



2002

Annual Report

2002 at a Glance

Statistical Highlights

The Dallas Police and Fire Pension System provides retirement, disability, and survivor benefits to the Police Officers and Firefighters of the City of Dallas. The System has had a steady growth in both its membership and its assets since it was founded in 1916.

Participants

Active Members contributing	4,665
Benefit recipients	<u>2,870</u>
Total participants	7,535

Service Retirements Added

Police	57
Fire	<u>26</u>
Total	83

Disability Retirements Added

Police	0
Fire	<u>1</u>
Total	1

Fund assets at market value \$1,660,244,532

Benefits paid \$88,891,103

Member contributions (net of refunds) \$15,422,141

City contributions \$77,085,173

Investment rate of return -11.94%

Annual Report
of the
Dallas Police and Fire Pension System

and

Financial Statements
of the
Police and Fire Supplemental Pension Fund
of the City of Dallas

for the Year Ending December 31, 2002

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Honorable Mayor, Members of the City Council, and Members of the Dallas Police and Fire Pension System:

The Board of Trustees and staff of the Dallas Police and Fire Pension System (the System) are pleased to present the *Comprehensive Annual Financial Report of the System and the Financial Statements of the Supplemental Pension Fund of the City of Dallas* for the fiscal year ended December 31, 2002 (the Annual Report). This Annual Report is intended to provide complete and reliable information regarding the financial performance of the System and a means to measure the responsible stewardship of the System's assets.

In addition to this Transmittal Message as an introduction, this Annual Report consists of six other sections. The History and Overview section highlights the System's history, operations and programs, summarizes significant developments during the year, and provides a list of professional service providers. The Statistics section of this report provides highlights of System programs, shows pertinent financial and demographic information in graphic form and lists significant events in the System's modern history. Both current and historical data are presented. The Administrative section lists current Trustees and identifies System staff members.

The complete *Actuarial Valuation and Financial Statements with Independent Auditors' Report* of the System are included in separate sections of this Annual Report. The *Actuarial Valuation* was performed by Buck Consultants Inc., as of January 1, 2003.

The financial statements and notes were audited by KPMG and include all recent Governmental Accounting Standards Board rulings. Except where

noted, Wilshire Associates and The Townsend Group provided the investment performance data included in this report. During the year ended December 31, 2002, both the Pension System and the Supplemental Fund remained broadly diversified with investments in equities and fixed income, and real estate. The total rate of return on investments for the year was 11.94% for the Pension System. The Supplemental Fund's total rate of return on investments for the year was -7.90%.

The final section of this Annual Report presents the *2002 Actuarial Valuation and 2002 Financial Statements with Independent Auditors' Report* for the Police and Fire Supplemental Pension Plan of the City of Dallas.

The management staff of the System is responsible for maintaining a system of adequate internal controls. These controls are designed to provide reasonable assurance that the assets are protected and that financial transactions are executed in accordance with Board policy and federal, state, and local laws and regulations. Additionally, the controls provide assurance regarding management's responsibility to the System and facilitate the timely preparation of financial statements in accordance with generally accepted accounting principles.

Although the financial markets continued a general three-year decline in 2002, the System minimized the impact through diversification and sound investment management. The Board of Trustees and the staff are dedicated to maintaining and enhancing the strength and integrity of the System.

The Pension System's Board of Trustees and staff realize that our primary commitment to our Members is to maintain the excellent financial condition of the Pension System. We will continue to do our best to "Serve those who protect the Dallas community."

Respectfully submitted,



Gerald Brown
Chairman of the Board of Trustees



Richard L. Tettamant
Administrator

History and Overview

History

A pension plan was first established for Dallas Police Officers and Firefighters under City Ordinance in 1916. Employees and employers both contributed 1% of pay. The “Old Plan,” as we now know it, was created in response to funding pressures in 1935 under 6243a, Vernons’ Texas Revised Civil Statutes. Plan A became effective September 15, 1969. Plan B, the current plan for most Members, became effective March 1, 1973.

In 1977, the Pension Administration Office was created to administer the pension plans and investments of the System. Previously, the plans had been administered under the offices of the City Secretary, City Auditor, and City Controller. The market value of System assets at that time was approximately \$65 million. Currently, assets at market value exceed \$1.6 billion. In 2002, the System celebrated its 86th anniversary of ensuring the financial future of Dallas Police Officers and Firefighters and their families.

See “Significant Events in the System’s Modern History” in the Statistics section for more information.

