2015 increased $38.2 million or 15.4% over 2014, compared to an increase of $27.4 million or 12.5% between 2013 and 2014. For each year, the increase in benefit payments resulted from an increase in the number of benefit recipients, post retirement increases to base benefits, and an increase in distributions from DROP. The increase in 2015 consists of an $11.4 million increase in monthly benefits and a $26.9 million increase in DROP distributions compared to an $8.9 million increase in monthly benefits and an $18.5 million increase in DROP distributions in 2014. The increase in DROP distributions includes an increase in monthly DROP installment payments of $2.4 million in 2015 compared to an increase of $3.5 million in 2014. The larger increase in DROP lump sum payments in 2015 is partially due to implementation of the Required Annual Distribution as a result of the 2014 plan amendment (see further discussion below). Increased DROP withdrawals are also presumed to be due to anticipation of potential proposed amendments to the DROP program in a future plan amendment. The total DROP account balance was $1.52 billion and $1.42 billion at December 31, 2015 and 2014, respectively. Average monthly benefit payments were $17.1 million and $16.0 million per month for 2015 and 2014, respectively. The increase of average monthly benefit payments in 2015 of approximately $1.1 million was slightly greater than the increase of $1.0 million experienced in 2014 as the number of members and survivors who are receiving benefits increased by 129 in 2015 compared to an increase of 103 in 2014.

The cost of administering the benefit programs of the Plans, including administrative costs and professional fees, increased $420 thousand in 2015 compared to an increase of $594 thousand in 2014. The increase in 2015 is primarily related to the transition of the DPFP office building to a capital asset as of December 31, 2014 and the related costs of the facilities being classified as an administrative expense in 2015. This increase is somewhat offset by lower staff compensation and a decrease in legal expenses in 2015 as compared to 2014. The increase in 2014 was primarily related to increased professional service fees and staff compensation related to the departure of the former Administrator, slightly offset by a decrease in legal expenses. A pro rata share of the total expenses of the Plans is allocated to the Combined Pension Plan and the Supplemental Plan according to the ratio of Combined Pension Plan and Supplemental Plan investment assets to the total investment assets of the Group Trust. Any expenses specific to either the Combined Pension Plan or the Supplemental Plan are charged directly as a reduction of such plan's net position.

FUNDING OVERVIEW

DPFP contracted with Segal Consulting (Segal) to conduct actuarial valuations to determine the funding positions of the Plans as of January 1, 2016. As a result of the previously mentioned material declines in private equity and real estate investment valuations recognized in 2013 and 2014, as well as changes in long-term capital market return assumptions, in July 2015, the Board of Trustees elected to lower the actuarial assumed rate of return from 8.5% to 7.25% for the actuarial valuation performed as of January 1, 2015. With returns failing to meet expectations, and the recognition that certain real assets are expected to fall short of benchmark returns over the near term, the Board of Trustees determined that a significant decrease in the assumed rate was warranted. As a result, the Combined Pension Plan's funded ratio declined significantly to 63.8% as of January 1, 2015 from 75.6% as of January 1, 2014, while the Supplemental Plan's funded ratio decreased to 51.2% as of January 1, 2015 compared to 62.0% as of January 1, 2014.

In conjunction with the January 1, 2016 actuarial valuation, a comprehensive experience study was performed by Segal, reviewing all assumptions incorporated in the actuarial valuations. Adjustments to the demographic and economic assumptions were made based on the results of the experience study. In preparing the valuations, the actuary uses a smoothing process over a selected time period of investment data to remove year-to-year volatility in asset returns. The Board of Trustees elected to modify the actuarial smoothing method by resetting the actuarial value of assets to the December 31, 2015 market value of assets and beginning a five-year smoothing period for future years, as compared to the prior methodology which used a 10-year smoothing period. This change resulted in a substantial adverse impact to the funding of the Plans. As of January 1, 2016, the Combined Pension Plan's funded ratio declined to 45.1% from 63.8% in the prior year, while the Supplemental Plan's funded ratio decreased to 45.8% compared to 51.2% in the prior year. These funded ratios represent unfunded actuarial accrued liabilities of $3.27 billion for the Combined Pension Plan and $23.0 million for the Supplemental Plan as of January 1, 2016, compared to unfunded actuarial accrued liabilities of $2.10 billion for the Combined Pension Plan and $20.47 million for the Supplemental Plan as of January 1, 2015.

A key measure of funding status is the funding period. This is the length of time in years needed to amortize the current unfunded actuarial accrued liability based on the current contribution rate. As of January 1, 2015, as a result of the declines in portfolio value and the drop in the assumed rate of return to 7.25%, the Combined Pension Plan's funding period significantly increased from 26 years to an infinite period. The infinite funding period remains as of January 1, 2016. The Combined Pension Plan is projected to become insolvent within 15 years if no changes to plan provisions are made and all assumptions are met in the aggregate. A sub-committee of the Board of Trustees has been formed to examine alternatives that will improve funding over the long term while continuing to provide benefits to members.

The total contribution rate required to pay the normal cost and to amortize the unfunded actuarial accrued liability over a 40-year period is currently 72.72% of Computation Pay. This compares to the City's actual contribution rate of 27.5% of payroll, or 30.53% of Computation Pay including overtime and non-Computation Pay contributions, plus the weighted average member contribution of 7.08% as of January 1, 2016, yielding a total contribution rate of 37.61% and resulting in a shortfall of 35.11% of Computation Pay. The effective amortization period was adjusted to 40 years in the January 1, 2016 valuation from 30 years used in the January 1, 2015 valuation and is based on requirements of the Texas Pension Review Board. The 30-year amortization period in the prior year yielded a required contribution rate of 42.0% of payroll. The significant increase in the required contribution rate is the result of the further decline in portfolio value and the change in the actuarial smoothing method as of January 1, 2016.

To address concerns regarding the growing balance of the DROP liability, plan amendments were proposed by the Board of Trustees and voted on by the members in late 2014 as mentioned above. The Board of Trustees approved the implementation of the plan amendments in April 2015 to be effective January 1, 2015. The plan amendments included the following significant changes:

- The interest rate earned on balances in DROP accounts was reduced to 7% effective October 1, 2015, and will be reduced further to 6% effective October 1, 2016, and 5% effective October 1, 2017. Effective October 1, 2018, further reductions to the interest rate could be made based on the Combined Pension Plan's funded ratio and cumulative DROP loss situation.

  For any year ending on or after December 31, 2017, if the Combined Pension Plan has credited more interest to the DROP program than has been earned on DROP account assets since inception of the DROP program, and the funded ratio drops below 65%, the following thresholds would be utilized to further reduce the DROP interest rate:
  - Funded ratio falls below 65% - DROP interest is reduced to 4% the following October 1;
  - Funded ratio falls below 60% - DROP interest is reduced to 3% the following October 1;
  - Funded ratio falls below 55% - DROP interest is reduced to 0% the following October 1.

- The contribution rate for members participating in DROP was reduced from 8.5% to 4.0% the first pay period ending after December 31, 2014.

- The vesting requirement for members hired after February 28, 2011 was reduced from 20 years to 10 years.

- The DROP accounts of members hired after February 28, 2011 are subject to earning interest, following the above noted thresholds.

- DROP members and surviving spouse beneficiaries, upon attaining age 70½, are required to take a Required Annual Distribution from DROP each year until the DROP account is paid out, spread over a period of less than 10 years.

Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25,* (GASB No. 67) requires disclosure of the Net Pension Liability (NPL). The NPL is the difference between the Total Pension Liability (TPL) and the market value of assets. GASB No. 67 requires the determination of the TPL using the individual entry age method, level percent of pay actuarial cost method, and a discounted rate. Information about whether the Plans' net positions are increasing or decreasing over time relative to the TPL is provided in the accompanying Schedule of Changes in the Net Pension Liability and Related Ratios.

CONTACTING DPFP'S FINANCIAL MANAGEMENT

This financial report is designed to provide members and other users with a general overview of DPFP's finances and present the Plans' accountability for the funding received. If you have questions about this report, you may contact the Executive Director of the Dallas Police and Fire Pension System at 4100 Harry Hines Boulevard, Suite 100, Dallas, Texas 75219, by phone at 214.638.3863, or by email at info@dpfp.org.

COMBINING STATEMENTS OF FIDUCIARY NET POSITION

	2015			2014		
DECEMBER 31,	COMBINED PENSION PLAN	SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS	TOTAL	COMBINED PENSION PLAN	SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS	TOTAL
Assets						
Investments, at fair value						
Short-term investments	$ 29,770,531	$ 216,183	$ 29,986,714	$ 35,989,320	$ 251,027	$ 36,240,347
Fixed income securities	380,295,552	2,761,573	383,057,125	470,501,965	3,281,776	473,783,741
Equity securities	436,644,700	3,170,760	439,815,460	698,196,979	4,869,960	703,066,939
Real assets	1,127,163,418	8,185,064	1,135,348,482	1,219,863,725	8,508,613	1,228,372,338
Private equity	441,805,815	3,208,239	445,014,054	545,237,254	3,803,058	549,040,312
Alternative investments	392,177,664	2,847,856	395,025,520	396,006,606	2,762,167	398,768,773
Forward currency contracts	(386,037)	(2,803)	(388,840)	(8,671)	(61)	(8,732)
Total investments	2,807,471,643	20,386,872	2,827,858,515	3,365,787,178	23,476,540	3,389,263,718
Invested securities lending collateral	93,566,804	679,449	94,246,253	146,050,850	1,018,712	147,069,562
Receivables						
City	633,223	-	633,223	4,546,842	-	4,546,842
Members	140,964	207	141,171	1,213,233	2,081	1,215,314
Interest and dividends	5,600,304	40,667	5,640,971	6,051,429	42,209	6,093,638
Investment sales proceeds	51,602,962	374,723	51,977,685	31,699,026	221,102	31,920,128
Other receivables	174,099	1,264	175,363	117,871	822	118,693
Total receivables	58,151,552	416,861	58,568,413	43,628,401	266,214	43,894,615
Cash and cash equivalents	76,516,721	555,638	77,072,359	32,226,308	224,780	32,451,088
Prepaid expenses	199,999	1,452	201,451	192,594	1,343	193,937
Capital assets, net	12,103,670	87,893	12,191,563	12,314,108	85,892	12,400,000
Total assets	**3,048,010,389**	**22,128,165**	**3,070,138,554**	**3,600,199,439**	**25,073,481**	**3,625,272,920**
Liabilities						
Notes payable	233,618,061	1,696,452	235,314,513	342,614,725	2,389,756	345,004,481
Other Payables						
Other securities purchased	37,071,830	269,203	37,341,033	32,269,427	225,081	32,494,508
Securities lending obligations	93,566,804	679,449	94,246,253	146,050,850	1,018,712	147,069,562
Accounts payable and other accrued liabilities	3,629,391	26,355	3,655,746	5,068,971	35,356	5,104,327
Total liabilities	**367,886,086**	**2,671,459**	**370,557,545**	**526,003,973**	**3,668,905**	**529,672,878**
Net position						
Net investment in capital assets	12,103,670	87,893	12,191,563	12,314,108	85,892	12,400,000
Unrestricted	2,668,020,633	19,368,813	2,687,389,446	3,061,881,358	21,318,684	3,083,200,042
Net position held in trust-restricted for pension benefits	**$ 2,680,124,303**	**$ 19,456,706**	**$ 2,699,581,009**	**$ 3,074,195,466**	**$ 21,404,576**	**$ 3,095,600,042**

See accompanying independent auditor's report and notes to combining financial statements.

COMBINING STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

	2015			2014		
YEARS ENDED DECEMBER 31,	COMBINED PENSION PLAN	SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS	TOTAL	COMBINED PENSION PLAN	SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS	TOTAL
Additions (Reductions)						
City	$ 114,885,723	$ 2,442,790	$ 117,328,513	$ 109,791,512	$ 1,817,136	$ 111,608,648
Members	25,676,327	43,358	25,719,685	29,333,112	49,104	29,382,216
Total contributions	**140,562,050**	**2,486,148**	**143,048,198**	**139,124,624**	**1,866,240**	**140,990,864**
Investment income (loss)						
Net depreciation in fair value of investments	(298,771,934)	(2,151,252)	(300,923,186)	(222,113,423)	(1,097,953)	(223,211,376)
Interest and dividends	72,886,522	529,276	73,415,798	93,839,209	654,533	94,493,742
Total gross investment loss	(225,885,412)	(1,621,976)	(227,507,388)	(128,274,214)	(443,420)	(128,717,634)
Less: Investment expense	(9,991,984)	(72,558)	(10,064,542)	(11,242,372)	(78,416)	(11,320,788)
Net investment loss	(235,877,396)	(1,694,534)	(237,571,930)	(139,516,586)	(521,836)	(140,038,422)
Securities lending income						
Securities lending income	746,475	5,421	751,896	831,359	5,799	837,158
Securities lending expense	(206,739)	(1,501)	(208,240)	(207,804)	(1,449)	(209,253)
Net securities lending income	539,736	3,920	543,656	623,555	4,350	627,905
Other income	130,750	949	131,699	-	-	-
Total additions (reductions)	**(94,644,860)**	**796,483**	**(93,848,377)**	**231,593**	**1,348,754**	**1,580,347**
Deductions						
Benefits paid to members	283,217,455	2,639,617	285,857,072	244,198,722	3,414,491	247,613,213
Refunds to members	1,785,719	-	1,785,719	1,732,907	-	1,732,907
Interest expense	6,005,609	43,611	6,049,220	7,360,955	51,343	7,412,298
Professional and administrative expenses	8,417,520	61,125	8,478,645	8,002,976	55,821	8,058,797
Total deductions	**299,426,303**	**2,744,353**	**302,170,656**	**261,295,560**	**3,521,655**	**264,817,215**
Net decrease in net position	(394,071,163)	(1,947,870)	(396,019,033)	(261,063,967)	(2,172,901)	(263,236,868)
Net position						
Beginning of period	3,074,195,466	21,404,576	3,095,600,042	3,335,259,433	23,577,477	3,358,836,910
End of period	$ 2,680,124,303	$ 19,456,706	$ 2,699,581,009	$ 3,074,195,466	$ 21,404,576	$ 3,095,600,042

See accompanying independent auditor's report and notes to combining financial statements.

NOTES TO COMBINING FINANCIAL STATEMENTS

1. ORGANIZATION

GENERAL

The Dallas Police and Fire Pension System (DPFP) is an independently governed component unit of the City of Dallas (City, or Employer) and serves as a single-employer pension and retirement fund for police officers and firefighters employed by the City. The general terms “police officers” and “firefighters” also include fire and rescue operators, fire alarm operators, fire inspectors, apprentice police officers, and apprentice firefighters. DPFP is comprised of a single defined benefit pension plan (Combined Pension Plan) designed to provide retirement, death, and disability benefits for firefighters and police officers (collectively, members). DPFP was originally established under former Article 6243a of the Revised Civil Statutes of Texas and, since 1989, derives its authority to continue in operation under the provisions of Article 6243a-1 of the Revised Civil Statutes of Texas (the Governing Statute). All active police officers and firefighters employed by the City are required to participate in the Combined Pension Plan.

The Supplemental Police and Fire Pension Plan of the City of Dallas (Supplemental Plan) was created in 1973 to supplement DPFP’s Plan B Defined Benefit Pension Plan (Plan B). The Combined Pension Plan and Supplemental Plan are collectively referred to as the Plans. Former Plan B members are now denominated as Group B members of the Combined Pension Plan. The intent of the Supplemental Plan is to provide additional retirement benefits to those members of the Supplemental Plan holding a rank higher than the highest corresponding civil service rank as provided in the Combined Pension Plan. Members receive a supplemental pension based upon the difference between compensation for the civil service position held before entrance into the Supplemental Plan and compensation while in the Supplemental Plan. The Supplemental Plan was established and derives its authority from a non-codified City ordinance.

As of December 31, 2015 and 2014, the Combined Pension Plan’s membership consisted of:

	2015	2014
Retirees and beneficiaries	4,230	4,125
Non-active vested members not yet receiving benefits	200	157
Non-active non-vested members not yet refunded	126	99
Total non-active members	**4,556**	**4,381**
Vested active members	4,235	4,107
Non-vested active members	1,180	1,380
Total active members	**5,415**	**5,487**

As of December 31, 2015 and 2014, the Supplemental Plan’s membership consisted of:

	2015	2014
Total non-active members	124	121
Total active members	45	40

BENEFITS

Members hired by the City before March 1, 1973 are Group A members of the Combined Pension Plan. Members hired on or after March 1, 1973 are Group B members of the Combined Pension Plan.

Group A members of the Combined Pension Plan have elected to receive one of two benefit structures:

- Members with 20 years or more of pension service are entitled to monthly pension benefits beginning at age 50 equal to 50% of their base pay, defined as the maximum monthly civil service pay established by the City for a police officer or firefighter at the time of retirement, plus 50% of the longevity pay the member was receiving either at the time he or she left active service with the City or the effective date the member joined the Deferred Retirement Option Plan (DROP). Benefit payments are adjusted annually according to changes in active service base pay. Additionally, a member is eligible to receive 50% of the difference between any annualized City service incentive pay granted to the member less annual longevity pay.

- Members with 20 years or more of pension service are entitled to monthly pension benefits beginning at age 55 equal to 3% of their base pay, computed as noted in the prior paragraph, for each year of pension service with a maximum of 32 years. In addition, a member receives 50% of the longevity pay and 1/24th of any City service incentive pay the member was receiving either at the time he or she left active service with the City or the effective date the member joined DROP. Pension benefit payments are increased annually on October 1 by 4% of the initial benefit amount.

Group B members of the Combined Pension Plan receive one of two benefit structures:

- Members who began membership before March 1, 2011 with 5 or more years of pension service are entitled to monthly pension benefits beginning at age 50 equal to 3% of the member's average Computation Pay determined over the highest 36 consecutive months of Computation Pay, multiplied by the number of years of pension service, up to a maximum of 32 years. Certain members who meet the service prerequisite may elect to take early retirement with reduced benefits starting at age 45, or earlier if the member has 20 years of pension service.

- Members who began membership after February 28, 2011 are entitled to monthly pension benefits after accruing 10 years of pension service and the attainment of age 55. Pension benefits are equal to the member's average Computation Pay determined over the highest 60 consecutive months of Computation Pay, multiplied by 2% for the first 20 years of service, 2.5% for the next five years of service, and 3% for years of service in excess of 25 years, and multiplied by the number of years of pension service. The member shall not accrue a monthly pension benefit that exceeds 90% of the member's average Computation Pay.

Computation Pay includes civil service pay for the highest rank attained by competitive exam and any educational incentive, longevity or City service incentive pay. A Group B member who has accrued 20 or more years of pension service and who has been on active service at any time on or after January 1, 1999 may take a pension benefit regardless of age except that the percent multiplier would be based on the member's age at the time of applying for the pension. Group B benefits for members hired before January 1, 2007 are increased each October 1 by 4% of the initial benefit amount. Group B benefits for members hired on or after January 1, 2007 are subject to an ad hoc increase as approved by the Board of Trustees, not to exceed 4% of the initial benefit amount.

Additional provisions under the Combined Pension Plan are as follows:

- Members with over 20 years of pension service, upon attaining age 55, shall receive a monthly supplement equal to the greater of $75 or 3% of their total monthly benefits (excluding the benefit supplement amount).

- Service-connected disability benefits are available for members in active service who have not entered DROP who become disabled during the performance of their duties from the first day of employment. Members receiving service-connected disability benefits are given credit for the greater of actual pension service or 20 years of pension service. The benefit is equal to 60% of the average of the highest 36 consecutive months of Computation Pay for members who began membership before March 1, 2011 and 50% of the average of the highest 60 consecutive months of Computation Pay for members hired on or after that date. If a member has more than 20 years of service, the benefit is calculated in the same manner as their service retirement pension. If the member has fewer than 36 or 60 months of service, based on hire date, the benefit is based on the average of Computation Pay during their entire pension service.

- Members who began membership before March 1, 2011 who are determined to be eligible for a non-service-connected disability benefit are entitled to a benefit of 3% times the average of the highest 36 consecutive months of Computation Pay times the number of years of pension service. Members who began membership after February 28, 2011 are entitled to a benefit based on the average of the highest 60 consecutive months of Computation Pay, subject to a multiplier which is dependent upon the number of years of pension service. All non-service-connected disability benefits are subject to a minimum benefit of $110 for every year of pension service. If the member has fewer than 36 or 60 months of service, based on hire date, the benefit is based on the average of Computation Pay during their entire pension service.

- Members who are eligible to retire are eligible to enter the DROP program which is an optional method of accruing pension account balances. Members who are receiving disability benefits are not eligible to enter the DROP program. The accumulated balance in a member's DROP account is equal to an amount calculated as if the member's monthly benefit, employee contributions, and an interest component had been deposited in a separate account in the member's name during their participation in DROP. See below, under Contributions, for discussion of required DROP contributions. Upon retirement with DPFP, the member is able to withdraw amounts from their DROP account along with receiving monthly pension benefits. The total DROP account balance for the Combined Pension Plan was $1.51 billion and $1.41 billion at December 31, 2015 and 2014, respectively.

- A minimum benefit is paid to vested retired members of an amount not less than $2,200 per month subject to any restrictions contained in the Combined Pension Plan. The minimum benefit is prorated for members who retire with less than 20 years of service credit and equals $1,200 monthly for a qualified surviving spouse if there are no qualified surviving children receiving benefits. The minimum benefit is $1,100 monthly for qualified surviving children and qualified surviving spouses if qualified surviving children are receiving benefits.

The Supplemental Plan's benefits are designed to supplement Group B benefits for those members holding a rank higher than the highest corresponding civil service rank because their Combined Pension Plan benefits are capped by the Combined Pension Plan's definition of considered compensation. Accordingly, when Group B benefits are amended, the Supplemental Plan's benefit calculation is also affected. The basis for a member's benefits shall be the difference between the monthly rate of pay a member is due as the base pay for the rank the member currently holds and the monthly rate of pay the member is due for the highest civil service rank the member has held as a result of competitive examinations. The formula used to determine the member's Group B benefit shall also be used to determine the member's benefit under the Supplemental Plan so that the same length of time shall be used to determine average Computation Pay for both plans. Application for benefits under the provisions of the Combined Pension Plan shall be deemed to be application for benefits under the Supplemental Plan and no additional application need be filed.

Members of the Supplemental Plan who enter the DROP program in the Combined Pension Plan also enter the DROP program in the Supplemental Plan. The total DROP account balance related to the Supplemental Plan was $10.9 million and $10.4 million at December 31, 2015 and 2014, respectively.

Death benefits are available to a surviving spouse, dependent children, handicapped children, or dependent parents in the event of the death of a member either after disability or service retirement, or prior to retirement. Members retiring with 20 years of pension service or who are receiving a service-connected disability benefit are eligible to receive a benefit supplement upon reaching age 55. The supplement amount is 3% of the member's monthly benefit, with a minimum of $75 per month.

CONTRIBUTIONS

As a condition of participation, Group A members contributed to the Combined Pension Plan 6.5% of their base pay. During 2015 and 2014, no member elected contribution under Group A. Group B members not in DROP are required to contribute to the Combined Pension Plan 8.5% of their Computation Pay. Article 6243a-1 of the Revised Civil Statutes of Texas requires the City to make contributions of 27.5% of total wages in accordance with schedules contained in the plan document.

The City is required by ordinance to contribute amounts, as determined by an actuary, necessary to maintain the Supplemental Plan. Members electing to participate in the Supplemental Plan must contribute 8.5% of the excess of their compensation for the rank held over the compensation of the civil service rank held as a result of competitive examinations.

Beginning October 1, 2011, active members in DROP paid contributions at the rate of 3% of Computation Pay through September 30, 2012, 6% of Computation Pay through October 1, 2013, and 8.5% of Computation Pay through December 31, 2014. Effective January 1, 2015, active members in DROP pay contributions at the rate of 4% of Computation Pay. The City pays contributions for active members in DROP at the rate of 27.5% of total wages.

The contribution schedules contained in Section 4.02(d) of the Combined Pension Plan can be changed only by the Texas State Legislature. The level of contributions made by the City may be changed by 1) a vote of the citizens of the City, 2) the Texas State Legislature, or 3) a change in the member contribution level. The level of contributions made by the members may be changed by 1) a vote of the active members or 2) the Texas State Legislature.

The Supplemental Plan's plan document can be amended only by the City Council in accordance with City ordinance.

Members of Group B are immediately vested in their member contributions. If a member's employment is terminated and the member is not vested, or the member elects not to receive present or future pension benefits, the member's contributions are refunded, without interest, upon written application. If application for a refund is not made within three years of termination, the member forfeits the right to a refund of his or her contribution; however, a procedure exists whereby the member's right to the contributions can be reinstated and refunded by the Board of Trustees after the three-year period.

ADMINISTRATION

The Plans are administered by a twelve-member Board of Trustees consisting of four City Council members appointed by the City Council, three active police officers and three active firefighters who are elected by employees of their respective departments, one pensioner who has retired from the Police Department and one pensioner who has retired from the Fire-Rescue Department who are elected by pensioners from their respective departments. Collectively, the Combined Pension Plan Board of Trustees and the Supplemental Plan Board of Trustees are referred to as the Board. The Board is responsible for the general administration of DPFP and has the full power to invest the Plans' assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States (GAAP). In doing so, DPFP adheres to guidelines established by the Governmental Accounting Standards Board (GASB). The accompanying financial statements include solely the accounts of the Plans on a combined basis, which include all programs, activities and functions relating to the accumulation and investment of the net position and related income necessary to provide the service, disability and death benefits required under the terms of the governing statutes and amendments thereto.

BASIS OF ACCOUNTING

The accrual basis of accounting is used for the Plans. Revenues are recognized in the period in which they are earned and collection is reasonably assured. Expenses are recognized when the liability is incurred. Member and employer contributions are recognized in the period in which the contributions are due. Accrued income, when deemed uncollectible, is charged to operations.

Contributions for the final biweekly payroll of the year for the years ended December 31, 2015 and 2014 were not received by DPFP until subsequent to year end and accordingly, uncollected contributions are recorded as receivables in the accompanying financial statements. Benefits, lump sum payments, and refunds are recognized when due and payable. Dividend income is recorded on the ex-dividend date. Other income, consisting primarily of rental income, is recorded when earned. Realized gains and losses on sales of securities are recognized on the trade date. The cost of investments sold is determined using the average cost method.

REPORTING ENTITY

DPFP is an independently governed component unit of the City and the basic financial statements and required supplementary information of the Plans are therefore included in the City's Comprehensive Annual Financial Report.

ADMINISTRATIVE COSTS

All costs of administering the Plans are paid from the Plans' assets pursuant to an annual fiscal budget approved by the Board.

FEDERAL INCOME TAX

Favorable determinations that the Plans are qualified and exempt from Federal income taxes were received on October 20, 2014. The Board believes that the Plans are designed and continue to operate in compliance with the applicable requirements of the Internal Revenue Code.

USE OF ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the actuarial information included in the notes to the financial statements as of the benefit information date, the reported amounts of income and expenses during the reporting period, and when applicable, disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

DPFP considers only demand deposits as cash. Cash equivalent securities, which are composed of all highly liquid investments with a maturity of three months or less when purchased, are considered to be cash equivalents. Highly liquid securities invested by third party investment managers as part of a short-term investment fund are not considered cash equivalents and are classified as short-term investments.

PLAN INTEREST IN THE GROUP MASTER TRUST

Effective January 1, 2006, the Board elected to establish a Group Master Trust (Group Trust) in order to unitize the investments of the Combined Pension Plan and the Supplemental Plan. JPMorgan Chase Bank, N.A. (JPMorgan) served as custodian of the Group Trust for the years ended December 31, 2015 and 2014. The fair value of the Combined Pension Plan's interest and the Supplemental Plan's interest in the Group Trust is based on the unitized interest that each plan has in the Group Trust. The Combined Pension Plan's interest in the Group Trust's investments was approximately 99.3% at both December 31, 2015 and 2014, while the remaining interest belongs to the Supplemental Plan. The allocation of investment income and expenses between the Combined Pension Plan and the Supplemental Plan is based on the number of units owned of the Group Trust. Shared professional and administrative expenses are allocated to each plan directly in proportion to each plan's ownership interest. Benefits and contributions are attributed directly to the plan that such receipts and disbursements relate to and are not subject to a pro-rated allocation.

INVESTMENTS

Investment Policy

Statutes of the State of Texas authorize DPFP to invest surplus funds in the manner provided by Government Code, Title 8, Subtitle A, Subchapter C which provides for the investment of surplus assets in any investment that is deemed prudent by the Board. These statutes stipulate that the governing body of the Plans is responsible for the management and administration of the funds of the Plans and shall determine the procedure it finds most efficient and beneficial for the management of the funds of the Plans. The governing body may directly manage the investments of the Plans or may contract for professional investment management services. Investments are reported at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

The investment policy of the Board does not restrict the types of investments authorized to be made on behalf of the Group Trust. The investment policy is based upon an asset allocation study that considers the current and expected financial condition of the Plans, the expected long-term capital market outlook and DPFP's risk tolerance. The following is the Board's adopted asset allocation policy as of December 31, 2015:

ASSET CLASS	TARGET ALLOCATION
Global Public Equity	15%
Global Private Equity	15%
Global Natural Resources	10%
Global Fixed Income	15%
Global Asset Allocation	20%
Global Infrastructure	10%
Global Real Estate	15%
Cash and Short-term Investments	-

See Note 11 for the revised asset allocation approved by the Board in March 2016.

The value and performance of DPFP's investments are subject to various risks, including, but not limited to, credit risk, interest rate risk, concentration of credit risk, custodial credit risk, and foreign currency risk, which are in turn affected by economic and market factors impacting certain industries, sectors or geographies. See Note 3 for disclosures related to these risks.

Investment Transactions

The accompanying Combining Statements of Changes in Fiduciary Net Position present the net appreciation (depreciation) in the fair value of investments which consists of the realized gains and losses on securities sold and the changes in unrealized gains and losses on those investments still held in the portfolio at year end.

Purchases and sales of investments and forward foreign exchange contracts are recorded on the trade date. Unsettled investment trades as of fiscal year end are reported in the financial statements on the accrual basis of accounting. Realized gains or losses on forward foreign exchange contracts are recognized when the contract is settled.

Interest earned but not yet received and dividends declared but not yet received are recorded as accrued interest and dividends receivable, respectively. In addition, unsettled investment purchases and sales are accrued.

Valuation of Investments

The diversity of the investment types in which the Group Trust invests requires a wide range of techniques to determine fair value.

Short-term investments include money market funds and government bonds with a maturity of less than one year and are valued based on year-end current market rates.

Fixed income investments include government securities such as Treasury securities, bank loans, US corporate bonds, foreign securities such as dollar denominated and non-dollar denominated issues of non-US governments and private corporations, plus units of commingled fixed income funds of both US and foreign securities. Equity securities consist of individual shares of equity securities plus units of commingled stock funds of both US and foreign entities. The stated market value of investments in publicly traded fixed income and equity securities is based on published market prices or quotations from major investment dealers as provided by JPMorgan, utilizing vendor supplied pricing. Vendor supplied pricing data for equity securities is based upon the daily closing price from the primary exchange of each security while vendor supplied pricing data for fixed income securities is based upon a combination of market maker quotes, recent trade activity, and observed cash flows. Securities traded on an international exchange are valued at the last reported sales price as of year-end at exchange rates as of year-end. The fair value of non-publicly traded commingled fixed income funds and commingled stock funds are based on their respective net asset value (NAV) as reported by the investment manager.

Real assets consist of private real estate, infrastructure, timberland, and farmland investments. Real estate is held in separate accounts, limited partnerships, joint ventures, and commingled funds, and as debt investments in the form of notes receivable. Infrastructure, timberland, and farmland are held in separate accounts, partnerships, and joint ventures. Real estate, timberland and farmland are generally subject to independent third-party appraisals performed in accordance with the Uniform Standards of Professional Appraisal Practice on a periodic basis, every three years at minimum, as well as annual financial statement audits. Interests in joint ventures, limited partnerships and notes receivable are valued at the dollar value reported by the general partner or investment manager, as applicable. Certain real estate investments are managed internally by DPFP staff and the real estate holdings of such partnerships are subject to independent third-party appraisals on a periodic basis, every three years at minimum. Internally managed investments are valued at their net equity on a fair value basis. Externally managed partnerships, joint venture and commingled funds, and separate accounts are valued at the NAV provided by the investment or fund manager, as applicable. The underlying investment holdings are valued by the investment or fund manager on a continuous basis. Infrastructure investments which are currently under construction are held at cost as reported by the fund manager due to the fact that during construction, there is no liquid market for the equity, no measurable history of revenues, and a material de-risking of the project has not yet occurred, therefore cost is considered a reasonable estimation of fair value.

Private equity and alternative investments consist of various investment vehicles including limited partnerships, commingled funds and notes receivable. Alternative investments, also referred to as the global asset allocation

portfolio, consist of tactical asset allocation and risk parity funds. Private equity limited partnership investments and notes receivable are valued as reported by the investment manager. Private equity and alternative investment commingled funds are valued using their respective NAV as reported by the fund's custodian or investment manager, as applicable.

DPFP has established a framework to consistently measure the fair value of the Plans' assets and liabilities in accordance with applicable accounting, legal, and regulatory guidance. This framework has been provided by establishing valuation policies and procedures that provide reasonable assurance that assets and liabilities are carried at fair value as described above.

FOREIGN CURRENCY TRANSACTIONS

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

Gains and losses resulting from foreign exchange contracts (transactions denominated in a currency other than the Group Trust's functional currency - US dollar) are recorded based on changes in market values and are included in investment income (loss) in the accompanying financial statements. Investment managers, on behalf of the Group Trust, structure foreign exchange contracts and enter into transactions to mitigate exposure to fluctuations in foreign exchange rates.

Investments and broker accounts denominated in foreign currencies outstanding at December 31, 2015 and 2014 were converted to the US dollar at the applicable foreign exchange rates quoted as of December 31, 2015 and 2014, respectively. The resulting foreign exchange gains and losses are included in net appreciation (depreciation) in fair value of investments in the accompanying financial statements.

RECENT ACCOUNTING PRONOUNCEMENTS

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement provides guidance for determining a fair value measurement for financial reporting purposes as well as guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This statement is effective for fiscal years beginning after June 15, 2015. Management of DPFP is currently evaluating the impact of this new pronouncement on the financial statements.

3. INVESTMENTS

The Board has contracted with investment managers to manage the investment portfolio of the Group Trust subject to the policies and guidelines established by the Board. The Board has a custody agreement with JPMorgan under which JPMorgan assumes responsibility for the safekeeping of certain investments, handling of transactions based on the instructions of investment managers, and reporting investment transactions.

The fair value of investments at December 31, 2015 and 2014 is as follows:

	2015	2014
Short-term investments		
Short-term investment funds	$ 29,986,714	$ 36,240,347
Fixed income securities		
US Treasury bonds	27,822,109	21,338,977
US government agencies	3,448,174	5,592,114
Corporate bonds	163,438,958	198,109,962
Foreign-denominated bonds	62,905,935	65,814,616
Commingled funds	125,441,949	182,928,072
Equity securities		
Domestic	274,996,958	453,272,401
Foreign	164,818,502	249,794,538
Real assets		
Real estate	651,936,804	771,927,173
Infrastructure	197,551,994	185,838,492
Timberland	123,592,696	136,895,053
Farmland	162,266,988	133,711,620
Private equity	445,014,054	549,040,312
Alternative investments	395,025,520	398,768,773
Forward currency contracts	(388,840)	(8,732)
Total	**$ 2,827,858,515**	**$ 3,389,263,718**

CONCENTRATION RISK

As of December 31, 2015, the Group Trust did not have any single investment in an issuer which represented greater than 5% of the Plans' net position.

CUSTODIAL CREDIT RISK

Portions of DPFP's investments are classified as security investments. A security is a transferable financial instrument that evidences ownership or creditorship. Investments in companies, partnerships and real estate are investments that are evidenced by contracts rather than securities. Custodial credit risk disclosures relate only to securities.

Custodial credit risk is the risk that, in the event of the failure of an investment counter-party, the investor will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered

in the name of the investor, and are held by either the counter-party or the counter-party's trust department or agent, but not in the investor's name. DPFP mitigates this risk by having investments held at a custodian bank on behalf of DPFP. At December 31, 2015 and 2014, all investment securities held by the custodian were registered in the name of DPFP and are held by JPMorgan in the name of DPFP. DPFP does not have a policy for custodial credit risk; however, management believes that custodial credit risk exposure is mitigated by the financial strength of the financial institutions in which the deposits are held.

CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributable to the magnitude of the Group Trust's investment in a single issue. DPFP does not have an investment policy specifically regarding concentration of credit risk, however the target allocations of assets among various asset classes are determined by the Board with the objective of optimizing the investment return of the Group Trust within a framework of acceptable risk and diversification. For major asset classes, the Group Trust will further diversify the portfolio by employing multiple investment managers who provide guidance for implementing the strategies selected by the Board.

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Interest rate risk is the greatest risk faced by an investor in the fixed income market. The price of a fixed income security typically moves in the opposite direction of the change in interest rates. The weighted average maturity of a fixed income security expresses investment time horizons (when the investment comes due and payable) in years, weighted to reflect the dollar size of individual investments within the investment type. DPFP does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates, but rather mandates such limits within investment management services contracts. Investment managers have full discretion in adopting investment strategies to address these risks.

The Group Trust invests in fixed income securities including, but not limited to, investments representing instruments with an obligated fixed rate of interest including public and private debentures, mortgage backed securities, guaranteed investment contracts with maturities greater than one year, and options/futures. Purchases and sales, investment selection, and implementation of investment strategies are delegated to the discretion of the investment manager, subject to compliance with its management agreement and DPFP's investment policy.

INVESTMENT TYPE	LESS THAN 1 YEAR	1 TO 5 YEARS	6 TO 10 YEARS	MORE THAN 10 YEARS	TOTAL
US Treasury bonds	$ -	$ 12,454,644	$ 433,386	$ 14,934,079	$ 27,822,109
US government agencies	-	-	-	3,448,174	3,448,174
Corporate bonds	3,110,161	62,316,962	56,840,701	41,171,134	163,438,958
Foreign-denominated bonds	2,882,973	13,537,211	22,756,094	23,729,657	62,905,935
Total	**$ 5,993,134**	**$ 88,308,817**	**$ 80,030,181**	**$ 83,283,044**	**$ 257,615,176**

Commingled fixed income funds do not have specified maturity dates and are therefore excluded from the above table.

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The books and records of the Plans are maintained in US dollars. Foreign currencies and non-US dollar denominated investments are translated into US dollars at the bid prices of such currencies against US dollars at each balance sheet date. Realized and unrealized gains and losses on investments which result from changes in foreign currency exchange rates have been included in net appreciation (depreciation) in fair value of investments. Net realized foreign currency gains and losses resulting from changes in exchange rates include foreign currency gains and losses between trade date and settlement date of investment securities transactions, foreign currency transactions, and the difference between the amounts of interest and dividends recorded on the books of the Plans and the amount actually received. International and global managers have permission to use currency forward and futures contracts to hedge currency against the US dollar. DPFP does not have an investment policy specific to foreign currency risk, however to mitigate foreign currency risk, international investment managers are expected to maintain diversified portfolios by sector and by issuer. The Group Trust's exposure to foreign currency risk in US dollars as of December 31, 2015 is as follows:

CURRENCY	FIXED INCOME	EQUITY	REAL ASSETS	TOTAL
Australian Dollar	$ 4,942,564	$ 5,976,559	$ 7,382,205	$ 18,301,328
Brazilian Real	3,602,121	169,643	8,817,687	12,589,451
British Pound Sterling	3,630,740	22,014,617	12,206,987	37,852,344
Canadian Dollar	923,332	4,577,076	-	5,500,408
Danish Krone	-	3,173,485	-	3,173,485
Euro	9,006,862	50,024,159	-	59,031,021
Hong Kong Dollar	-	8,886,106	-	8,886,106
Hungarian Forint	1,129,437	-	-	1,129,437
Indonesian Rupiah	3,185,959	-	-	3,185,959
Israeli Shekel	-	144,896	-	144,896
Japanese Yen	4,916,262	38,676,820	-	43,593,082
Malaysian Ringgit	3,132,347	-	-	3,132,347
Mexican Peso	15,946,718	104,262	-	16,050,980
New Zealand Dollar	6,191,374	-	-	6,191,374
Norwegian Krone	-	291,115	-	291,115
Philippine Peso	-	297,929	-	297,929
Polish Zloty	4,054,146	-	-	4,054,146
Singaporean Dollar	787,520	2,601,992	-	3,389,512
South Korean Won	-	323,906	-	323,906
South African Rand	1,456,553	-	26,170,480	27,627,033
Swedish Krona	-	7,635,174	-	7,635,174
Swiss Franc	-	19,899,759	-	19,899,759
Thailand Baht	-	21,004	-	21,004
Uruguay Peso	-	-	14,636,838	14,636,838
Total	**$ 62,905,935**	**$ 164,818,502**	**$ 69,214,197**	**$ 296,938,634**

CREDIT RISK

Credit risk is the risk that an issuer or other counter-party to an investment will not fulfill its obligations. DPFP does not have a formal policy limiting investment credit risk, but rather mandates such limits within investment management services contracts. DPFP was not party to any negotiated derivative contracts as of December 31, 2015, therefore credit risk exposure to such counter-parties does not exist. The Group Trust's exposure to credit risk in fixed income securities, including short-term investment funds classified as cash equivalents, as of December 31, 2015 using the Standard & Poor's rating scale, at fair value, is as follows:

	CORPORATE BONDS	FOREIGN-DENOMINATED BONDS	COMMINGLED FUNDS	SHORT-TERM INVESTMENT FUNDS(1)	US GOVERNMENT SECURITIES	TOTAL
AAA	$ 6,557,320	$ 2,725,019	$ 84,436	$ -	$ 3,448,174	$ 12,814,949
AA+	5,333,032	12,285,570	737,253	-	-	18,355,855
AA	1,629,696	134,826	1,024,386	-	-	2,788,908
AA-	3,917,566	351,887	683,307	-	-	4,952,760
A+	2,406,481	4,372,023	523,035	-	-	7,301,539
A	4,372,168	4,054,146	8,985,810	-	-	17,412,124
A-	3,362,008	16,400,075	34,400	-	-	19,796,483
BBB+	2,557,871	-	-	-	-	2,557,871
BBB	3,236,404	7,612,189	23,777,487	-	-	34,626,080
BBB-	4,540,698	3,185,959	-	-	-	7,726,657
BB+	8,576,088	148,830	-	-	-	8,724,918
BB	9,730,005	4,582,728	17,270,446	-	-	31,583,179
BB-	14,843,131	-	210,308	-	-	15,053,439
B+	18,698,052	-	-	-	-	18,698,052
B	10,094,449	-	37,945,569	-	-	48,040,018
B-	7,984,955	807,098	-	-	-	8,792,053
CCC+	5,813,417	-	-	-	-	5,813,417
CCC	16,444,286	-	13,997,755	-	-	30,442,041
CCC-	3,175,253	469,851	-	-	-	3,645,104
CC	11,628,773	-	-	-	-	11,628,773
C	10,951,550	-	-	-	-	10,951,550
D	246,694	-	-	-	-	246,694
NR(2)	7,339,061	5,775,734	20,167,757	104,705,911	-	137,988,463
NA(3)	-	-	-	-	27,822,109	27,822,109
Total	**$ 163,438,958**	**$ 62,905,935**	**$ 125,441,949**	**$ 104,705,911**	**$ 31,270,283**	**$ 487,763,036**

(1) Includes short-term money market funds classified as cash equivalents.
(2) NR represents those securities that are not rated.
(3) NA represents US government securities that are explicitly guaranteed by the US government and are not considered to have credit risk.