Overview

The System experienced several changes during the year 2002. The System transferred its custodial banking to JP Morgan Chase Bank to improve the efficiency of investment and banking services, including payments to Pensioners. The System also upgraded its pension administration and record-keeping software. Final testing and conversion were completed in early 2003. The new software provides a more user-friendly application that can be updated and maintained with greater efficiency, while maintaining the accuracy of pension calculations.

The Pension System experienced a theft of System funds by a System employee in 2002. The controls implemented to safeguard System assets worked to identify the theft and limit the loss to less than \$10,000. The Administrator acted swiftly to remove the employee and the Board commissioned an investigation of the System’s financial processes and internal controls. The investigation confirmed the extent of the theft and served to further strengthen internal controls to minimize the possibility of reoccurrence. We remain confident that System assets are safe.

The membership increased slightly and activity continued to increase in both the number of Members participating in the Deferred Retirement Option Plan (DROP) and in the number of retirements.

The System has outperformed most large public retirement funds for the last 10 years according to the Callan Associates Inc. (CAI) Public Plan Sponsor database. Short-term performance was impacted by the continued decline in both the domestic and international equity markets that resulted in a negative investment performance for the year. As a result of the continued decline in the financial markets, the market value of System assets fell during 2002. The actuarial value of assets also declined during the year, and the number of years to fully fund the Plan increased.

We discuss these topics in further detail in the remainder of this Annual Report. For a review of the Combined Pension Plan provisions, see the *Actuarial Valuation* and the *Notes to Financial Statements*. You may obtain more information on the Pension System’s website at www.dpfp.org.

Board of Trustees

The Plan is administered by a Board of Trustees composed of 12 members. Three are elected from the active membership of the Police Department, three are elected from the Fire-Rescue active membership, one is elected by retired Police

Officers, one by retired Firefighters, and the City Council appoints four City Councilmembers to the Board. There were no changes to the makeup of the Board during 2002.

The Pension System Board of Trustees maintains active participation in many pension-related associations, such as the Coalition to Preserve Retirement Security (CPRS), the International Foundation of Employee Benefit Plans (IFEBP), the National Conference on Public Employee Retirement Systems (NCPERS), and the Texas Association of Public Employee Retirement System (TEXPERS).

Administrative Staff

The administrative staff performs the day-to-day operations of the System. The staff consists of 22 members and includes the Administrative, Benefits, Accounting, Investment, and Information Systems teams. The staff's main functions are (i) payment of benefits, (ii) audit and control, (iii) Member communications, (iv) retirement counseling, (v) legal, (vi) review and monitoring of investments, (vii) coordination with professional service providers, and (viii) staff support to the Board.

The Board approved creation of a social worker position, which we have named "Pensioner Advocate," in the 2002–2003 budget. The duties of the pensioner advocate will be to (1) promote the best interests of Pensioners and their beneficiaries, (2) assist Pensioners and survivors in obtaining access to social service resources available in the community, (3) coordinate a grief support program for survivors, and (4) help survivors obtain survivor and other benefits for which the survivors are entitled. This position was filled in early 2003.

Professional Service Providers

To continue its efforts to ensure safe and sound pension benefits and investment administration, the Board of Trustees has retained the services of

Professional Service Providers

Investment Advisors

AEW Capital Management
AllianceBernstein Institutional Investment Management
Bank of Ireland Asset Management
CDK Realty Advisors
Clay Finlay, Inc
Crow Holdings
Deutsche Asset Management
Fidelity Management Trust Company
Forest Investment Associates
Frank Russell Company
Hancock Agricultural Investment Group
Hearthstone Advisors
Heitman Capital Management
Lone Star Advisors
W. R. Huff Asset Management Co., Inc.
INVESCO Realty Advisors
Kennedy Associates Real Estate Counsel
L&B Realty Advisors
Loomis, Sayles & Company
The Mitchell Group
North Texas Investment Advisors, LLC
Oak Associates
Oaktree Capital Management
Olympus Real Estate Partners
Prudential Investment Management, Inc.
RREEF
State Street Global Advisors

Actuary

Buck Consultants Inc.

Auditor

KPMG, LLP

Custodian Bank

State Street Bank and Trust Company
JP Morgan Chase Bank

Investment Consultants

The Townsend Group
Wilshire Associates Inc.

Performance Measurement Consultants

Financial Control Systems Inc.

Legal Advisors

Dallas City Attorney's Office
Lawson, Fields, McCue, Lee and Campbell, PC

professional consultants and advisors. These professionals assist the Board in making the decisions that affect the System's investment performance as well as the administration and maintenance of benefit programs. The table of Professional Service Providers on page 4 lists the firms that the Board of Trustees has engaged and the areas of expertise that they provide to the System.