SECURITIES LENDING

The Board has authorized the Group Trust to enter into an agreement with JPMorgan for the lending of certain of the Group Trust's securities including, but not limited to, stocks and bonds to counter-party brokers and banks (borrowers) for a predetermined period of time and fee. Such transactions are allowed by state statute.

JPMorgan lends, on behalf of the Group Trust, securities held by JPMorgan as the Group Trust's custodian and receives US dollar cash and US government securities as collateral. JPMorgan does not have the ability to pledge or sell collateral securities absent a borrower default. Borrowers are required to put up collateral for each loan equal to: (i) in the case of loaned securities denominated in US dollars or whose primary trading market is in the US or sovereign debt issued by foreign governments, 102% of the fair market value of the loaned securities and (ii) in the case of loaned securities not denominated in US dollars or whose primary trading market is not in the US, 105% of the fair market value of the loaned securities.

The Board did not impose any restrictions during 2015 and 2014 on the amount of the loans that JPMorgan made on its behalf. There were no failures by any borrowers to return the loaned securities or pay distributions thereon during 2015 and 2014. Moreover, there were no losses during 2015 or 2014 resulting from a default of the borrower. JPMorgan indemnifies the Group Trust with respect to any loan related to any non-cash distribution and return of securities.

During 2015 and 2014, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral was invested, together with the collateral of other qualified tax-exempt plan lenders, in a collective investment pool maintained by JPMorgan. The relationship between the maturities of the collateral pool and the Group Trust's securities lent has not been determined. The market value for securities on loan for the Group Trust was $103,018,696 and $142,808,381 at December 31, 2015 and 2014, respectively. Cash collateral held for the Group Trust was $94,246,253 and $147,069,562 at December 31, 2015 and 2014, respectively. Non-cash collateral held for the Group Trust was $12,342,911 and $382,864 at December 31, 2015 and 2014, respectively, consisting of US Treasury and US government agency securities. At year end, credit risk is substantially mitigated as the amounts of collateral held by the Group Trust exceed the amounts the borrowers owe the Group Trust. Securities lending transactions resulted in income, net of expenses, of $543,656 and $627,905 during 2015 and 2014, respectively.

Forward Contracts

During fiscal years 2015 and 2014, certain investment managers, on behalf of the Group Trust, entered into forward foreign exchange contracts as permitted by guidelines established by the Board. DPFP's staff monitors guidelines and compliance. A currency forward is a contractual agreement between two parties to pay or receive specific amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. Forward commitments are not standardized and carry credit risk due to possible nonperformance by one of the counter-parties. The maximum potential loss is the aggregate face value in US dollars at the time the contract was entered into. Forwards are usually traded over-the-counter. These transactions are initiated in order to hedge risks from exposure to foreign currency rate fluctuation and to facilitate trade settlement of foreign security transactions. Forwards carry market risk resulting from adverse fluctuations in foreign exchange rates. Recognition of realized gain or loss depends on whether the currency exchange rate has moved favorably or unfavorably to the contract holder upon termination of the contract. Prior to termination of the contract, the Group Trust records the unrealized currency translation gain or loss based on the applicable forward exchange rates. Forward currency contracts are considered derivative financial instruments and are reported at fair value.

The fair value and notional amounts of derivative instruments outstanding at December 31, 2015, classified by type, and the changes in fair value of such derivative instruments for the year then ended are as follows (in thousands):

	CHANGE IN FAIR VALUE	FAIR VALUE	NOTIONAL VALUE
Currency forwards	$ (380)	$ (389)	$ 4,922

4. NET PENSION LIABILITY

The net pension liability is measured as the total pension liability, less the amount of the plan's fiduciary net position. The components of the net pension liability at December 31, 2015 are as follows (in thousands):

COMBINED PENSION PLAN

Total pension liability	$ 9,536,840
Plan fiduciary net position	(2,680,124)
Net pension liability	**$ 6,856,716**

Plan fiduciary net position as a percentage of the total pension liability is 28.10%.

SUPPLEMENTAL PLAN

Total pension liability	$ 43,389
Plan fiduciary net position	(19,457)
Net pension liability	**$ 23,932**

Plan fiduciary net position as a percentage of the total pension liability is 44.84%.

ACTUARIAL ASSUMPTIONS

The total pension liability was determined by an actuarial valuation as of January 1, 2016, using the following significant assumptions, applied to all periods included in the measurement. All assumptions are based on an actuarial experience review covering the period January 1, 2010 to December 31, 2014.

Investment rate of return	7.25% per annum, compounded annually, net of investment expenses. This rate is based on an average inflation rate of 2.75% and a real rate of return of 4.50%.
Administrative expenses	Explicit assumption of $10 million per year for the Combined Pension Plan and $60 thousand per year for the Supplemental Plan, increasing 2.75% annually. Includes investment-related personnel costs.
Projected salary increases	Range of 3.00% to 5.20% per year, inclusive of 2.75% inflation assumption, dependent upon years of service, with separate tables for police officers and firefighters

Payroll growth	2.75% per year, to match inflation assumption
Actuarial cost method	Entry age normal cost method (level percent of pay)
Post-retirement benefit increases for participants hired prior to January 1, 2007	4% of original pension, annually
Asset valuation method	Combined Pension Plan – Reset of the actuarial value of assets to market value as of December 31, 2015, with a five-year smoothing in future periods; Supplemental Plan – Market value of assets
Amortization method	Level percent-of-pay
Remaining amortization period	Combined Pension Plan - 40 years; Supplemental Pension Plan – 10 years
DROP account interest credited, compounded annually, net of expenses	At October 1, 2015 – 7.0% At October 1, 2016 – 6.0% At October 1, 2017 and thereafter – 5.0%
Retirement age	Experience-based table of rates based on age, extending to age 67, with separate tables for police officers and firefighters
Pre-retirement mortality	RP-2014 sex-distinct Employee Mortality Table, with a two-year setback for males and no adjustments for females; projected generationally using the MP-2015 improvement scale
Post-retirement mortality	RP-2014 sex-distinct Blue Collar Annuitant Mortality Table, with no adjustment for males and a two-year set forward for females; projected generationally using the MP-2015 improvement scale
Disabled mortality	RP-2014 sex-distinct Disabled Retiree Table, with a three-year setback for both males and females; projected generationally using the MP-2015 improvement scale
DROP election	100% assumed to elect DROP at first eligibility for unreduced benefits. Any active members who satisfy these criteria and have not entered DROP are assumed to never join DROP. Members who retired prior to January 1, 2015 are assumed to receive their DROP payments over a 10-year period from January 1, 2015. All future retirees who retire with a DROP account are assumed to receive their DROP account over a 10-year period from their retirement date.

The long-term expected rate of return on the Plans' investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense) are developed for each major asset class. Best estimates of arithmetic rates of return for each major asset class included in the Plans' target asset allocation as of December 31, 2015 are summarized as shown below. For purposes of the January 1, 2016 actuarial valuation, the asset allocation adopted by the Board in March 2016, as discussed in Note 11, was utilized in determining long-term expected real rates of return by asset class. The rates of return below exclude the inflation component.

ASSET CLASS	LONG-TERM EXPECTED REAL RATE OF RETURN	TARGET ASSET ALLOCATION
Global Equity	7.10%	20%
Emerging Markets Equity	9.85%	5%
Private Equity	11.50%	5%
Short-Term Core Bonds	1.75%	2%
Global Bonds	1.25%	3%
High Yield and Bank Loans	4.95%	11%
Structured Credit and Absolute Return	5.75%	6%
Emerging Markets Debt	5.15%	6%
Private Debt	4.55%	5%
Natural Resources	4.30%	5%
Infrastructure	6.45%	5%
Real Estate	4.55%	12%
Liquid Real Assets	7.88%	3%
Global Asset Allocation	5.34%	10%
Cash	1.15%	2%

DISCOUNT RATE

The discount rate used to measure the total pension liability for the Combined Pension Plan was 3.95%. The projection of cash flows used to determine this discount rate assumes that member and employer contributions will be made at the contribution rates outlined in Note 1 and also considers the effect of plan amendments which went into effect in 2015 as described in Note 5. Total covered employee payroll is assumed to grow at 2.75% per year. The normal cost rate for future members is assumed to be 12.34% for all years. Based on these assumptions, the plan's fiduciary net position is not projected to be available to make all projected future payments to current plan members. In order to develop the blended GASB No. 67 discount rate of 3.95%, the actuarial assumed rate of return of 7.25% was used for the first twelve years of payments, and a municipal bond rate of 3.57% was used thereafter. The 3.57% is based on the Bond Buyer 20-Bond General Obligation Index as of December 31, 2015 (published weekly by the Federal Reserve System). For the December 31, 2014 measurement date, the blended discount rate used to measure total pension liability was 4.54%. The decrease in the discount rate resulted in an increase in the total pension liability of approximately $787 million.

The discount rate used to measure the total pension liability for the Supplemental Plan was 7.19%. The projection of cash flows used to determine this discount rate assumes that member and employer contributions will be made as outlined in Note 1 and also considers the effect of plan amendments which went into effect in 2015 as described in Note 5. The funding policy of the Supplemental Plan is to contribute the normal cost not covered by member contributions, as well as an amount that will amortize the unfunded accrued actuarial liability over 10 years. The period is open, and the amortization payment is recalculated annually on a level percent basis over 10 years, with payments assumed to increase by 2.75% annually. Since City contributions on behalf of new members will offset the normal cost of new members, it is assumed that there are no new entrants to the plan. Based on these assumptions, the plan's fiduciary net position is not projected to be available to make all projected future payments to current plan members. In order to develop the blended GASB No. 67 discount rate of 7.19%, the actuarial assumed rate of return of 7.25% was used during the period that the plan was projected to have a fiduciary net position, and a municipal bond rate of 3.57% was used thereafter. The 3.57% is based on the Bond Buyer 20-Bond General Obligation Index as of December 31, 2015 (published weekly by the Federal Reserve System). For the December 31, 2014 measurement date, the blended discount rate used was 7.13%. The increase in the discount rate resulted in a decrease in the total pension liability of approximately $236 thousand.

SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE

The following tables present the net pension liability, calculated using the current discount rates, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate (in thousands).

COMBINED PENSION PLAN

	1% DECREASE (2.95%)	CURRENT DISCOUNT RATE (3.95%)	1% INCREASE (4.95%)
Net pension liability	$ 8,471,987	$ 6,856,716	$ 5,581,404

SUPPLEMENTAL PLAN

	1% DECREASE (6.19%)	CURRENT DISCOUNT RATE (7.19%)	1% INCREASE (8.19%)
Net pension liability	$ 28,199	$ 23,932	$ 20,318

5. DEFERRED RETIREMENT OPTION PLAN

The following tables reflect the change in DROP account balances and number of participants during the year ended December 31, 2015:

COMBINED PENSION PLAN

	DROP ACCOUNT BALANCE (000'S)		DROP PARTICIPANTS
Balance at December 31, 2014	$ 1,414,248	Participants at December 31, 2014	3,353
Accumulations	203,275	Entrants	275
Distributions	(111,802)	Withdrawals	(378)
Balance at December 31, 2015	**$ 1,505,721**	**Participants at December 31, 2015**	**3,250**

SUPPLEMENTAL PLAN

	DROP ACCOUNT BALANCE (000'S)		DROP PARTICIPANTS
Balance at December 31, 2014	$ 10,391	Participants at December 31, 2014	77
Accumulations	1,276	Entrants	2
Distributions	(773)	Withdrawals	-
Balance at December 31, 2015	**$ 110,894**	**Participants at December 31, 2015**	**79**

See discussion of requirements for entry into DROP and DROP contributions in Note 1.

To address concerns regarding the growing balance of the DROP liability, plan amendments were proposed by the Board and voted on by the members in late 2014. The Board approved the implementation of the plan amendments in April 2015 to be effective January 1, 2015. The plan amendments included the following significant changes:

- The DROP interest rate was reduced to 7% effective October 1, 2015, and is scheduled to be reduced to 6% effective October 1, 2016, and 5% effective October 1, 2017. Effective October 1, 2018, further reductions to the interest rate are to be made based on the Combined Pension Plan's funded ratio and cumulative DROP loss as follows:

  For any year ending on or after December 31, 2017, if the Combined Pension Plan has credited more interest to the DROP program than has been earned on DROP account assets since inception of the DROP program, and the funded ratio drops below 65%, the following thresholds would be utilized to further reduce the DROP interest rate:

  - Funded ratio falls below 65% - DROP interest is reduced to 4% the following October 1;
  - Funded ratio falls below 60% - DROP interest is reduced to 3% the following October 1;
  - Funded ratio falls below 55% - DROP interest is reduced to 0% the following October 1.

- The contribution rate for members participating in DROP was reduced from 8.5% to 4.0% the first pay period ending after December 31, 2014.
- The vesting requirement for members hired after February 28, 2011 was reduced from 20 years to 10 years.
- The DROP accounts of members hired after February 28, 2011 are subject to earning interest, following the above noted thresholds.
- DROP members and surviving spouse beneficiaries, upon attaining age 70½, are required to take a distribution from DROP each year until the DROP account is paid out, spread over a period of less than 10 years.

See Note 9 for discussion of the status of litigation related to these plan amendments.

6. NOTES PAYABLE

At December 31, 2013, DPFP had a credit agreement with Bank of America, N.A. (BoA) which provided for a revolving line of credit bearing interest per annum at the 30-day floating LIBOR plus 95 basis points, payable quarterly. On April 11, 2014, the revolving line of credit was restructured to provide for 1) a maximum borrowing of $200 million, bearing interest per annum at the 30-day floating LIBOR rate plus 65 basis points, payable quarterly, maturing March 31, 2015 and 2) a term loan of $200 million bearing interest at a fixed rate of 2.58% maturing March 31, 2019, with required quarterly principal payments of $10 million. In conjunction with the restructured line of credit, DPFP paid a quarterly fee of 45 basis points, annualized, on the unused portion of the line of credit. On March 31, 2015, the revolving line of credit was extended to March 31, 2017, amending the interest rate to 30-day floating LIBOR rate plus 75 basis points with a quarterly fee which ranged from 45 to 55 basis points, annualized, during 2015 on the unused portion of the line of credit. The line of credit agreement contains various covenants under which the bank may call the line of credit if DPFP is in violation of any restrictive covenants. The LIBOR margin is subject to liquidity ratio covenants which allow for increases in the rate and quarterly fee if covenants are not met.

As of December 31, 2015, the line of credit was in technical default due to the fact that the January 1, 2015 actuarial valuation report concluded that the Plans' fiduciary net position was not projected to be available to make all projected future payments to current plan members. On July 13, 2016, BoA waived the default and the loan agreement was amended to remove the financial covenant related to the actuarial projection of DPFP's ability to make all projected future payments.

At December 31, 2015, DPFP had borrowed $103,451,513 and $130,000,000 on the revolving line of credit and the term loan, respectively. At December 31, 2014, DPFP had borrowed $163,451,513 and $170,000,000 on the revolving line of credit and the term loan, respectively.

As of December 31, 2013, DPFP had a loan agreement with BoA secured by real property which was due to mature on March 31, 2014 and bore interest per annum at the 30-day floating LIBOR rate plus 95 basis points. On April 11, 2014, the loan agreement was extended to March 31, 2016 and terms were amended to reflect interest at a fixed rate of 1.46%, payable quarterly. At December 31, 2015 and 2014, the loan balance outstanding was $1,863,000 and $9,315,000, respectively. The loan agreement contains various covenants under which the bank may call the loan if DPFP is in violation of any restrictive covenants. All such covenants have been met as of December 31, 2015. On March 31, 2016, upon maturity, the outstanding balance of the loan was paid in full.

DPFP had a credit agreement with Texas Capital Bank, N.A. which as of December 31, 2013 had a maximum borrowing of $40 million, bore interest at the Prime Rate minus 26 basis points with a floor rate of 2.5% and a maximum rate of 5.0%, and included a fee of 50 basis points on the unused portion of the line of credit, payable monthly. On February 6, 2014, the credit agreement was amended to provide for a revolving line of credit bearing interest at the Prime Rate minus 130 basis points, with an expiration date of February 6, 2015 and maximum borrowing of $30 million. On July 31, 2014, the outstanding balance on the revolving line of credit was paid in full. The line of credit was not renewed.

DPFP had a credit agreement with BBVA Compass which provided for a revolving line of credit bearing interest at the 30-day floating LIBOR plus 225 basis points, payable quarterly. The credit agreement had no fee on the unused portion. On July 31, 2014, the remaining balance on the revolving line of credit with BBVA Compass was paid in full. The credit agreement expired on September 15, 2014 and was not renewed.

As of December 31, 2014, DPFP had a loan agreement with a related party in the amount of $2,237,968 which bore interest at a fixed rate of 4% per annum, maturing July 1, 2020. At December 31, 2014, the outstanding principal and interest balance due on the loan agreement was $2,641,170. On June 12, 2015, the outstanding balance on the loan agreement was paid in full.

Principal payments due on line of credit and notes payable as of December 31, 2015 are as follows (in thousands):

YEAR ENDING DECEMBER 31,	AMOUNT DUE
2016	$ 41,863
2017	143,452
2018	40,000
2019	10,000
Thereafter	-
Total	**$ 235,315**

7. DEFERRED COMPENSATION PLAN

DPFP offers its employees a money purchase pension plan (MPP) created in accordance with Internal Revenue Code Section 401. An employee of DPFP becomes a participant in the MPP on their first day of service. Participation ceases, except for purposes of receiving distributions in accordance with the terms of the MPP, on the day employment with DPFP is terminated. Employees are allowed to make after-tax contributions, not to exceed IRS Code limitations. In accordance with the MPP, DPFP is obligated to contribute 12% of permanent employees' regular rate of pay and 8% of part-time and temporary employees' regular rate of pay each year. During 2015 and 2014, DPFP contributed $402,914 and $417,086, respectively, and participants contributed $211,906 and $221,468, respectively, to the MPP. The MPP has a third party administrator, Voya Financial, Inc. (Voya), and the cost of administration is borne by the MPP participants. The MPP is held in trust by Voya and is not a component of the accompanying financial statements.

8. CAPITAL ASSETS

Capital assets are recorded at historical cost or, if not purchased, at fair value at the date of acquisition. As of December 31, 2014, DPFP's office building and related land are classified as capital assets. Prior to December 31, 2014, the building and land were held by a limited liability investment wholly owned by DPFP and therefore classified as an investment asset. As of December 31, 2014, the building and land were transferred to DPFP at a fair value of $12.4 million resulting in an increase in capital assets which was offset by an equal reduction in investment assets. Effective January 1, 2015, depreciation is charged over the estimated useful lives of the assets using a straight-line method. Depreciation expense of $208 thousand is included in professional and administrative expenses in the accompanying financial statements for the year ended December 31, 2015. As the transfer occurred on December 31, 2014, there was no depreciation recorded for the year ended December 31, 2014. All capital assets belong to DPFP. Maintenance and repairs are charged to expense as incurred.
Capitalization thresholds for all capital asset classes and useful lives for exhaustible assets are as follows (dollars in thousands):

ASSET CLASS	CAPITALIZATION THRESHOLD	DEPRECIABLE LIFE
Building	$ 50	50 years
Building improvements	$ 50	15 years

Capital asset balances and current year changes are as follows (in thousands):

ASSET CLASS	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Land	$ 3,321	$ -	$ -	$ 3,321
Building	8,804	-	176	8,628
Building improvements	275	-	32	243
Total	**$ 12,400**	**$ -**	**$ 208**	**$ 12,192**

9. COMMITMENTS AND CONTINGENCIES

MEMBERS

As described in Note 1, certain members of the Plans whose employment with the City is terminated prior to being eligible for pension benefits are entitled to refunds of their accumulated contributions. Members who terminate employment with the City with less than five years of pension service are entitled to a refund of their accumulated employee contributions, without interest. As of December 31, 2015 and 2014, aggregate contributions from non-vested members for the Combined Pension Plan were $4,386,411 and $4,016,714, respectively. The portion of these contributions that might be refunded to members who terminate prior to pension eligibility and request a refund has not been determined. Refunds due to terminated non-vested members in the amount of $415 thousand and $416 thousand were included in accounts payable and other accrued liabilities of the Combined Pension Plan as of December 31, 2015 and 2014, respectively. As of December 31, 2015 and 2014, there were no aggregate contributions from active members of the Supplemental Plan with less than five years of service.

At December 31, 2015 and 2014, the total accumulated lump sum due to DROP members was approximately $1.51 billion and $1.41 billion, respectively, for the Combined Pension Plan and approximately $10.9 million and $10.4 million, respectively, for the Supplemental Plan.

INVESTMENTS

The following table depicts the total commitments and unfunded commitments to various limited partnerships and investment advisors at December 31, 2015, by asset class (in thousands).

ASSET CLASS	TOTAL COMMITMENT	TOTAL UNFUNDED COMMITMENT
Real assets	$ 739,484	$ 334,130
Private equity	938,967	228,365
Fixed income	195,000	33,486
Total	**$ 1,873,451**	**$ 595,981**

Related to an infrastructure investment, as of December 31, 2015, DPFP held an irrevocable standby letter of credit of up to $25,151,896 to secure performance obligations of DPFP as it relates to the infrastructure investment commitments. DPFP entered into the letter of credit with BoA on September 17, 2013. It is subject to renewal annually and has a current maturity date of September 30, 2016 at a rate of 60 basis points. No amounts have been drawn on the standby letter of credit as of December 31, 2015. In June 2016, the standby letter of credit was terminated in conjunction with the sale of the related infrastructure investment.

Related to a lease agreement entered into by a real estate partnership, DPFP is committed as guarantor on annual lease payments of approximately $4.4 million through 2017 and approximately $5.2 million from 2018 through the maturity date of June 30, 2032. Such guarantee is a contingent liability and is therefore not recorded in the accompanying financial statements.

LEGAL

DPFP is a defendant in litigation in which certain individual members have alleged that amendments to the Combined Pension Plan reducing the DROP interest rate and a related policy and procedure change to accelerate DROP distributions violated Article 16, Section 66 of the Texas Constitution. On April 14, 2015, the district court entered judgment for DPFP, holding these amendments and changes are constitutional. As a result of this court decision, the Board voted on April 16, 2015 to implement the changes approved by the members. On July 13, 2015, the plaintiffs filed a notice of appeal to the Fifth District Court of Appeals. DPFP and the plaintiffs have filed briefs with the court, but no date has been set for oral argument. While the ultimate outcome cannot be anticipated at this time, DPFP will continue to vigorously defend this lawsuit. No amounts related to these claims have been accrued in the accompanying financial statements as of December 31, 2015 and 2014.

10. RISKS AND UNCERTAINTIES

The Group Trust invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. The effect of such risks on the Group Trust's investment portfolio is mitigated by the diversification of its holdings. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities may occur over the course of different economic and market cycles and that such change could be material to the financial statements.

The Plans' actuarial estimates disclosed in Note 4 are based on certain assumptions pertaining to investment rate of return, inflation rates, and participant demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is reasonably possible that changes in these estimates and assumptions in the near term could be material to the financial statements.

Several lawsuits are pending against the City by police officers and firefighters, which claim the right to significant back pay on behalf of many current and former City of Dallas police officers and firefighters. If these lawsuits are successful, they will likely result in material past due pension claims on behalf of many retired pensioners and large increases in the actuarial accrued liabilities of current members of DPFP as pension liabilities are generally a percentage of the pay of the police officers and firefighters. DPFP has intervened in such lawsuits to protect DPFP's right to member and City contributions which DPFP management believes will be due if the police officers' and firefighters' claims are successful. The ultimate outcome of these lawsuits cannot be determined at this time and, accordingly, no amounts related to these claims have been recorded in the accompanying financial statements as of December 31, 2015 and 2014.

11. SUBSEQUENT EVENTS

In March 2016, the Board adopted a revised asset allocation policy including asset class targets, sub-allocation targets and ranges as follows:

ASSET CLASS	TARGET ALLOCATION	MINIMUM ALLOCATION	MAXIMUM ALLOCATION
Equity	30%	20%	40%
Global Equity	20%	10%	23%
Emerging Markets Equity	5%	0%	8%
Private Equity	5%	4%	15%
Fixed Income	33%	15%	38%
Short-term Core Bonds	2%	0%	5%
Global Bonds	3%	0%	6%
High Yield	5%	2%	8%
Bank Loans	6%	3%	9%
Structured Credit and Absolute Return	6%	0%	9%
Emerging Markets Debt	6%	0%	9%
Private Debt	5%	2%	7%
Real Assets	25%	20%	45%
Natural Resources	5%	3%	10%
Infrastructure	5%	3%	10%
Real Estate	12%	10%	25%
Liquid Real Assets	3%	0%	6%
Asset Allocation	10%	5%	15%
Risk Parity	5%	2%	8%
Global Tactical Asset Allocation	3%	0%	6%
Absolute Return	2%	0%	5%
Cash	2%	0%	5%
Plan Level Leverage	0%	0%	15%

In April 2016, the Board approved a new Investment Policy Statement which incorporates the above asset allocation, creates an Investment Advisory Committee comprised of current Board members and outside investment professionals, addresses due diligence and investment review procedures and defines the roles of the Board, consultants and DPFP staff in the investment decision making process. The April 2016 Investment Policy Statement replaced all other investment-related Board policies which were previously in place.

Management has evaluated subsequent events through July 21, 2016, which is the date that the financial statements were available for issuance, and noted no subsequent events to be disclosed other than those which are disclosed in this Note or elsewhere in the Notes to Combining Financial Statements.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

FOR LAST TWO FISCAL YEARS (DOLLARS IN THOUSANDS)

COMBINED PENSION PLAN		
FOR FISCAL YEAR ENDING DECEMBER 31,	2015	2014
Total pension liability		
Service cost	$ 125,441	$ 131,312
Interest	359,023	369,408
Changes of benefit terms	-	(329,794)
Differences between expected and actual experience	379,461	(4,453)
Changes of assumptions	908,988	-
Benefit payments, including refunds of employee contributions	(285,003)	(245,932)
Net change in total pension liability	1,487,910	(79,459)
Total pension liability - beginning	8,048,930	8,128,389
Total pension liability - ending (a)	**$ 9,536,840**	**$ 8,048,930**
Plan fiduciary net position		
Employer contributions	$ 114,886	$ 109,792
Employee contributions	25,676	29,333
Net investment loss, net of expenses	(235,207)	(138,893)
Benefits payments	(285,003)	(245,932)
Interest expense	(8,417)	(7,361)
Administrative expenses	(6,006)	(8,003)
Net change in plan fiduciary net position	(394,071)	(261,064)
Plan fiduciary net position - beginning	3,074,195	3,335,259
Plan fiduciary net position - ending (b)	**$ 2,680,124**	**$ 3,074,195**
Net pension liability - ending (a) - (b)	$ 6,856,716	$ 4,974,735
Plan fiduciary net position as a percentage of total pension liability	28.10%	38.19%
Covered employee payroll	$ 365,210	$ 383,006
Net pension liability as a percentage of covered employee payroll	1,877.47%	1,298.86%

SUPPLEMENTAL PENSION PLAN		
FOR FISCAL YEAR ENDING DECEMBER 31,	2015	2014
Total pension liability		
Service cost	$ 36	$ 28
Interest	2,953	2,969
Changes of benefit terms	-	(526)
Differences between expected and actual experience	928	336
Changes of assumptions	(600)	-
Benefit payments, including refunds of employee contributions	(2,640)	(3,414)
Net change in total pension liability	677	(607)
Total pension liability - beginning	42,712	43,319
Total pension liability - ending (a)	**$ 43,389**	**$ 42,712**
Plan fiduciary net position		
Employer contributions	$ 2,443	$ 1,817
Employee contributions	43	49
Net investment loss, net of expenses	(1,689)	(517)
Benefits payments	(2,640)	(3,414)
Interest expense	(44)	(51)
Administrative expenses	(61)	(56)
Net change in plan fiduciary net position	(1,948)	(2,172)
Plan fiduciary net position - beginning	21,405	23,577
Plan fiduciary net position - ending (b)	**$ 19,457**	**$ 21,405**
Net pension liability - ending (a) - (b)	$ 23,932	$ 21,307
Plan fiduciary net position as a percentage of total pension liability	44.84%	50.11%
Covered employee payroll	$ 725	$ 557
Net pension liability as a percentage of covered employee payroll	3,303.28%	3,827.31%

Notes to Schedule:

Changes of benefit terms as of December 31, 2014:

The Board approved the implementation of a plan amendment as described in Note 5 on April 16, 2015. Such changes were reflected in the valuation of the net pension liability as of December 31, 2015 and 2014.

Changes of methods and assumptions:

As of December 31, 2014

Due to the above noted benefit changes, the assumption for the future interest rates credited to DROP accounts was changed from 8.5% to the rates described in Note 5 (assuming 5% for all years beyond October 1, 2017).

As of December 31, 2015

As a result of the actuarial experience study completed for the five-year period ending December 31, 2014, the following changes in assumptions were adopted by the Board. For further information regarding the changes to actuarial assumptions, refer to the January 1, 2016 Dallas Police and Fire Pension System actuarial valuation reports for the Combined Pension Plan and the Supplemental Plan.

The blended discount rate used to measure the total pension liability changed from 4.94% to 3.95% for the Combined Pension Plan and from 7.13% to 7.19% for the Supplemental Plan.

Salary scales were updated with separate service-based salary assumptions for police officers and firefighters, lowering the range of increase to 3.00% to 5.20% from the previous assumed range of 4.00% to 9.64%.

The payroll growth rate assumption was lowered from 4.00% to 2.75% to equal the assumed inflation rate.

In the prior valuation, the investment return assumption was net of both investment and administrative expenses. In the December 31, 2015 valuation, an explicit assumption for administrative expenses was added to the normal cost. Assumptions of $10 million and $60 thousand per year were utilized for the Combined Pension Plan and Supplemental Plan, respectively.

In the prior valuation for the Combined Pension Plan, an asset valuation method using a 10-year smoothing period was applied. In the December 31, 2015, the actuarial value of assets was reset to market value as of the measurement date. A five-year smoothing period will be used in future periods.

The remaining amortization period was adjusted from 30 years to 40 years for the Combined Pension Plan based on requirements of the Texas Pension Review Board.

Mortality tables were updated from the RP-2000 tables to the RP-2014 tables as discussed in Note 4.

Assumed rates of turnover were lowered for police officers and raised for firefighters to reflect recent experience.

Retirement rates were lowered for both police officers and firefighters, with the separation of service-based assumptions implemented based on recent experience.

Disability rates were lowered for both police officers and firefighters and service-based assumptions were eliminated based on the similarity of recent experience between the two services.

The assumption of the portion of active employees who are married was lowered from 80% to 75% and the age of the youngest child was raised from 1 to 10.

Schedule is intended to show information for 10 years. Additional years will be presented as they become available.

See accompanying independent auditor's report

SCHEDULE OF EMPLOYER CONTRIBUTIONS – SUPPLEMENTAL PLAN
(DOLLARS IN THOUSANDS)

MEASUREMENT YEAR ENDING DECEMBER 31,	ACTUARIALLY DETERMINED CONTRIBUTION	ACTUAL CONTRIBUTION	CONTRIBUTION DEFICIENCY (EXCESS)	COVERED PAYROLL	ACTUAL CONTRIBUTION AS A % OF COVERED PAYROLL
2015	$ 2,443	$ 2,443	$ -	$ 557	438.78%
2014	1,817	1,817	-	521	348.53%

Notes to Schedule:

Actuarially determined employer contributions for the Supplemental Plan are required by City ordinance. Actuarially determined contributions are calculated as of January 1 in the fiscal year in which contributions are reported.

Methods and assumptions used to determine the actuarially determined contribution:

Actuarial cost method	Entry age normal cost method
Amortization method	Level percent-of-pay
Remaining amortization period	10 years remaining as of January 1
Asset valuation method	Market value of assets
Investment rate of return	7.25% per annum, compounded annually, net of all expense, including administrative expenses. This rate is based on an average inflation rate of 2.75% and a real rate of return of 4.50%
Inflation rate	2.75%
Projected salary increases	Range of 4.00% - 9.64%
Post-retirement benefit increases	4.00%
Retirement age	Experienced-based table of rates, based on age
Mortality	RP-2000 Combined Healthy Mortality Table projected to 10 years beyond the valuation date using Scale AA for healthy retirees and active members
DROP account returns	At October 1, 2014 – 8.0% At October 1, 2015 – 7.0% At October 1, 2016 – 6.0% At October 1, 2017 and thereafter – 5.0%
DROP entry	Age 50 with five years of service. Any active members who satisfy these criteria and have not entered DROP are assumed to never join DROP. Active members who retire with a DROP account are assumed to receive the balance of their account over a 10-year time period.

Schedule is intended to show information for 10 years. Additional years will be presented as they become available.

See accompanying independent auditor's report.

SCHEDULE OF INVESTMENT RETURNS

FISCAL YEAR ENDED DECEMBER 31,	ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF INVESTMENT EXPENSE
2015	(12.70%)
2014	3.98%

Notes to Schedule:

The annual money-weighted rate of return is calculated as the internal rate of return on pension plan investments, net of pension plan investment expense, and expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested. Pension plan investment expense consists of manager fees. The return is calculated using a methodology which incorporates a one quarter lag for market value adjustments on private equity, debt, and real assets investments.

Schedule is intended to show information for 10 years. Additional years will be presented as they become available.

See accompanying independent auditor's report.

SUPPLEMENTARY INFORMATION

ADMINISTRATIVE, INVESTMENT, AND PROFESSIONAL SERVICES EXPENSES

YEAR ENDED DECEMBER 31, 2015

ADMINISTRATIVE EXPENSES:	
Information technology	$ 448,577
Education	246,390
Insurance	288,116
Personnel	4,296,221
Office equipment	63,573
Dues and subscriptions	19,489
Board meetings	26,164
Office supplies	25,042
Utilities	68,497
Postage	29,370
Printing	57,234
Election	19,666
Facilities	876,268
Other	111,009
Total administrative expenses	**$ 6,575,616**

INVESTMENT EXPENSES:	
Investment management	$ 8,314,020
Custodial	268,054
Valuation	503,575
Research	17,674
Consulting	744,450
Tax services	87,755
Other	129,014
Total investment expenses	**$ 10,064,542**

PROFESSIONAL SERVICES EXPENSES:	
Consulting	$ 175,366
Actuarial	227,808
Auditing	177,450
Accounting	61,142
Medical review	7,160
Legal	893,990
Mortality records	4,267
Legislative	262,716
Communications	87,171
Other	5,959
Total professional services expenses	**$ 1,903,029**

Notes to Schedule:

Supplementary information on investment expenses does not include investment management fees and performance fees embedded in the structure of private equity and other limited partnership investments. Rather, these fees are a component of the net depreciation in fair value of investments in the accompanying Statements of Changes in Fiduciary Net Position. In addition, management fees paid directly by DPFP are included net of rebates received.

The members of the Board of Trustees serve without compensation; they are reimbursed for actual expenses incurred.

See accompanying independent auditor's report.

Investment Information

Do not waste your time thinking what you could have done differently - Keep your eyes focused ahead of you and do it differently now.

- Karen Salmansohn

INVESTMENT CONSULTANT'S REPORT

2015 Fiscal Year Investment Summary

GLOBAL MARKET COMMENTARY

2015 was marked by uncertainty surrounding several globally significant economic trends in transition: the extension of the U.S. economic cycle, the path of the Federal Reserve's monetary policy tightening, and the extent of the economic slowdown in China. These concerns rattled investors, culminating in risk aversion and contributing to a sharp decline in global markets in August.

In early 2015, NEPC emphasized moderation, be it in tempering expectations for future investment returns or curtailing the urge to replicate outsized returns with a portfolio of the past. We voiced caution amid expectations that global divergences were likely to highlight stresses in financial markets, ultimately pushing volatility higher off cyclical lows. These trends largely flowed through to asset returns in 2015, producing erratic results for investor portfolios. The S&P 500 was up 1.4% and the Barclays Aggregate Index rose 0.5%, while small-cap equities and high-yield bonds were off nearly 4.5%. Global markets wobbled under the strain of a strong U.S. dollar as the MSCI EAFE Index declined 0.8%, emerging markets equities and local debt were down nearly 15%, and commodities plunged.

Reviewing the illiquid asset categories, for private equity in 2015, fundraising decreased slightly from 2014 levels, buyout purchase prices remained near all-time highs in developed geographies; however while prices are elevated, the amount of equity in transactions has also risen; a departure from the last buyout "boom." Venture capital valuations, investment volume, and average deal sizes have significantly increased. Secondary private equity valuations continued to rise for the year, and competition for "plain vanilla" secondary transactions was high. Similarly, U.S. core real estate fundamentals remained robust; however, valuations ended the year on a high note. For real estate debt, yields generally remained low, and lenders continued to loosen credit standards.

REPORTING METHODOLOGY

DPFP calculates performance based on a 'lagged with cash flow adjustments' methodology. This cash-adjusted valuation process accurately represents the best available statement of the account's value at a specific point in time and, in NEPC's view, is the most practical way to report a rolled-up time-weighted return at the total portfolio level. Under this methodology and as a matter of practice, NEPC uses the most recent quarterly statement in receipt from the investment manager of the private vehicle and adjusts the ending market value by any capital activity that occurred from the date of the private investment statement (i.e., 9/30) through the end of the period (i.e., 12/31). Capital calls will be added and distributions will be subtracted from the most recent statement's market value to calculate a current estimate of the DPFP's private investments market value.

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INVESTMENT PERFORMANCE

For the Fiscal Year ending December 31, 2015, the DPFP earned -12.6%. This is based on a net-of-fees, time-weighted calculation. The following table provides the underlying return for each major asset category:

	1 Year Return
Global Public Equity	-0.7%
Global Fixed Income	-6.8%
Global Asset Allocation	-4.7%
Global Private Equity	-20.2%
Global Real Estate	-31.7%
Global Natural Resources	11.0%
Global Infrastructure	-4.8%
Cash & Short Term	1.3%
DPFP Total Return	**-12.6%**

2015 ASSUMPTION CHANGE

Effective January 1, 2015, the actuarially assumed rate of return on assets was lowered from 8.5% to 7.25%. This lower rate is viewed as being more consistent with forecasted global market conditions. The revised rate led to additional portfolio construction and asset allocation studies, which have been performed, with the aim of arriving at a long-term portfolio structure that is forecasted to: provide for appropriate liquidity, earn the target rate of return, and deliver this output at a risk level commensurate to the targeted goals. Based on these studies, a new asset allocation policy has subsequently been approved in March of 2016. The new policy increases overall exposure to Public Equity and Fixed Income assets, while decreasing targeted allocations to the illiquid categories such as Private Equity and Real Estate.

Respectfully submitted,

Rhett Humphreys, CFA
Partner

INVESTMENT INFORMATION

INTRODUCTION

The past year was notable as a year of significant change for the DPFP investment program and portfolio. These changes have addressed challenging issues, but should position DPFP for greater long-term viability.

The real estate portfolio reallocation process that was initiated by the Board in August of 2014 was completed during the first nine months of 2015. This process resulted in the transfer of over $600 million in direct real estate investments to four institutional real estate investment managers. The newly appointed managers conducted detailed asset-level reviews of their takeover portfolios and reported their findings and strategic recommendations to the Board over the course of 2015 and into early 2016.

Throughout the year and in coordination with NEPC, DPFP's investment consultant, DPFP studied the liquidity needs of the plan as compared to the liquidity offered by the existing investment portfolio. In October, the Board reviewed potential asset allocation mixes given the aforementioned liquidity constraints. During the remainder of 2015 and into the first quarter of 2016, DPFP enhanced investment performance reporting to the Board and began a comprehensive review of expected asset returns and relative values in preparation for recommending a new strategic asset allocation to the Board.

To date in 2016, the Board has approved a new strategic asset allocation which should enhance DPFP's cash flow production while reducing overall portfolio volatility. The Board has also approved a new comprehensive Investment Policy Statement, as well as structure studies for the fixed income, global asset allocation and equity asset classes. The remainder of 2016 will be focused on hiring managers necessary to complete the implementation of the new strategic asset allocation and structure study recommendations.

PERFORMANCE REPORTING AND RESULTS

PERFORMANCE REPORTING METHODOLOGY

The rate of return calculation is prepared by NEPC using a time-weighted rate of return in accordance with the CFA Institute's Global Investment Performance Standards. The methodology used to calculate the rate of return is a "lagged with cash flow adjustments" methodology, which incorporates a one quarter lag on the market values of private equity, debt, infrastructure, real estate, timberland and farmland investments (collectively, Private Investments). The lagged methodology was put in place in 2014 as recommended by NEPC, is consistent with standard industry practice, and allows for more timely reporting to the Board.
Due to the "lagged with cash flow adjustments" performance reporting methodology, the investment values in the Investment section do not agree with the values presented in the Financial section of this report. The values for Private Investments reported in the Financial section are based on the December 31 net asset values (unlagged).

INVESTMENT PERFORMANCE

DPFP's investment performance is reported to the Board, on a quarterly basis, by NEPC. The overall investment performance is measured against the median return of public defined benefit plans included in the InvestorForce universe by comparison to the InvestorForce Public DB Net Median index. Asset class returns are measured against a benchmark for the asset class. When DPFP's managers within a single asset class have different benchmarks, a Custom Weighted Allocation Index is calculated using the individual investment manager benchmarks, weighted by the manager's average market value percentage of the entire asset class. Each investment manager is measured against the return of an appropriate benchmark, as represented by a specific index return. All of the returns in the Investment section are calculated net of all fees paid to investment managers. The below table includes the 1, 3, 5 and 10-year returns by asset class and strategy as measured against the representative benchmarks.

	NET ASSET VALUE ($)	% OF PORTFOLIO	2015 RETURN (%)	3 YRS (%)	5 YRS (%)	10 YRS (%)
Total investment assets	$ 3,011,032,147	100.00%	(12.6%)	(0.7%)	1.0%	2.7%
Plan level debt	(235,314,513)		-	-	-	-
Net investment assets	2,775,717,634		(12.3%)	(0.5%)	1.1%	2.7%
INVESTORFORCE PUBLIC DB NET MEDIAN			(0.4%)	6.8%	6.4%	5.4%
GLOBAL PUBLIC EQUITY	452,931,462	15.04%	(0.7%)	8.9%	6.9%	5.1%
CUSTOM WEIGHTED ALLOCATION INDEX**			(4.9%)	7.7%	6.2%	-
Eagle Asset Management	51,647,989	1.72%	0.4%	13.1%	9.9 %	8.5%
Russell 2000 with dividends			(4.4%)	11.7%	9.2%	6.8%
Pyramis	120,877,035	4.01%	(0.5%)	9.1%	6.9%	5.5%
Walter Scott	82,982,234	2.76%	1.1%	7.7%	7.6%	-
MSCI ACWI			(2.4%)	7.7%	6.1%	4.8%
OFI Global Institutional	125,671,582	4.16%	4.1%	10.8%	8.7%	-
MSCI World			(0.9%)	9.6%	7.6%	5.0%
RREEF Global REIT	21,578,267	0.72%	0.8%	6.8%	9.5%	4.6%
FTSE EPRA/NAREIT Global			(0.8%)	6.1%	7.6%	5.2%
The Mitchell Group	23,977,625	0.80%	(24.0%)	(7.3%)	(4.7%)	3.9%
Dow Jones Equal Wtd. Oil & Gas			(33.3%)	(12.3%)	(8.9%)	(5.2%)
Allianz Global (Ecotrends)	618,168	0.02%	(5.0%)	5.9%	2.0%	-
FTSE Environmental Technology 50			(1.5%)	12.1%	1.4%	3.5%
Sustainable Asset Management	25,578,562	0.85%	0.7%	10.6%	6.7%	-
MSCI World			(0.9%)	9.6%	7.6%	5.0%

	NET ASSET VALUE ($)	% OF PORTFOLIO	2015 RETURN (%)	3 YRS (%)	5 YRS (%)	10 YRS (%)
GLOBAL FIXED INCOME	$ 417,365,544	13.86%	(6.8%)	0.1%	4.5%	5.5%
CUSTOM WEIGHTED ALLOCATION INDEX**			(2.6%)	1.5 %	4.5 %	-
Ashmore Emerging Markets Debt Fund	39,547,301	1.31%	(0.2%)	(2.7%)	2.7%	6.6%
JPM Emerging Market Bond Global Index - Total Return			1.2%	(0.1%)	5.1%	6.7%
Ashmore EM Local Currency	15,997,026	0.53%	(16.2%)	(11.3%)	-	-
JPM Government Bond Index - Emerging Market Global Diversified			(14.9%)	(10.0%)	(3.5%)	4.3%
Brandywine	84,943,600	2.82%	(7.5%)	(2.1%)	2.8%	5.5%
Mondrian Investment Partners	40,182,282	1.33%	(2.5%)	(1.9%)	0.6%	4.0%
Barclays Global Aggregate Index			(3.2%)	(1.7%)	0.9%	3.7%
Loomis Sayles	110,363,266	3.67%	(11.2%)	0.6%	4.3%	7.2%
70% ML High Yield Cash Pay, 30% JPM EMBI GL Comp			(2.7%)	1.1%	4.9%	6.8%
Loomis Sayles Sr Floating Rate and Fixed Income	50,231,064	1.67%	(2.1%)	-	-	-
S&P/LSTA Leveraged Loan (All Loans Index Levels)			(0.7%)	2.0%	3.4%	4.3%
W.R. Huff High Yield	55,921,216	1.86%	(11.4%)	(3.3%)	3.2%	5.4%
Citi US High Yield Market Index			(5.6%)	1.0%	4.6%	6.5%
Highland Capital Management, LP	12,431,892	0.41%	3.1%	11.5%	11.1%	-
Highland Crusader Fund	7,747,897	0.26%	(15.7%)	(2.6%)	11.9%	(4.4%)
S&P 500 + 2%			3.4%	17.4%	14.8%	9.4%
GLOBAL ASSET ALLOCATION	398,507,601	13.24%	(4.7%)	1.1%	3.7%	-
CUSTOM WEIGHTED ALLOCATION INDEX**			5.8%	6.0%	6.3%	-
Bridgewater	127,517,621	4.24%	(3.9%)	0.5%	6.6%	-
91 Day T-Bill + 6%			6.0%	6.0%	6.0%	7.2%
AQR	41,563,668	1.38%	(9.4%)	-	-	-
GMO	124,915,417	4.15%	(3.0%)	3.2%	4.8%	-
Panagora	45,176,436	1.50%	(7.0%)	-	-	-
Putnam	59,334,459	1.97%	(5.0%)	0.5%	3.4%	-
CPI + 5% (Seasonally Adjusted)			5.7%	6.0%	6.6%	6.9%
GLOBAL INFRASTRUCTURE*	203,027,928	6.74%	(4.7%)	1.4%	-	-
CPI + 5% (SEASONALLY ADJUSTED)			5.7%	6.0%	-	-
GLOBAL PRIVATE EQUITY*	461,964,044	15.34%	(20.2%)	(3.8%)	(1.2%)	0.9%
S&P 500 + 2%			3.4%	17.4%	14.8%	9.4%
GLOBAL NATURAL RESOURCES*	288,096,675	9.57%	11.0%	9.1%	7.9%	-
CUSTOM WEIGHTED ALLOCATION INDEX**			13.4%	14.0%	9.5%	-
GLOBAL REAL ESTATE*	706,930,030	23.48%	(31.7%)	(11.5%)	(8.1%)	(2.7%)
NFI ODCE VALUE WEIGHTED + 75 BPS, QUARTER LAGGED			14.7%	13.2%	13.7%	6.5%
CASH AND EQUIVALENTS	$ 82,122,733	2.73%	1.3%	2.4%	-	-

** Market values and returns for Private Investments and related benchmarks are lagged by one quarter and adjusted for cash flows as discussed above.*

*** Custom weighted asset class benchmarks are calculated based on the weighted average monthly return of each investment and corresponding benchmarks that compose the asset class.*

OVERVIEW AND GOALS

The general investment goals of DPFP are broad in nature in order to encompass the purpose of DPFP and its investments. They articulate the philosophy by which the Board manages DPFP's assets within the applicable regulatory constraints.

- The overall goal of DPFP is to provide benefits, as provided under the pension plan document, to its members and their beneficiaries through a carefully planned and executed investment program.
- DPFP seeks to produce the highest return on investment that is consistent with levels of liquidity and investment risk that are prudent and reasonable, given prevailing economic conditions. While the importance of the preservation of capital is recognized, the theory of capital market pricing which maintains that varying degrees of investment risk should be rewarded with compensating returns is also considered.
- DPFP's investment program shall at all times comply with applicable state and federal regulations.

DPFP's portfolio strategy is implemented primarily through the use of external investment managers. Each investment manager operates under a set of guidelines specific to the strategic role its portfolio is intended to fulfill in the overall investment portfolio. As part of the due diligence process, DPFP negotiates fees with these external managers to the lowest reasonable cost to administer the investments without sacrificing quality of service.

DPFP's investment staff serve as the primary liaisons between the Investment Advisory Committee and Board, the investment consultant, external investment managers, and the custodian bank. The investment staff's responsibilities include, but are not limited to, managing assets within the scope of DPFP's policies, implementing Board actions regarding asset allocation and investment managers, portfolio rebalancing, monitoring investment activities and performance, managing liquidity, performing investment manager due diligence, and coordinating manager searches and selection processes.

INVESTMENT POLICIES

The Strategic Investment Policy and Investment Implementation Policy provided the framework for management of DPFP's investment assets and served as DPFP's principal source for developing an appropriate investment strategy until April 2016 when the new Investment Policy Statement (IPS) was approved by the Board.

The Strategic Investment Policy was based on analysis of the current and expected condition of DPFP, the expected long-term returns for asset classes and DPFP's risk tolerance. DPFP's analysis includes the potential impact on pension costs of varying asset allocation policies considering differing levels of diversification in terms of risk and return. In addition, DPFP's actuarial liabilities are taken into consideration in order address the immediate and long-term liquidity needs of the portfolio.

The Investment Implementation Policy, which was in place until the new IPS was approved in April 2016, provided a framework for investing in approved asset classes as outlined in the Strategic Investment Policy.

The Investment Implementation Policy stated the asset allocation target and ranges for each asset class. Minimum and maximum allocations were set allowing for changes in market conditions, liquidity, cash flow, and other factors. The Board and DPFP staff review the actual allocation of the investment portfolio compared to asset class targets and ranges on a monthly basis. The Board has directed DPFP staff to rebalance the portfolio as administratively feasible and without sacrificing value. The Board recognizes that asset class targets will be met over a period of time as market conditions, liquidity, cash flow, and other factors affect the rebalancing of the portfolio.

The new 2016 IPS outlines a new asset allocation, creates an Investment Advisory Committee comprised of current Board members and outside investment professionals, details due diligence and investment review procedures, and clearly defines the roles of the Board, consultants and DPFP staff in the investment decision making process. The new IPS replaced all other investment related Board policies which were previously in place, including the Strategic Investment Policy and Investment Implementation Policy discussed above. To review the new IPS in full, visit DPFP's website at www.dpfp.org/policies.html.

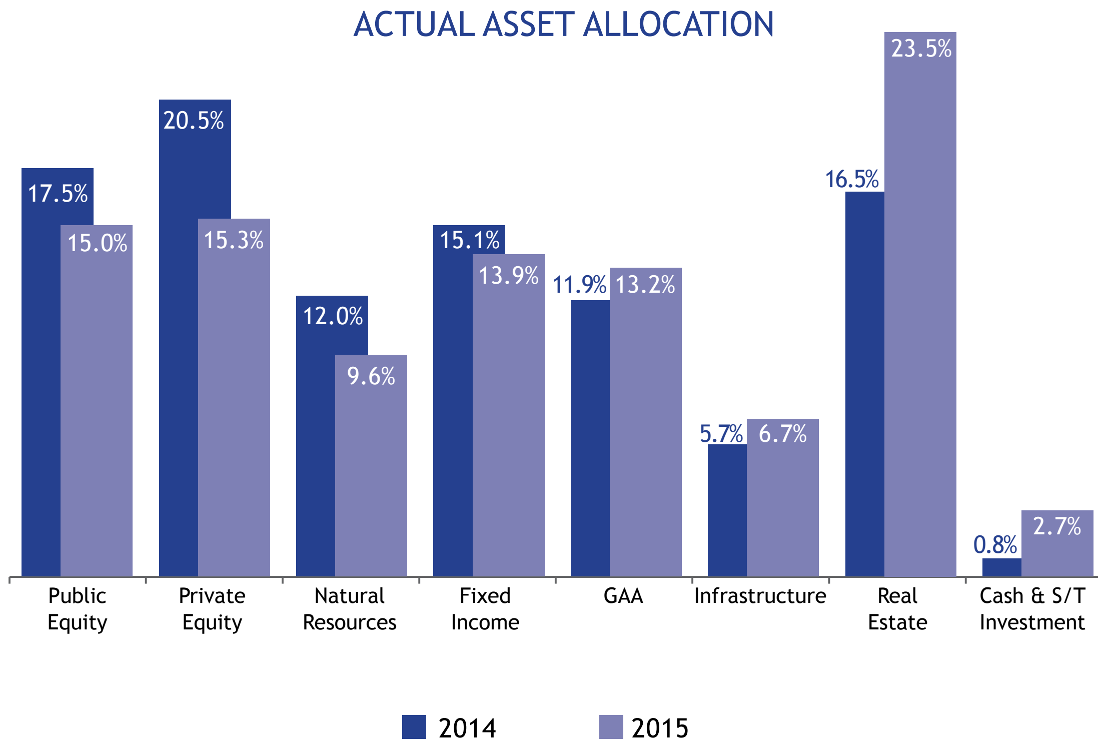
ASSET ALLOCATION

The asset allocation as of December 31, 2015, along with targets and ranges, is as follows:

ASSET CLASS	CURRENT ALLOCATION	TARGET ALLOCATION	MINIMUM ALLOCATION	MAXIMUM ALLOCATION
Global Public Equity	15.04%	15%	12%	18%
Global Private Equity	15.34%	15%	10%	20%
Global Natural Resources	9.57%	10%	8%	12%
Global Fixed Income	13.86%	15%	13%	17%
Global Asset Allocation (GAA)	13.24%	20%	18%	22%
Global Infrastructure	6.74%	10%	8%	12%
Global Real Estate	23.48%	15%	10%	20%
Cash and Short-Term Investments	2.73%	-	-	-

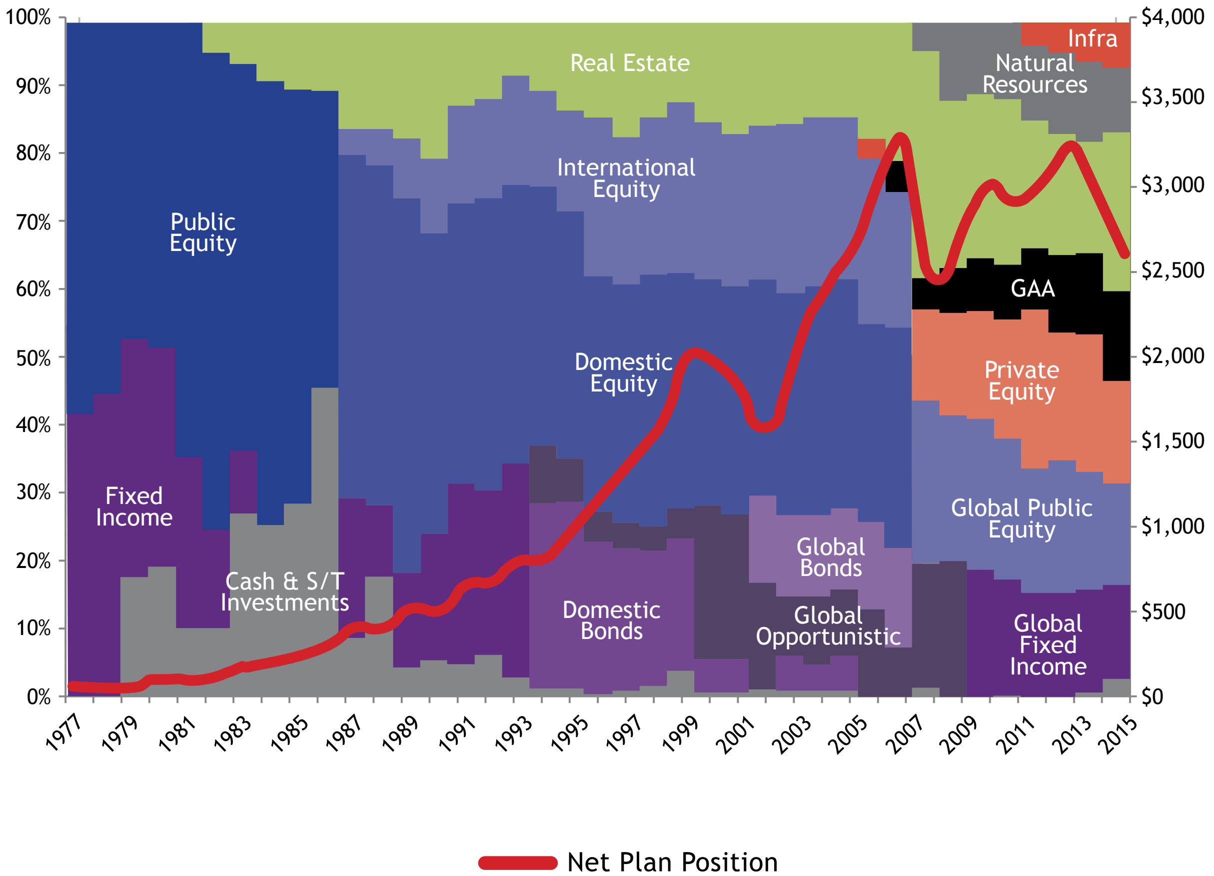
GAA and Global Infrastructure ended the year with actual allocations below the minimum ranges outlined in the asset allocation as of December 31, 2015. These underweight allocations were by design, in anticipation of the asset allocation changes which occurred in conjunction with the new IPS in 2016. At December 31, 2015, the actual allocation to Global Real Estate was outside of the asset allocation range on the high-end as discussed further below.

The following graph shows the actual portfolio makeup at December 31, 2015 and 2014. The increase to the Global Real Estate asset class was driven by two factors: 1) a reclassification of an investment in a real estate operation company from Global Private Equity to Global Real Estate and 2) a change in the reporting of Plan Level Debt. In 2014, the Plan Level Debt was reported as a component of the Global Real Estate asset class, therefore the reported net asset value for the asset class reflected gross Global Real Estate investment assets less the Plan Level Debt. In 2015, the Plan Level Debt was reclassified out of the Global Real Estate asset class and is now netted against the entire investment portfolio, which caused an increase in the percentage of assets in the Global Real Estate asset class and a corresponding decline in allocation percentage to all other asset classes. Also during 2015, several public equity managers (Sustainable Asset Management, The Mitchell Group, and Allianz EcoTrends) were reclassified from Global Natural Resources to Global Public Equity.



Over time, DPFP has made efforts to add asset classes and strategies to improve the diversification of the portfolio. The below graph reflects the asset classes and allocation of the DPFP portfolio from 1977 through 2015, charted against the net plan position of DPFP (in millions):

ASSET ALLOCATION EVOLUTION AND HISTORIC PLAN NET POSITION



The below table details the updated asset class targets, sub-allocation targets and ranges as approved by the Board in conjunction with the 2016 IPS:

REVISED ASSET ALLOCATION	TARGET ALLOCATION	MINIMUM ALLOCATION	MAXIMUM ALLOCATION
Equity	30%	20%	40%
Global Equity	20%	10%	23%
Emerging Markets Equity	5%	0%	8%
Private Equity	5%	4%	15%
Fixed Income	33%	15%	38%
Short-term Core Bonds	2%	0%	5%
Global Bonds	3%	0%	6%
High Yield	5%	2%	8%
Bank Loans	6%	3%	9%
Structured Credit and Absolute Return	6%	0%	9%
Emerging Markets Debt	6%	0%	9%
Private Debt	5%	2%	7%
Real Assets	25%	20%	45%
Natural Resources	5%	3%	10%
Infrastructure	5%	3%	10%
Real Estate	12%	10%	25%
Liquid Real Assets	3%	0%	6%
Global Asset Allocation	10%	5%	15%
Risk Parity	5%	2%	8%
Global Tactical Asset Allocation	3%	0%	6%
Absolute Return	2%	0%	5%
Cash	**2%**	**0%**	**5%**
Plan Level Leverage	**0%**	**0%**	**15%**

The minimum and/or maximum allocation range point reflects the actual asset allocation at the time the IPS was adopted. Over time, as the actual allocation approaches the target, the range will be adjusted to a more typical range with the target allocation generally at the mid-point of the range.

INVESTMENT MANAGEMENT FEES AND BROKERAGE COMMISSIONS

Investment management fees included in the Administrative, Investment and Professional Services Expenses supplementary schedule in the Financial section of this report represent only those fees paid directly by DPFP. In addition to the fees paid directly, DPFP incurs investment management fees which are charged by general partners or investment managers at the fund level. Fees charged at the fund level are typically seen in private equity, private debt, infrastructure, and global asset allocation funds. The below table presents all fees paid in 2015, net of any rebates or discounts received.

ASSET CLASS	MANAGEMENT FEES PAID FROM THE GROUP TRUST	MANAGEMENT FEES PAID AT FUND LEVEL	TOTAL INVESTMENT MANAGEMENT FEES PAID	2015 AVERAGE MARKET VALUE	TOTAL MANAGEMENT FEES PAID AS A % OF AVERAGE MARKET VALUE
Global Public Equity	$ 3,460,131	$ -	$ 3,460,131	$ 629,804,854	0.55%
Global Private Equity	401,251	8,019,700	8,420,951	508,053,320	1.66%
Global Natural Resources	-	2,869,381	2,869,381	316,289,946	0.91%
Global Fixed Income	1,001,040	554,836	1,555,876	448,276,375	0.35%
Global Asset Allocation	-	5,253,177	5,253,177	414,016,682	1.27%
Global Infrastructure	(509,146)	1,873,285	1,364,139	195,447,719	0.70%
Global Real Estate	3,896,287	940,851	4,837,138	586,530,820	0.83%
TOTAL	**$ 8,249,563**	**$ 19,511,230**	**$ 27,760,793**	**$ 3,098,419,716**	**0.90%**

During 2015, DPFP incurred $759,583 in brokerage fees and commissions paid through managers to trade a total of approximately 59 million shares across 281 firms. This represents an average cost of $0.013 per share traded.

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL FEES AND COMMISSIONS	FEES AND COMMISSIONS PER SHARE
Merrill Lynch International, Ldn.	5,703,932	$ 32,587	$ 0.006
Sterne, Agee & Leach, Inc.	1,106,523	29,391	0.027
UBS, Ltd.	787,402	25,615	0.033
Citigroup Global Markets, Ltd.	1,793,337	24,578	0.014
Macquarie Bank, Ltd.	3,671,317	23,332	0.006
Bloomberg Tradebook, LLC	1,113,089	22,244	0.020
UBS (International), Ltd.	1,658,807	20,894	0.013
J.P. Morgan Securities, Ltd.	1,034,179	16,951	0.017
J.P. Morgan Clearing Corp NY	631,907	16,737	0.027
Merrill Lynch, PF&S NY	396,726	15,828	0.040
All other firms	40,806,890	531,426	0.013
TOTAL	**58,704,109**	**$ 759,583**	**$ 0.013**

LARGEST PUBLIC EQUITY AND FIXED INCOME HOLDINGS

The below tables contain the ten largest public equity and fixed income securities owned by DPFP at December 31, 2015. A full list of securities owned by DPFP is available upon written request.

PUBLIC EQUITY HOLDING	MARKET VALUE
Alphabet Inc	$ 9,823,324
Adobe Systems Inc	5,440,253
Industria De Diseno Textil	4,503,665
Colgate-Palmolive Co	4,388,792
Keyence Corp	4,237,982
LVMH Moet Hennessy Louis Vuitton	3,973,686
Gilead Sciences Inc	3,818,303
Mcgraw Hill Financial Inc	3,710,453
Nestle	3,694,358
Citigroup Inc	3,565,058

PUBLIC FIXED INCOME HOLDING	MATURITY DATE	INTEREST RATE	MARKET VALUE
United States Treasury Notes	7/31/2017	-	$ 12,090,382
United States Bond	2/15/2045	2.50%	8,761,451
Alcatel-Lucent USA Inc Notes	3/15/2029	6.45%	5,698,350
United Mexican States Bond	11/18/2038	8.50%	4,074,108
Republic of Italy Bond	8/1/2039	5.00%	3,966,615
United Mexican States Bond	11/13/2042	7.75%	3,959,259
United Mexican States Bond	5/31/2029	8.50%	3,440,693
Republic of Indonesia Bond	3/15/2029	9.00%	3,185,959
Portuguese Republic Note	10/15/2024	5.13%	3,136,828
Ciena Corp Bond	6/15/2017	0.88%	2,971,309

INVESTMENT MANAGERS

Allianz Global Investors
AEW Capital Management
AQR Capital Management, LLC
Ashmore Investment Management Limited
BankCap Partners
Bentall Kennedy
Brandywine Global Investment Management
Bridgewater Associates
BTG Pactual Asset Management
CDK Realty Advisors
Clarion Partners
Cornerstone Real Estate Advisors
Deutsche Asset & Wealth Management
Eagle Asset Management
Forest Investment Associates
Grantham, Mayo, Van Otterloo & Co. (GMO)
Hancock Agricultural Investment Group
Hearthstone, Inc.
Highland Capital Management
Hudson Clean Energy Partners
JPMorgan Asset Management
Kainos Capital, LLC
L&B Realty Advisors
Levine Leichtman Capital Partners
Lone Star Funds
Lone Star Investment Advisors
Loomis, Sayles & Company
Merit Energy Partners
The Mitchell Group
Mondrian Investment Partners
OFI Institutional Asset Management
M&G Real Estate
Oaktree Capital Management
PanAgora Asset Management, Inc.
Pharos Capital Group
Putnam Fiduciary Trust Company
Pyramis Global Advisors
Sustainable Asset Management, USA
Walter Scott & Partners Limited
W.R. Huff Asset Management
Yellowstone Capital Partners

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Actuarial Information

There are only two mistakes one can make along the road to truth; not going all the way, and not starting.

- Buddha

ACTUARY'S REPORT

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July 21, 2016

Board of Trustees
Dallas Police & Fire Pension System
4100 Harry Hines Blvd., Suite 100
Dallas, TX 75219

Re: Actuarial Valuations as of January 1, 2016

Dear Trustees:

We certify that the information contained in this report is accurate and fairly presents the actuarial position of the Dallas Police and Fire Pension System ("DPFP") Combined Pension Plan and Supplemental Plan ("the Plans") as of January 1, 2016.

All calculations have been made in conformity with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion, the results presented also comply with the requirements of Texas state law and, where applicable, the Internal Revenue Code, ERISA, and the Statements of the Governmental Accounting Standards Board (GASB). The undersigned are independent actuaries and consultants. Each of Mr. Joyner, Ms. Brigham and Mr. Williams is a Fellow of the Conference of Consulting Actuaries, an Associate of the Society of Actuaries, an Enrolled Actuary, a Member of the American Academy of Actuaries and experienced in performing valuations for large public retirement systems. They all meet the Qualification Standards of the American Academy of Actuaries to render this opinion.

ACTUARIAL VALUATION

The primary purposes of the valuation reports are to determine the adequacy of the current employer contribution rates, to describe the current financial condition of the Plans, and to analyze changes in the Plans' financial condition. In addition, this report provides information required in connection with Governmental Accounting Standards Board Statement No. 67 (GASB 67), and provides various summaries of the data. Valuations are prepared annually as of January 1 of each year, the first day of DPFP's plan year.

FINANCING OBJECTIVES

The City of Dallas (the City) and member contribution rates for the Combined Pension Plan, along with the member contribution rates for the Supplemental Plan, are established by statute. The City's contribution for the Supplemental Plan is determined with the actuarial valuation each year and is the

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Board of Trustees
July 21, 2016
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sum of the normal cost and a ten-year amortization of the unfunded actuarial accrued liability (UAAL).

In order to determine the adequacy of the Combined Pension Plan's contribution rates, they are compared to an actuarially determined recommended contribution intended to be sufficient to pay the normal cost (the current year's cost) and to amortize the UAAL as a level percentage of payroll over a period of no more than 40 years from the valuation date. For this calculation, payroll is assumed to increase 2.75% per year.

The Board should monitor the margin or deficit between the 40-year actuarially determined recommended contribution and the contribution rates, and the funding period over which the current contribution rates are expected to amortize the UAAL. If actuarial assumptions, including investment experience, are met, the objective of maintaining a relatively level contribution rate over time is achieved. However, if there is a shortfall of the rate compared to the actuarially determined contribution, the effective amortization period exceeds 40 years, and action should be taken to remedy the situation. The Board and the City may consider increases in contributions, and/or changes to the plan provisions with the objective of lowering the actuarially determined contribution.

PROGRESS TOWARD REALIZATION OF FINANCING OBJECTIVES

Combined Pension Plan
The current statutory contribution rates are not sufficient to adequately fund the projected benefit payments of the Combined Pension Plan and, unless changes are made, plan insolvency is estimated in 2030. As of January 1, 2016, the actuarially determined recommended contribution for the Combined Pension Plan is 72.72% of computation pay. This is significantly more than the combined effective rate of 37.61% currently paid by the City and members. The effective amortization period as of January 1, 2016 is infinite. That is, the contributions are insufficient to amortize the unfunded liability of the Combined Pension Plan.

The funded ratio is equal to the ratio of the actuarial value of assets to the actuarial accrued liability. The Combined Pension Plan's funded ratio decreased from 63.8% to 45.1% between January 1, 2015 and January 1, 2016. This decrease was primarily due to: (1) negative actuarial investment experience, and (2) actuarial assumption and asset method changes following a five-year experience study.

At a minimum, the Combined Pension Plan's funding should provide sufficient assets to be able to pay all future benefit payments. However, we strongly recommend an actuarial funding policy that targets 100% funding, where payments at least cover interest on the unfunded actuarial accrued liability and a portion of the principal balance.

Supplemental Plan
The Supplemental Plan funded ratio is 45.8%, down from last year's 51.2%. This decrease resulted from negative actuarial investment experience. Although the funded ratio is currently low, the City contributions to this Plan are calculated in such a way as to ensure that benefits will be funded.

Board of Trustees
July 21, 2016
Page 3

ASSUMPTIONS AND METHODS

Actuarial assumptions and methods are set by the Board of Trustees, based upon recommendations made by DPFP's actuary. The results of the actuarial valuation are dependent on the actuarial assumptions used. Actual results can and almost certainly will differ, as actual experience deviates from the assumptions. Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rates, and funding periods.

All actuarial assumptions and methods are described under Section 4 of our actuarial valuation reports, and a summary is included in the Actuarial section of this report as well. A five-year experience review was completed in the Spring of 2016 for the period January 1, 2010 through December 31, 2014. Recommended changes in assumptions were adopted by the Board and implemented with the January 1, 2016 valuations. New assumptions are in place for the salary scale, payroll growth, administrative expenses, mortality table, disability rates, withdrawal rates, retirement rates, DROP utilization rates, percent married and age of surviving children. The method for determining the actuarial value of assets was also changed, so that future investment gains and losses will be recognized over five years rather than ten. The valuation asset value has been set to market value effective December 31, 2015, and the new method will be implemented prospectively.

We believe the actuarial assumptions and methods are internally consistent and are reasonable, based upon past experience of the Plans. However, it should be noted that the assumptions were set under the presumption that appropriate action will be taken to address the Combined Pension Plan's funding issues. Alternative assumptions will be required if there continues to be a projected insolvency.

Since the population of the Supplemental Plan is a subset of the Combined Pension Plan, and is too small to be independently credible, the valuation for the Supplemental Plan uses most of the same assumptions as the Combined Pension Plan. The explicit administrative expense assumption is set independently. Also, the Supplemental Plan uses market value for funding, with no smoothing of gains and losses.

BENEFIT PROVISIONS

The actuarial valuations reflect the benefit provisions set by statute and City ordinance for the Plans. There are no new provisions reflected in the valuations for the first time this year.

DATA

Member data for retired, active and inactive participants was supplied as of December 31, 2015 by the staff of DPFP. We have not subjected this data to any auditing procedures, but have examined the data for reasonableness and consistency with the prior year's data. The staff also supplied asset and financial information as of December 31, 2015.

Board of Trustees
July 21, 2016
Page 4

COMPREHENSIVE ANNUAL FINANCIAL REPORT SCHEDULES

DPFP staff, with the assistance of Segal Consulting, prepared the supporting schedules in this section and the trend tables in the Financial section, based on information supplied in our reports.

We would like to thank the Board, the Executive Director, and DPFP's staff for their assistance and input necessary to complete the actuarial valuations.

Respectfully submitted,
Segal Consulting, a Member of The Segal Group, Inc.

Leon F. Joyner, Jr., FCA, ASA, MAAA, EA
Vice President and Actuary

Deborah K. Brigham, FCA, ASA, MAAA, EA
Vice President and Actuary

Jeffrey S. Williams, FCA, ASA, MAAA, EA
Vice President and Associate Actuary

ACTUARIAL INFORMATION

INTRODUCTION

DPFP's Combined Pension Plan and Supplemental Plan are single-employer defined benefit plans. The Combined Pension Plan requires an annual actuarial valuation to determine the adequacy of the current contribution rate of the City, to describe the current financial condition of DPFP, and to analyze changes in DPFP's financial condition. The Supplemental Plan requires an annual actuarial valuation to determine the amount of the City's annual contribution as required by City ordinance.

FUNDING

Defined benefit plans represent a commitment to pay specific benefits to employees and their survivors. The benefit to employees and their survivors is usually much more than the combined contributions of the employee and the employer. Determining adequate funding requires making a variety of assumptions to assure full payments can be made from the plan.

There are a number of actuarial assumptions necessary in order to estimate the amount of funding required to provide future benefits. Once the assumptions have been determined, the actuary must select a cost method to determine the amount of funding required in order for the committed benefits to be provided for.

The January 1, 2016 actuarial valuation indicates that current contribution rates are not sufficient to fund the Combined Pension Plan over a finite time period based on the current membership data, financial data, benefit provisions, and the actuarial assumptions and methods used to determine the liabilities and costs. The funding period of the Combined Pension Plan increased to an infinite period as of the January 1, 2015 valuation. This increase was primarily due to returns on the actuarial value of assets that were below the long-term expectations, as well as a change to the assumed rate of return from 8.50% to 7.25% in the January 1, 2015 valuation. Based on the January 1, 2016 valuation, the Combined Pension Plan is projected to become insolvent within 15 years if no changes to plan provisions are made and all assumptions are met in the aggregate. A sub-committee of the Board has been formed to examine alternatives that will improve funding over the long term while continuing to provide benefits to members.

As of January 1, 2016, the funding ratio declined to 45.1% from 63.8% as of the prior year, significantly impacted by the Board's decision to reset the actuarial value of assets to market value as of December 31, 2015. This determination was based on the fact that much of the investment loss recognized in the past three years has been the result of revaluation of certain underperforming real estate assets as opposed to true market-driven losses. Such losses are not the type for which asset smoothing is intended, therefore it is prudent to recognize them immediately rather than smoothing into future periods.

The funding period of the Supplemental Plan remains at 10 years, which is the amortization period used in determining the annual employer contribution. The funding period of 10 years is based on the assumption that the annual actuarially determined contribution is received from the City each year.

COST METHOD

Using an actuarial cost method requires estimating the ultimate cost of the plan. The ultimate cost of a plan includes all specific benefits that are committed to be paid, plus all administrative expenses, less any investment earnings realized over the life of the plan. As the exact ultimate cost of the plan cannot be determined until the last retired member of a plan dies, it must be actuarially estimated by forecasting the plan's expenses and investment return.

Assumptions must be made for all the years the plan is in existence, including the number of active members and beneficiaries who will retire, terminate service, or become disabled, the duration of retirement and disability payments, mortality rates, salary increases, age at entry into DROP, inflation, and long-term rate of return on investments. Administrative expenses must also be estimated.

ACTUARY'S REPORT

The actuarial information that follows was determined using specific actuarial methods which have been described in general above. Such methods were applied to census data related to active members, retirees, and beneficiaries of DPFP as of January 1, 2016. Content throughout the Actuarial section has been obtained from reports provided by DPFP's external actuaries for the periods noted. The Actuary's Report at page 73 is a summary from Segal regarding the January 1, 2016 valuations.

ACTUARIAL ASSUMPTIONS AND METHODS

In conjunction with the January 1, 2016 actuarial valuations, a comprehensive experience study was performed by Segal, reviewing all assumptions incorporated in the actuarial valuations and covering the five-year period ended December 31, 2014. Adjustments to the demographic and economic assumptions were made based on the results of the experience study. In addition, the asset smoothing, actuarial cost, and amortization methods were revisited as part of the experience study and recommendations were provided to the Board for consideration. The assumptions and methods used in the valuations were selected by the Board and are considered to be reasonable individually and in the aggregate.

The Combined Pension Plan's contribution rate is set by state statute, currently 8.5% for employees not participating in DROP, 4.0% for employees in DROP and 27.5% for the employer. There is no direct policy to fund the unfunded liability in a certain number of years. The Texas Pension Review Board requires that municipal plans develop a Funding Soundness Restoration Plan if their effective amortization period exceeds 40 years for three consecutive annual valuations. This valuation is the second year with an infinite funding period for the Combined Pension Plan. At this time, DPFP is targeting a 40-year amortization period. The rate of contribution necessary for a 40-year amortization of the unfunded actuarial accrued liability is currently 72.72% of Computation Pay compared with the City's actual contribution rate of 27.5% of payroll (or 30.53% of Computation Pay including overtime and non-Computation Pay contributions) plus the weighted average member contribution of 7.08% as of January 1, 2016, yielding a total contribution rate of 37.61% and resulting in a shortfall of 35.11% of Computation Pay. The actual expense for the employer's financial disclosure purposes is determined in accordance with GASB No.68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB No. 27.*

Member contributions for the Supplemental Plan are established by state statute. Per City ordinance, the City makes a contribution each year sufficient to pay for the annual normal cost of the Supplemental Plan, plus enough to amortize the unfunded actuarial accrued liability of the Supplemental Plan over 10 years.

A summary of the actuarial assumptions and methods used in the January 1, 2016 actuarial valuation follows.

Investment Rate of Return: 7.25% per annum, compounded annually, net of investment expenses. This rate reflects an underlying inflation rate of 2.75% and a real rate of return of 4.50%. There was no change to this assumption as a result of the experience study.

Administrative Expenses: Prior to the experience study, the assumed rate of return was net of both investment and administrative expenses. This means the actual return must be sufficiently above the assumed rate to cover all expenses. In conjunction with the study, an explicit assumption of annual administrative expenses, including investment-related personnel costs has been added to the normal cost in the amount of $10 million for the Combined Pension Plan and $60 thousand for the Supplemental Plan; thus the rate of return is now assumed to be net of investment expenses only.

DROP Account Interest: DROP balances are assumed to earn 7.0% effective October 1, 2015, 6.0% effective October 1, 2016, and 5.0% effective October 1, 2017 and later, per annum.

Salary Scale: The actual salary experience for police officers and firefighters was examined separately in the experience study. Salary history and the current Meet and Confer agreement indicate that firefighters have a longer select period than police officers. Based on the data reviewed and taking into account the assumed inflation rate of 2.75%, separate service-based salary assumptions at various years of service were adopted for police officers and firefighters as follows:

YEARS OF SERVICE	ANNUAL RATE OF SALARY INCREASE	
	Police	Fire
1	5.20%	5.20%
5	4.40%	4.60%
10	3.40%	3.85%
15	3.00%	3.10%
20 and over	3.00%	3.00%

Payroll Growth Rate: Total payroll is assumed to increase 2.75% per year, which is consistent with the assumed inflation rate. This compares to a previous assumption of 4.00% and an average increase over the study period of 0.87%. The City contributes on total pay including non-Computation Pay. The total of Combined Pension Plan overtime and other non-Computation Pay is assumed to be 11% of Computation Pay. This assumption is based on the revised compensation package adopted by the City Council in 2013.

Retirements: The number of retirements during the experience study period was less than expected and the number of retirements below age 50 was significantly less than expected. Firefighters, on average, retired two years later than police officers. As a result of the study, separate assumptions for retirement rates for police officers and firefighters have been implemented.

The percentage of the population assumed to have retired at various ages is as follows:

AGE	ANNUAL RATE OF RETIREMENT	
	Police	Fire
49 or less	1.00%	0.75%
50	3.00%	2.50%
51	3.00%	2.50%
52	3.00%	2.50%
53	7.00%	2.50%
54	7.00%	2.50%
55	15.00%	12.00%
56	20.00%	12.00%
57	20.00%	12.00%
58	25.00%	12.00%
59	25.00%	25.00%
60	25.00%	25.00%
61	25.00%	25.00%
62	25.00%	25.00%
63	25.00%	25.00%
64	25.00%	25.00%
65	50.00%	30.00%
66	50.00%	30.00%
67	100.00%	100.00%

Mortality: During the five-year study period, there were 18% more non-disabled deaths than anticipated by the previous mortality tables, with the majority of the margin related to females. The Society of Actuaries released new mortality tables in 2014 and based on the results of the experience study, the tables used for mortality assumptions have been updated as follows:

Pre-retirement – RP-2014 sex-distinct Employee Mortality Table, set back two years for males

Post-retirement - RP-2014 sex-distinct Blue Collar Healthy Annuitant Mortality Table, set forward two years for females

Disabled annuitants – RP-2014 sex-distinct Disabled Retiree Mortality Table, set back three years for males and females

All tables are projected generationally using Scale MP-2015.

Turnover: The assumed annual rates of turnover (withdrawal) differ by employee group, with higher rates assumed for police officers than for firefighters. The number of police officers terminating employment during the experience study period was lower than expected, while actual turnover for firefighters was higher than expected. Rates for each group are now based on service as opposed to age and were modified to reflect recent experience as follows. Rates cut off at normal retirement age.

YEARS OF SERVICE	TURNOVER RATE	
	Police	Fire
0	14.00%	5.50%
1	6.00%	4.50%
2	5.50%	4.00%
3	5.00%	3.50%
4	4.50%	3.00%
5	4.00%	1.50%
6	3.50%	1.00%
7	3.00%	0.75%
8	2.50%	0.50%
9	2.00%	0.50%
10 and over	1.00%	0.50%

Disability: The previously assumed disability rates varied by employee group and were quite low, however the actual number of disabilities during the five-year study period was approximately one-third of the expected amount. Assumed rates have been adjusted and service-based assumptions were eliminated based on the similarity of recent experience between the two services. The percentage of members assumed to leave active service due to disability at various ages is as follows. Rates cut off at normal retirement age.

AGE	DISABILITY RATE
20	0.10%
25	0.15%
30	0.20%
35	0.25%
40	0.30%
45	0.35%
50	0.40%

DROP Election: Members are assumed to elect DROP at age 50 with five years of service if hired on or before February 28, 2011 and age 55 with 10 years of service if hired after February 28, 2011. Any active members who satisfy these criteria and have not entered DROP are assumed to never join DROP. Active members who retire with a DROP account are assumed to receive their account over a 10-year period. To be consistent with the assumption for active members, the balances for retired members are assumed to be paid over a 10-year period as well.

Spouses and Children: 75% of active members are assumed to be married, a slight decrease from the prior assumption of 80%, with the male assumed to be three years older than the female. The age of the youngest child is assumed to be 10 years compared to the previous assumption of one year.

Retiree Payment Form Assumption: All married members are assumed to elect a joint and survivor annuity.

Assumed Post-Retirement Cost of Living: Benefits are adjusted annually on October 1st. The adjustment for Combined Pension Plan benefits is equal to 4% of the original pension amount for Plan A and Plan B members hired prior to December 31, 2006. Supplemental Plan benefits are increased by an amount equal to 4% of the original pension amount. Members hired after December 31, 2006 are not eligible for an automatic increase, however the Board may grant an ad hoc annual adjustment not to exceed 4% of the base benefit amount. Members hired after December 31, 2006 are assumed to receive no annual adjustments.

Actuarial Cost Method: The method used to determine the cost of future service (normal cost) and the actuarial accrued liability (AAL) is the Entry Age Normal Actuarial Cost Method. Under this method, the present value of future normal cost is determined for all active members, which is the contribution required to provide all the projected pension benefits assuming this contribution is payable over a period ending on the date of retirement (separation from active service) and expressed as a level percentage of the present value of future compensation for all active members. The AAL is determined as the excess of the total present value of all pension benefits over the total present value of future normal costs. The unfunded actuarial accrued liability as of the valuation date is determined as the excess of the AAL over the assets of the plans. There has been no change to the actuarial cost method as a result of the experience study.

The normal cost and AAL are derived by making certain assumptions as to the rates of interest, mortality, and turnover, among others, which are assumed to reflect experience for many years into the future. Since actual experience will differ from the assumptions, the costs determined must be regarded as estimates of the true costs of the plans. The effects of any actuarial gains or losses are immediately reflected in the unfunded actuarial accrued liability and the normal cost.

Amortization Method: The effective amortization period is developed using a level percent of pay, with pay assumed to increase at the payroll growth rate. There was no change to this method as a result of the experience study.

Asset Valuation Method: Actuarial valuation methods include "smoothing" investment returns over a period of time to provide a more stable actuarial rate of return and more predictable pension costs. The prior asset valuation method included a 10-year smoothing period and a 20% limitation of the difference between the expected value and the actual market value. As of January 1, 2015, the actuarial value of assets was 120% of market value. In conjunction with the experience study and as a result of recent significant write-downs to the carrying value of investment assets which are not considered to be market-driven, the asset valuation method was altered as of January 1, 2016. The revised method involves a resetting of the actuarial value of assets to market value as of December 31, 2015. Future gains and losses will be recognized over a five-year smoothing period. In future years, in no event will the actuarial value of assets be less than 80% nor more than 120% of the market value of assets.

The Supplemental Plan actuarial value of assets is equal to the market value of assets.

Long-term Rate of Return on Plan Assets: The long-term rate of return on plan assets used to value the liabilities of the Plans is 7.25%. This assumption was last changed as of January 1, 2015 to better anticipate future expectations and to reflect the change in the assumed inflation rate. Based on the asset allocation policy, expectations of future real rates of return and the expected investment expenses, a long-term rate of return of 7.25% is considered reasonable. A summary of historical nominal rates of return follows.

YEAR ENDED DECEMBER 31,	ACTUARIAL VALUE INVESTMENT RETURN	MARKET VALUE INVESTMENT RETURN
2006	10.32%	14.64%
2007	10.58%	8.85%
2008	(6.14%)	(24.80%)
2009	12.29%	13.78%
2010	2.69%	10.72%
2011	0.43%	(1.78%)
2012	14.79%*	9.92%
2013	4.52%	7.70%
2014	(1.98%)	(5.35%)
2015	(24.03%)*	(8.47%)
5-year average return	(1.50)%	0.32%
10-year average return	1.76%	1.79%

Note: Each annual yield is weighted by the average asset value for that year.

** Includes effects of change in asset valuation method. As of December 31, 2012, the smoothing method was extended from 5 to 10 years. As of December 31, 2015, the actuarial value of assets was reset to market value.*

DROP Interest Rate: The DROP interest rate was lowered to 7.0% from 8.0% effective October 1, 2015 and will be lowered to 6.0% effective October 1, 2016 and 5.0% effective October 1, 2017. Effective October 1, 2018, the DROP interest rate may be eliminated based on the funded status of the Combined Pension Plan and the cumulative loss on DROP accounts. The cumulative loss on DROP accounts is approximately $683 million as of January 1, 2016.

ANALYSIS OF FINANCIAL EXPERIENCE

An analysis of financial experience is a gain/loss analysis of changes in the actuarial accrued liability or unfunded actuarial accrued liability that considers variances between actual experience and assumed experience for different types of risk. Such analysis is as follows:

COMBINED PENSION PLAN (IN THOUSANDS)	
Unfunded actuarial accrued liability as of January 1, 2015	$ 2,096,942
Change due to expected increase/(amortization)	44,868
Actual contributions (greater)/less than expected	66,762
Expected unfunded actuarial accrued liability as of January 1, 2016	2,208,572
Net (gain)/loss	538,116
Unfunded actuarial accrued liability before changes **(a)**	2,746,688
Changes due to:	
Changes in assumptions	(15,663)
Change in asset method	536,025
Total changes **(b)**	520,362
Unfunded actuarial accrued liability at year end **(a+b)**	3,267,050
Actuarial accrued liability at beginning of year	5,792,216
Net (gain)/loss as a percentage of actuarial accrued liability at beginning of year	9.29%

SUPPLEMENTAL PLAN (IN THOUSANDS)	
Unfunded actuarial accrued liability as of January 1, 2015	$ 20,471
Change due to expected increase/(amortization)	(937)
Actual contributions (greater)/less than expected	(16)
Expected unfunded actuarial accrued liability as of January 1, 2016	19,518
Net (gain)/loss	3,778
Unfunded actuarial accrued liability before changes	23,296
Change due to changes in assumptions	(273)
Unfunded actuarial accrued liability at year end	23,023
Actuarial accrued liability at beginning of year	41,910
Net (gain)/loss as a percentage of actuarial accrued liability at beginning of year	9.01%

SHORT-TERM SOLVENCY TEST

A short-term solvency test is one means of checking a plan's progress under its funding program. In a short-term solvency test, the plan's valuation assets are compared with: 1) active member contributions on deposit; 2) the liabilities for future benefits to present retired lives; and 3) the liabilities for service already rendered by active members. In a plan that has been following the discipline of level percent of payroll financing, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will typically be fully covered by present assets. In addition, the liabilities for service already rendered by active members (liability 3) will be partially covered by the remainder of present assets. Liability 3 being fully funded is very rare. As a result of the decline in the actuarial value of assets as of January 1, 2016, the liabilities for future benefits to present retired lives is no longer fully covered by present assets. Solvency test results for the Plans for the last 10 years are as follows:

COMBINED PENSION PLAN (DOLLARS IN THOUSANDS)

	AGGREGATE ACCRUED LIABILITIES FOR							
	(1)	(2)	(3)			Portion of Accrued Liabilities Covered by Assets		
Jan. 1 Valuation Date	Active Member Contributions	Retirees, Beneficiaries, and Vested Terminations	Active Members (Employer Financed Portion)	Total Actuarial Accrued Liability	Actuarial Value of Assets	(1)	(2)	(3)*
2007	$ 235,895	$ 1,536,522	$ 1,598,151	$ 3,370,568	$ 2,962,488	100.0%	100.0%	74.5%
2008	242,636	1,709,964	1,691,119	3,643,719	3,258,627	100.0%	100.0%	77.2%
2009	252,850	1,831,395	1,793,852	3,878,097	3,039,667	100.0%	100.0%	53.3%
2010	262,567	1,987,186	1,883,535	4,133,288	3,382,908	100.0%	100.0%	60.2%
2011	270,978	2,134,212	1,911,159	4,316,349	3,430,819	100.0%	100.0%	53.7%
2012	274,302	2,376,907	1,917,642	4,568,851	3,378,481	100.0%	100.0%	37.9%
2013	278,391	2,570,327	2,009,488	4,858,206	3,795,025	100.0%	100.0%	47.1%
2014	281,440	2,810,346	2,037,410	5,129,196	3,877,321	100.0%	100.0%	38.6%
2015	286,637	3,282,406	2,223,173	5,792,216	3,695,274	100.0%	100.0%	5.7%
2016	$ 290,395	$ 3,385,527	$ 2,271,252	$ 5,947,174	$ 2,680,124	100.0%	70.6%	0.0%

** The portion of accrued liabilities for active members (employer financed portion) is calculated as follows: [Actuarial value of assets-(1) - (2)]/(3).*

SHORT-TERM SOLVENCY TEST (continued)

SUPPLEMENTAL PLAN (DOLLARS IN THOUSANDS)

	AGGREGATE ACCRUED LIABILITIES FOR							
	(1)	(2)	(3)					
Jan. 1 Valuation Date	Active Member Contributions	Retirees, Beneficiaries, and Vested Terminations	Active Members (Employer Financed Portion)	Total Actuarial Accrued Liability	Actuarial Value of Assets	Portion of Accrued Liabilities Covered by Assets		
						(1)	(2)	(3)*
2007	$ 228	$ 21,547	$ 6,888	$ 28,663	$ 23,314	100.0%	100.0%	22.4%
2008	251	22,265	7,582	30,098	25,254	100.0%	100.0%	36.1%
2009	248	24,830	6,975	32,053	18,140	100.0%	72.1%	0.0%
2010	270	25,736	7,444	33,450	20,681	100.0%	79.3%	0.0%
2011	265	27,394	6,649	34,308	21,119	100.0%	76.1%	0.0%
2012	226	28,001	8,102	36,329	20,823	100.0%	73.6%	0.0%
2013	138	31,871	5,256	37,265	21,563	100.0%	67.2%	0.0%
2014	122	33,660	4,995	38,777	24,037	100.0%	71.0%	0.0%
2015	134	35,739	6,038	41,911	21,439	100.0%	59.6%	0.0%
2016	150	34,968	7,362	42,480	19,457	100.0%	55.2%	0.0%

** The portion of accrued liabilities for active members (employer financed portion) is calculated as follows: [Actuarial value of assets-(1) - (2)]/(3).*

ACTIVE MEMBER VALUATION DATA

COMBINED PENSION PLAN (DOLLARS IN THOUSANDS)

JAN. 1 VALUATION DATE	ACTIVE MEMBERS	ANNUAL PAYROLL	ANNUAL AVERAGE PAY	% CHANGE IN ANNUAL AVERAGE PAY
2007	4,739	$ 305,611	$ 64	1.6%
2008	4,909	321,492	65	1.6%
2009	5,235	348,107	66	1.5%
2010	5,476	366,720	67	0.7%
2011	5,482	365,126	67	(0.5%)
2012	5,376	349,495	65	(2.4%)
2013	5,400	361,044	67	2.8%
2014	5,397	377,943	70	4.7%
2015	5,487	383,006	70	(0.3%)
2016	5,415	365,210	67	(3.4%)

SUPPLEMENTAL PLAN (DOLLARS IN THOUSANDS)

JAN. 1 VALUATION DATE	ACTIVE MEMBERS	ANNUAL PAYROLL	ANNUAL AVERAGE PAY	% CHANGE IN ANNUAL AVERAGE PAY
2007	41	$ 866	$ 21	(4.4%)
2008	40	938	23	11.0%
2009	41	1,043	25	8.5%
2010	40	1,044	26	2.6%
2011	39	886	23	(13.0%)
2012	37	621	17	(26.2%)
2013	39	450	12	(31.2%)
2014	38	521	14	19.0%
2015	39	557	14	4.0%
2016	45	725	16	12.8%

RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

CONSOLIDATED PLANS* (DOLLARS IN THOUSANDS)

	ADDED TO PAYROLL		REMOVED FROM PAYROLL		TOTAL (INCLUDES DEFERRED VESTED)			
Jan. 1 Valuation Date	Number	Average Annual Benefits	Number	Average Annual Benefits	Number**	Average Annual Benefits	Average Annual Benefits	% Change in Average Annual Benefits
2007	149	$ 7,192	72	$ 1,478	3,198	$ 111,109	$ 35	5.3%
2008	159	10,150	63	2,040	3,294	119,218	36	7.3%
2009	137	8,389	56	2,139	3,375	125,465	37	5.2%
2010	136	10,375	61	2,307	3,450	133,533	39	6.4%
2011	146	10,231	61	2,239	3,535	141,522	40	6.0%
2012	209	13,671	75	2,750	3,669	152,444	42	7.7%
2013	192	13,452	78	7,436	3,783	158,453	42	3.9%
2014	183	14,188	76	3,499	3,890	169,144	43	6.7%
2015	248	14,491	69	2,850	4,069	180,785	44	6.9%
2016	243	11,010	130	4,360	4,182	192,042	46	6.2%

** Due to confidentiality issues arising from the small number of members in the Supplemental Plan, data from the Combined Pension Plan and Supplemental Plan is presented on a consolidated basis.*

*** Excludes beneficiaries who maintain a DROP balance but do not receive a monthly benefit.*

FUNDING PROGRESS

COMBINED PENSION PLAN (DOLLARS IN THOUSANDS)

JAN. 1 VALUATION DATE	ACTUARIAL VALUE OF ASSETS (AVA)	ACTUARIAL ACCRUED LIABILITY (AAL)	AVA AS A PERCENTAGE OF AAL	UNFUNDED AAL (UAAL)	ANNUAL COVERED PAYROLL	UAAL AS A PERCENTAGE OF ANNUAL COVERED PAYROLL	FUNDING PERIOD (YEARS)
2007	$ 2,962,488	$ 3,370,567	87.9%	$ 408,079	$ 305,611	134%	20
2008	3,258,627	3,643,719	89.4%	385,092	321,492	120%	14
2009	3,039,667	3,878,097	78.4%	838,429	348,107	241%	33
2010	3,382,908	4,133,289	81.8%	750,381	366,720	204%	26
2011	3,430,819	4,316,349	79.5%	885,530	365,126	243%	21
2012	3,378,481	4,568,851	73.9%	1,190,370	349,495	341%	30
2013	3,795,025	4,858,206	78.1%	1,063,181	361,044	295%	23
2014	3,877,321	5,129,196	75.6%	1,251,875	377,943	331%	26
2015	3,695,274	5,792,216	63.8%	2,096,942	383,006	548%	Infinite
2016	2,680,124	5,947,174	45.1%	3,267,050	365,210	895%	Infinite

SUPPLEMENTAL PLAN (DOLLARS IN THOUSANDS)

JAN. 1 VALUATION DATE	ACTUARIAL VALUE OF ASSETS (AVA)	ACTUARIAL ACCRUED LIABILITY (AAL)	AVA AS A PERCENTAGE OF AAL	UNFUNDED AAL (UAAL)	ANNUAL COVERED PAYROLL	UAAL AS A PERCENTAGE OF ANNUAL COVERED PAYROLL
2007	$ 23,314	$ 28,663	81.3%	$ 5,349	$ 866	618%
2008	25,254	30,098	83.9%	4,844	938	516%
2009	18,140	32,053	56.6%	13,913	1,043	1,334%
2010	20,681	33,449	61.8%	12,768	1,044	1,349%
2011	21,119	34,309	61.6%	13,190	886	1,489%
2012	20,823	36,330	57.3%	15,507	621	2,497%
2013	21,563	37,265	57.9%	15,702	450	3,489%
2014	24,037	38,777	62.0%	14,740	521	2,829%
2015	21,439	41,910	51.2%	20,471	557	3,675%
2016	19,457	42,480	45.8%	23,023	725	3,178%

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Statistical Information

If everyone is moving forward together, then success takes care of itself.

- Henry Ford

STATISTICAL INFORMATION

INTRODUCTION

The Statistical section provides additional historical perspective, context, and detail to assist the reader in using the information in the financial statements, notes to the financial statements, and required supplementary information to understand and assess the economic condition of DPFP. The schedules within the Statistical section reflect financial trends and operating information. All information was derived from the audited annual financial statements, actuarial valuation reports, and/or DPFP's pension administration database.

FINANCIAL TRENDS

Financial trend information is intended to assist users in understanding and assessing the changes in the financial position of DPFP over time.

The Changes in Fiduciary Net Position schedule presents member and employer contributions and the net investment income/loss and administrative expenses to arrive at the net increase/decrease to changes in plan net assets for the 10 years ending December 31, 2015.

The Distributions by Type schedules present the amount of monthly benefit payments, DROP installment payments, and lump sum distributions by type for the 10 years ending December 31, 2015.

The DROP Growth schedule presents the changes in interest rate credited to DROP accounts, the amounts deferred into and interest credited to DROP accounts, and the change in DROP accounts year over year.
In addition, the accumulated DROP balance credit or deficit is presented for the 10 years ending December 31, 2015. A deficit exists when DPFP has credited more interest to the DROP program than has been earned on DROP account assets since inception of the DROP program.

OPERATING INFORMATION

Operating information is intended to provide contextual information about the operations and resources of DPFP to assist readers in understanding and assessing the economic condition of DPFP.

The schedule of Benefit Recipients by Type presents, for given benefit ranges, the total number of benefit recipients by retirement type as of December 31, 2015.

The schedule of Yearly Retirements by Service Years presents, in five-year increments of credited service, the average monthly benefit, the average final average salary, and the number of retirements for the 10 years ending December 31, 2015.

The Benefits Payable schedules present the number of retired members and beneficiaries, by status type, as well as the total annual benefits paid and average annual benefit by status type as of December 31, 2015.

The Value of Assets vs. Funded Ratio schedules present the actuarial and market values of assets and the related funded ratios for the 10 years ending December 31, 2015.

The Membership Count schedules reflect the number of members, by status type, for the 10 years ending December 31, 2015.

The DROP Participation schedule reflects a roll forward of the number of DROP participants and balance of DROP accounts for the 10 years ending December 31, 2015.

Throughout this Statistical section, certain schedules include a combination of data for both the Combined Pension Plan and the Supplemental Plan, jointly referred to as the Consolidated Plans. The combination of the two plans for certain data is necessary due to the small number of Supplemental Plan members and the need to maintain confidentiality of members' personal data.

CHANGES IN FIDUCIARY NET POSITION

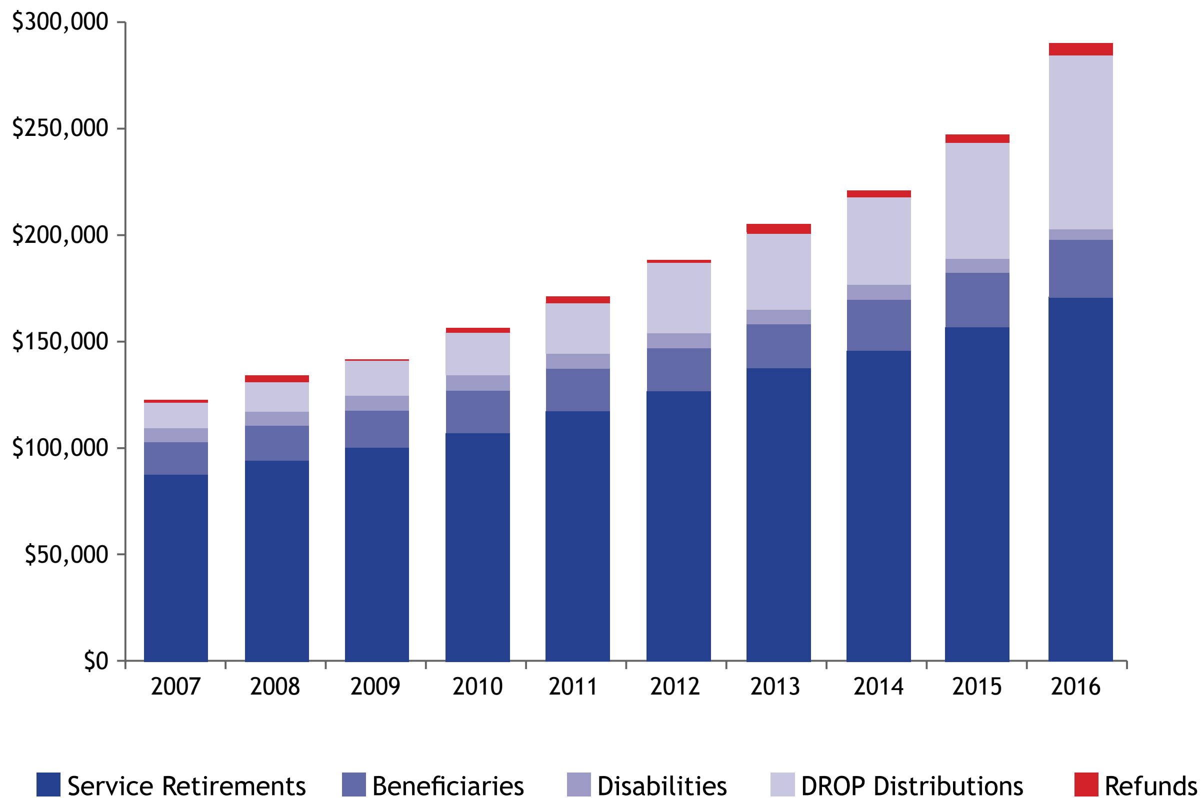
CONSOLIDATED PLANS* (IN MILLIONS)

YEARS ENDED DECEMBER 31,	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contributions										
City	$ 117.3	$ 111.6	$ 108.0	$ 105.9	$ 104.0	$ 109.7	$ 109.0	$ 105.6	$ 99.1	$ 92.9
Members	25.7	29.4	26.3	22.8	19.5	19.8	19.6	18.7	17.9	18.0
Total contributions	**143.0**	**141.0**	**134.3**	**128.7**	**123.5**	**129.5**	**128.6**	**124.3**	**117.0**	**110.9**
Investment income										
Net appreciation (depreciation) in fair value of investments	(300.9)	(223.2)	94.2	301.5	(44.8)	248.7	318.7	(865.2)	148.2	353.3
Interest and dividends	73.4	94.5	86.5	67.2	59.4	65.8	89.3	92.2	128.4	84.5
Total gross investment income (loss)	**(227.5)**	**(128.7)**	**180.7**	**368.7**	**14.6**	**314.5**	**408.0**	**(773.0)**	**276.6**	**437.8**
Less: Investment expense	(10.1)	(11.3)	(10.1)	(28.8)	(32.3)	(18.4)	(23.9)	(20.7)	(17.8)	(17.8)
Net investment income (loss)	**(237.6)**	**(140.0)**	**170.6**	**339.9**	**(17.7)**	**296.1**	**384.1**	**(793.7)**	**258.8**	**420.0**
Securities lending and other income										
Securities lending income	0.7	0.8	1.1	0.9	0.8	1.0	1.8	6.3	13.6	12.3
Securities lending expense	(0.2)	(0.2)	(0.3)	(0.2)	(0.2)	(0.4)	(0.6)	(5.0)	(12.7)	(11.4)
Net securities lending income	**0.5**	**0.6**	**0.8**	**0.7**	**0.6**	**0.6**	**1.2**	**1.3**	**0.9**	**0.9**
Other income	0.1	-	-	-	-	-	-	-	-	-
Total additions (reductions)	**(93.8)**	**1.6**	**305.7**	**469.3**	**106.4**	**426.2**	**513.9**	**(668.1)**	**376.7**	**531.8**
Deductions										
Benefits paid to members	285.9	247.6	220.2	203.4	190.2	171.4	156.8	143.4	132.9	123.4
Refunds paid to members	1.8	1.7	0.9	1.5	0.7	0.8	0.8	0.4	0.9	0.7
Interest expense	6.0	7.4	5.9	6.3	6.7	7.3	3.8	9.5	12.2	6.5
Professional and administrative expenses	8.5	8.1	7.5	6.1	7.0	6.5	6.5	8.0	6.1	4.3
Total deductions	**302.2**	**264.8**	**234.5**	**217.3**	**204.6**	**186.0**	**167.9**	**161.3**	**152.1**	**135.9**
Net increase (decrease) in net position	**(396.0)**	**(263.2)**	**71.2**	**252.0**	**(98.2)**	**240.2**	**346.0**	**(829.4)**	**224.6**	**395.9**
Net position										
Beginning of period	3,095.6	3,358.8	3,287.6	3,035.6	3,133.8	2,893.6	2,547.6	3,377.0	3,152.4	2,755.5
End of period	$ 2,699.6	$ 3,095.6	$ 3,358.8	$ 3,287.6	$ 3,035.6	$ 3,133.8	$ 2,893.6	$ 2,547.6	$ 3,377.0	$ 3,152.4

** Includes both the Combined Pension Plan and the Supplemental Pension Plan.*
Note: Totals may not sum due to rounding.

DISTRIBUTIONS BY TYPE

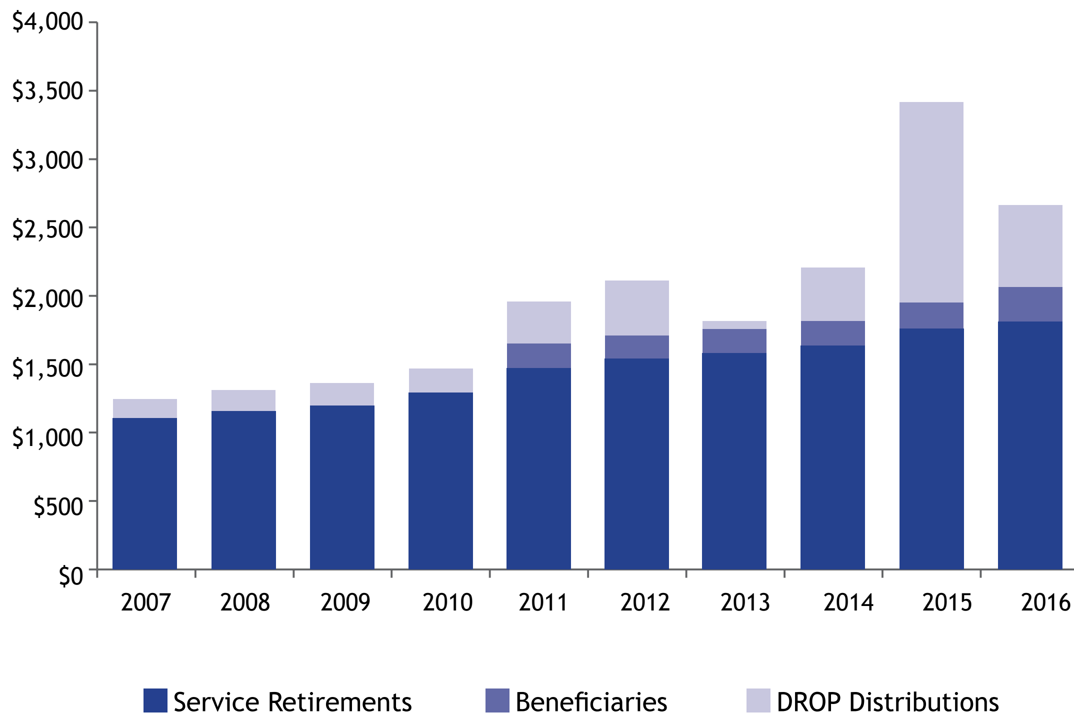
COMBINED PENSION PLAN (IN THOUSANDS)



JAN. 1 VALUATION DATE	SERVICE RETIREMENTS*	BENEFICIARIES	DISABILITIES	DROP DISTRIBUTIONS	REFUNDS	TOTAL
2007	$ 88,166	$ 14,807	$ 6,793	$ 12,355	$ 728	$ 122,849
2008	95,041	15,817	6,848	13,920	914	132,540
2009	100,666	17,795	6,825	16,789	358	142,433
2010	108,383	19,163	6,933	20,864	771	156,114
2011	117,350	20,369	6,842	24,898	814	170,273
2012	127,048	20,860	6,860	33,325	736	188,829
2013	136,677	22,338	6,724	35,826	1,535	203,100
2014	146,846	23,849	6,543	40,744	900	218,882
2015	157,987	25,104	6,433	54,675	1,733	245,932
2016	170,323	26,559	6,335	80,000	1,786	285,003

** Includes monthly DROP installment payments.*

DISTRIBUTIONS BY TYPE
SUPPLEMENTAL PLANS (IN THOUSANDS)



JAN. 1 VALUATION DATE	SERVICE RETIREMENTS*	BENEFICIARIES	DROP DISTRIBUTIONS	TOTAL
2007	$ 1,114	$ 137	$ -	$ 1,251
2008	1,165	150	-	1,315
2009	1,203	162	-	1,365
2010	1,300	172	-	1,472
2011	1,482	174	308	1,964
2012	1,545	172	402	2,119
2013	1,584	182	53	1,819
2014	1,637	182	388	2,207
2015	1,761	202	1,451	3,414
2016	1,817	251	572	2,640

** Includes monthly DROP installment payments.*

DROP GROWTH

CONSOLIDATED PLANS* (IN MILLIONS)

JAN. 1 VALUATION DATE	INTEREST RATE CREDITED	DEFERRALS	INTEREST CREDITED	WITHDRAWALS	TOTAL CHANGE	BALANCE	DROP CREDIT/ (DEFICIT)
2007	9.75%	$ 57	$ 43	$ (21)	$ 79	$ 512	$ 31
2008	10.00%	64	52	(25)	91	603	29
2009	9.75%	71	62	(30)	103	707	(186)
2010	9.50%	77	70	(36)	111	818	(183)
2011	9.25%	83	79	(43)	119	937	(192)
2012	8.00%	87	85	(54)	118	1,055	(288)
2013	8.00%	90	85	(58)	117	1,172	(296)
2014	8.78%	96	97	(66)	127	1,299	(325)
2015	8.00%	96	112	(84)	124	1,423	(486)
2016	7.00%	97	110	(113)	94	1,517	(676)

** Due to confidentiality issues arising from the small number of members in the Supplemental Plan, data from the Combined Pension Plan and Supplemental Plan is presented on a consolidated basis.*

BENEFIT RECIPIENTS BY TYPE

CONSOLIDATED PLANS* (AS OF DECEMBER 31, 2015)

MONTHLY BENEFIT RANGE	TOTAL NUMBER OF BENEFITS	SERVICE RETIREMENTS	DISABILITIES	BENEFICIARIES	DEFERRED VESTED	ACTIVE DROP
$0 - $500	62	13	1	39	8	1
$501 - $1,000	256	46	-	76	125	9
$1,001 - $1,500	259	70	1	136	36	16
$1,501 - $2,000	616	83	1	487	21	24
$2,001 - $2,500	244	84	16	112	5	27
$2,501 - $3,000	271	114	23	73	1	60
$3,001 - $3,500	545	393	47	21	2	82
$3,501 - $4,000	378	225	27	19	1	106
$4,001 - $4,500	576	316	15	24	-	221
$4,501 - $5,000	606	343	10	22	1	230
$5,001 - $5,500	523	328	2	19	-	174
$5,501 - $6,000	426	281	4	13	-	128
$6,001 - $6,500	320	215	1	10	-	94
$6,501 - $7,000	288	200	2	8	-	78
$7,001 - $7,500	165	114	1	2	-	48
$7,501 - $8,000	80	56	-	3	-	21
$8,001 - $8,500	47	35	-	1	-	11
Over $8,500	58	48	-	2	-	8
Total	5,720	2,964	151	1,067	200	1,338

** Due to confidentiality issues arising from the small number of members in the Supplemental Plan, data from the Combined Pension Plan and Supplemental Plan is presented on a consolidated basis.*

YEARLY RETIREMENTS BY SERVICE YEARS

CONSOLIDATED PLANS* (MONTHLY BENEFIT) (AS OF DECEMBER 31,)

	YEARS OF SERVICE							
	0-5	6-10	11-15	16-20	21-25	26-30	30+	TOTAL
2006								
Retirements	-	1	9	16	43	38	13	120
Avg. FAS**	$ -	$ 4,058	$ 2,607	$ 1,369	$ 2,819	$ 3,590	$ 2,724	$ 2,854
Avg. benefit	$ -	$ 633	$ 960	$ 932	$ 2,339	$ 3,775	$ 3,311	$ 2,594
2007								
Retirements	-	3	10	13	44	44	16	130
Avg. FAS	-	2,602	1,818	1,426	2,595	3,444	1,303	2,547
Avg. benefit	-	782	1,020	1,040	2,258	3,625	1,535	2,381
2008								
Retirements	-	-	8	22	49	35	10	124
Avg. FAS	-	-	3,463	2,126	2,734	3,593	482	2,734
Avg. benefit	-	-	1,716	1,317	2,407	3,700	582	2,387
2009								
Retirements	-	2	5	25	52	43	14	141
Avg. FAS	-	2,691	3,221	1,134	2,119	3,497	2,988	2,498
Avg. benefit	-	1,803	1,718	592	1,685	3,774	4,128	2,374
2010								
Retirements	1	2	10	24	52	34	15	138
Avg. FAS	3,597	2,655	2,579	1,718	3,094	3,947	3,466	3,065
Avg. benefit	2,160	740	1,119	1,017	2,659	4,395	4,383	2,845
2011								
Retirements	-	2	10	40	74	66	12	204
Avg. FAS	-	3,361	2,367	1,299	2,840	4,371	2,910	3,019
Avg. benefit	-	1,068	1,148	1,016	2,462	4,740	3,905	2,922
2012								
Retirements	-	4	10	28	64	48	13	167
Avg. FAS	-	3,624	1,912	2,045	2,840	3,473	2,149	2,798
Avg. benefit	-	944	968	1,148	2,535	3,674	2,899	2,526
2013								
Retirements	-	2	9	25	63	74	11	184
Avg. FAS	-	2,775	2,849	1,825	2,930	4,237	957	3,182
Avg. benefit	-	670	1,348	1,167	2,615	4,607	1,359	3,061
2014								
Retirements	-	2	7	16	47	44	5	121
Avg. FAS	-	3,812	3,478	1,661	3,144	4,628	3,047	3,514
Avg. benefit	-	921	1,672	1,053	2,851	4,870	3,550	3,276
2015								
Retirements	-	4	12	23	55	40	8	142
Avg. FAS	-	4,142	3,101	2,649	3,898	4,947	791	3,756
Avg. benefit	-	1,277	1,456	1,840	3,360	5,383	1,807	3,376

** Due to confidentiality issues arising from the small number of members in the Supplemental Plan, data from the Combined Pension Plan and Supplemental Plan is presented on a consolidated basis.*

***FAS: Final average salary*

BENEFITS PAYABLE

COMBINED PENSION PLAN (DOLLARS IN THOUSANDS) (AS OF DECEMBER 31, 2015)

DECEMBER 31, 2015		NUMBER	ANNUAL BENEFIT	AVERAGE ANNUAL BENEFIT
Retired members				
	Service pensions	2,964	$164,913	$56
	Disabilities	151	6,315	42
	Total	3,115	171,228	55
Beneficiaries				
		1,067	26,029	24
Total		**4,182**	**$197,257**	**$47**

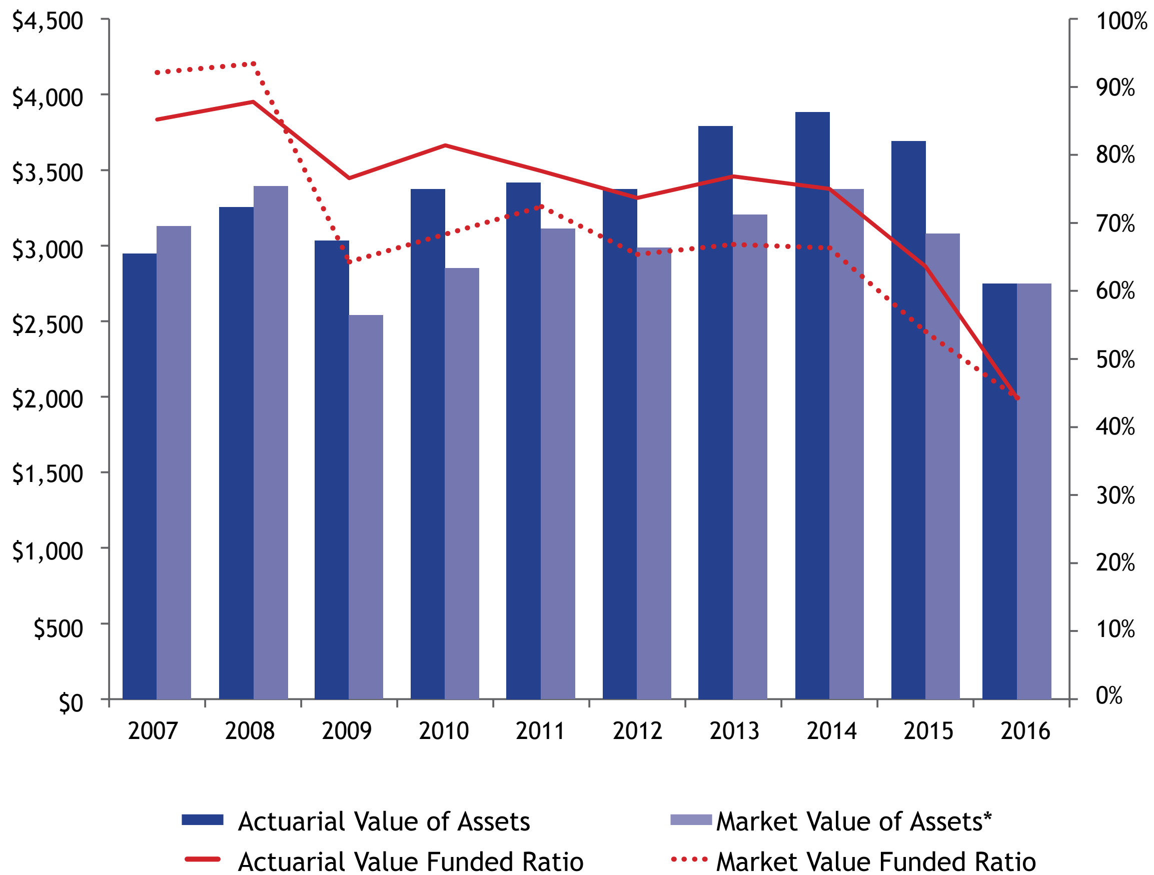
SUPPLEMENTAL PLAN (DOLLARS IN THOUSANDS) (AS OF DECEMBER 31, 2015)

DECEMBER 31, 2015		NUMBER	ANNUAL BENEFIT	AVERAGE ANNUAL BENEFIT
Retired members				
	Service pensions	98	$1,899	$19
	Disabilities	-	-	-
	Total	98	1,899	19
Beneficiaries				
		26	261	10
Total		**124**	**$2,160**	**$17**

** Excludes beneficiaries who maintain a DROP account balance but do not receive a monthly benefit.*

VALUE OF ASSETS VS. FUNDED RATIO

COMBINED PENSION PLAN (DOLLARS IN MILLIONS)

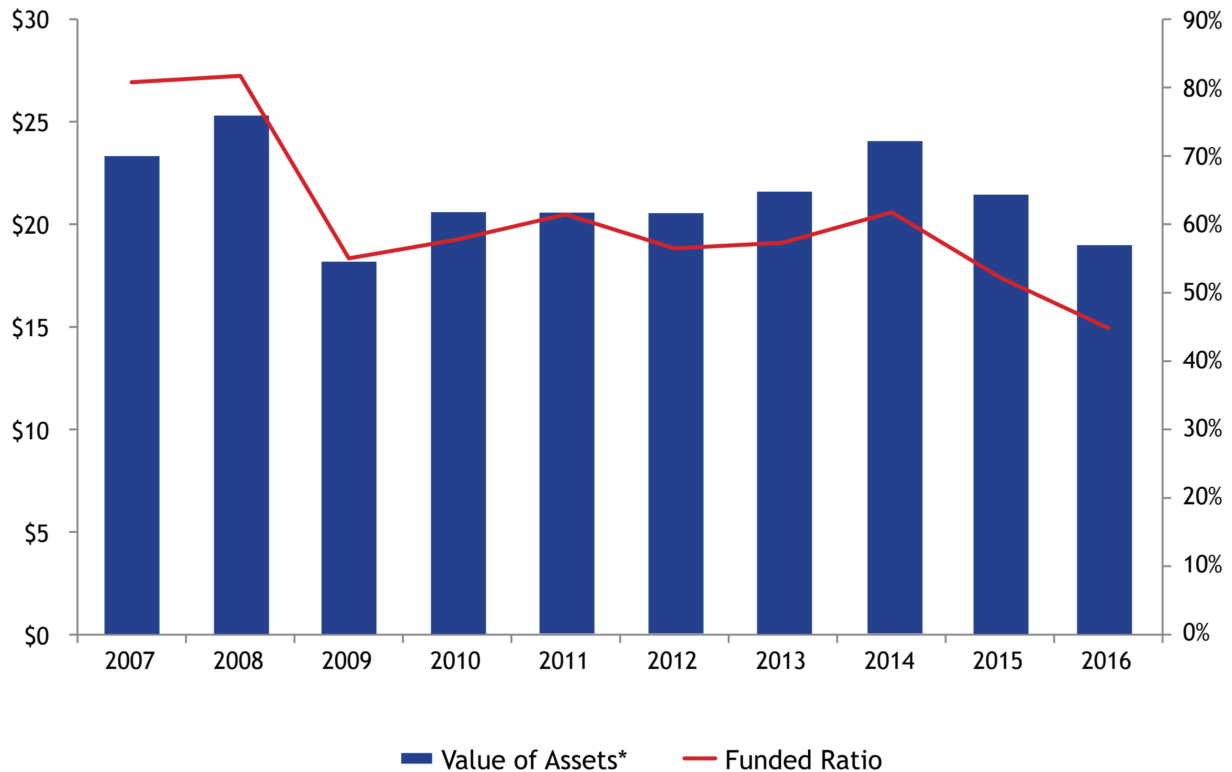


JAN. 1 VALUATION DATE	ACTUARIAL VALUE OF ASSETS	MARKET VALUE OF ASSETS*	ACTUARIAL VALUE FUNDED RATIO	MARKET VALUE FUNDED RATIO
2007	$ 2,962	$ 3,131	87.9%	92.9%
2008	3,259	3,391	89.4%	93.1%
2009	3,040	2,533	78.4%	65.3%
2010	3,383	2,852	81.8%	69.0%
2011	3,431	3,113	79.5%	72.1%
2012	3,378	2,991	73.9%	65.5%
2013	3,795	3,206	78.1%	66.0%
2014	3,877	3,363	75.6%	65.6%
2015	3,695	3,079	63.8%	53.2%
2016	2,680	2,680	45.1%	45.1%

** The market value of assets is per the actuarial valuation report as of the valuation date. This value may differ immaterially from the audited market value for the prior December 31 due to timing of adjustments made to valuations after the finalization of the actuarial valuation report.*

VALUE OF ASSETS VS. FUNDED RATIO

SUPPLEMENTAL PLAN (DOLLARS IN MILLIONS)



JAN. 1 VALUATION DATE	VALUE OF ASSETS*	FUNDED RATIO
2007	$ 23	81.3%
2008	25	83.9%
2009	18	56.6%
2010	21	59.5%
2011	21	61.6%
2012	21	57.3%
2013	22	57.9%
2014	24	62.0%
2015	21	51.2%
2016	19	45.8%

** The value of assets represents both the market value of assets and the actuarial value of assets.*

MEMBERSHIP COUNT

COMBINED PENSION PLAN

JAN. 1 VALUATION DATE	ACTIVE (EXCLUDING DROP)	ACTIVE DROP	RETIREES	BENEFICIARIES	NON-ACTIVE VESTED	NON-ACTIVE NON-VESTED	TOTAL
2007	3,658	1,081	2,380	822	158	N/A*	8,099
2008	3,725	1,184	2,458	841	182	N/A*	8,390
2009	3,983	1,252	2,508	872	151	45	8,811
2010	4,170	1,306	2,565	894	144	57	9,136
2011	4,085	1,397	2,644	908	135	68	9,237
2012	3,995	1,381	2,767	926	128	75	9,272
2013	3,974	1,426	2,854	969	96	86	9,405
2014	3,983	1,414	2,956	969	122	106	9,550
2015	4,107	1,380	3,033	1,092	157	99	9,868
2016	4,077	1,338	3,115	1,115	200	126	9,971

** Data not available.*

SUPPLEMENTAL PLAN

JAN. 1 VALUATION DATE	ACTIVE (EXCLUDING DROP)	ACTIVE DROP	RETIREES	BENEFICIARIES	TOTAL
2007	18	23	86	23	150
2008	17	23	87	24	151
2009	15	26	86	26	153
2010	13	27	86	26	152
2011	11	28	87	26	152
2012	9	28	90	23	150
2013	19	20	96	24	159
2014	18	20	99	21	158
2015	21	19	99	22	161
2016	25	20	98	26	169

DROP PARTICIPATION

CONSOLIDATED PLANS* (DOLLARS IN MILLIONS)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Active										
Beginning of year	1,399	1,434	1,446	1,409	1,425	1,333	1,278	1,207	1,104	1,079
Entrants	121	107	155	190	176	208	168	191	203	139
Withdrawals	(182)	(142)	(167)	(153)	(192)	(116)	(113)	(120)	(100)	(114)
End of year	1,338	1,399	1,434	1,446	1,409	1,425	1,333	1,278	1,207	1,104
DROP balance at December 31	$ 479	$ 461	$ 441	$ 434	$ 425	$ 406	$ 374	$ 339	$ 295	$ 262
Retirees and Beneficiaries										
Beginning of year	2,031	1,912	1,772	1,603	1,449	1,302	1,173	1,060	921	787
New accounts	156	177	196	203	196	162	152	130	152	149
Closures	(196)	(58)	(56)	(34)	(42)	(15)	(23)	(17)	(13)	(15)
End of year	1,991	2,031	1,912	1,772	1,603	1,449	1,302	1,173	1,060	921
DROP balance at December 31	$ 1,038	$ 962	$ 858	$ 738	$ 630	$ 531	$ 444	$ 368	$ 308	$ 250
Total DROP participants	**3,329**	**3,430**	**3,346**	**3,218**	**3,012**	**2,874**	**2,635**	**2,451**	**2,267**	**2,025**

** Due to confidentiality issues arising from the small number of members in the Supplemental Plan, data from the Combined Pension Plan and Supplemental Plan is presented on a consolidated basis.*

D A L L A S
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