Member Communications Programs

The System's Member programs continued to provide important information to our Members. These programs include Member education programs (PREP—Pre-Retirement Education Program and the Rookie Orientation Program), pre-retirement counseling, and the Active Member and Pensioner newsletters.

The Board approved funding in the 2002–2003 budget to add two additional education programs that were unveiled in mid-2003, Financial Planning and Post-Retirement Education. The Financial Planning program focuses on tools to help Active Members plan for their financial future. The Post-Retirement Education program assists Pensioners in adjusting to retirement and in understanding investment options. The Board is confident that the new programs will be valuable tools for our Members and Pensioners.

PREP

During 2002, six day-long seminars for the very popular Pre-Retirement Education Program (PREP) were held with 310 Members and Spouses attending. PREP brings together specialized professionals in addition to our staff to provide our Members with information in their areas of expertise. We would like to thank all of the PREP speakers, including Tom Clark of the Social Security Administration; Neil “Doc” Gallagher of Gallagher Financial Group Inc.; Evaleen Davis,

Attorney; and Denny Burriss and Ike Moore, Fire-Rescue Chaplains. In addition, Deborah Plashko (Fidelity Investments) of the 401(k) program and Justin Liptrot (Great West Life Insurance) of the 457 Deferred Compensation Program presented information on their respective programs.

Rookie Orientation Program

The System's Benefits Counselors presented orientation programs to six groups of Police and Fire-Rescue new recruit training classes during 2002, with 259 new Members participating. The programs are designed to explain the basics of pension membership and benefits.

Pre-retirement Counseling

The System encourages Members to consult with a Benefits Counselor before retiring or entering Deferred Retirement Option Plan (DROP). This affords the Member the opportunity to receive an estimate of benefits and an explanation of benefit options and other programs. A total of 565 Members attended personal pre-retirement counseling in 2002.

Newsletters

The Board and staff continued to place great emphasis on meaningful communications with our membership. Each month in 2002, the System sent a new edition of the *Pension Update* newsletter to active Members and the *Pension Notes* newsletter to System Pensioners and survivors.

Members and others may access agendas and minutes of Board meetings on our Web site. They also may follow the progress and learn the results of issues such as elections, see current and back issues of System publications, and read Question and Answers (FAQs) articles on various System benefits and other subjects. We strive to keep the Web site interesting and informative. Our Internet address is www.dpfp.org. You may reach System staff by e-mail at info@dpfp.org.

Investment Highlights

During the year, the market value of System assets went from \$1.9 billion at December 31, 2001, to \$1.66 billion as of December 31, 2002. The System's 2002 investment return of -11.94% was below the 8.5% actuarial interest rate that the System expects to earn during an extended period into the future. For a quick comparison, see "Rates of Return by Asset Class" on page 17.

The System ranked in the top 10% of all public funds during the fourth quarter of 2002, when the domestic and international equity markets had a dramatic turnaround, according to CAI's Public Plan Survey. The Pension System outperformed 90% of all other public funds.

Despite the current market challenges, the System's policy of diversification through the use of multiple managers employing different investment styles has kept the System's long-term performance on track, outperforming the actuarial rate of 8.5%. During the last 10 years, according to the CAI survey, the System's annualized investment performance of 8.78% ranks the System in the top 25% of public funds in the nation. Annualized over the last 20 years, the return has been 10.4% as shown in the "Annualized Cumulative Investment Return" graph in the Statistics section.

The System added a new real estate investment manager, CDK Realty Advisors, during the year. Among other holdings, CDK Realty Advisors will manage an investment in Phoenix, Arizona, that is composed of 11 commercial buildings on 16 acres. In addition, the System added two new international equity investment managers, Clay Finlay Inc. and Fidelity Management Trust Company.

Equity Portfolio

For the third year in a row, value-style investing outperformed growth-style investing in the United States. The Wilshire Large Value Index returned -17.52% versus the Wilshire Large Growth Index

that returned -24.97%. Small stocks slightly outperformed large stocks as evidenced by the Wilshire Small Cap 1750 return of -20.76% versus the Wilshire Large Cap 750 return of -21.31%. International stocks tracked by the Morgan Stanley Capital International (MSCI) All Country World Index excluding the United States (ACWI ex U.S.) returned 14.67%, which outperformed domestic stocks, as represented by the S&P 500 Index returning 22.12%.

The System's domestic equity portfolio, representing approximately 32% of the entire investment portfolio, experienced a return of 27.07%, under performing its performance benchmark, the S&P 500 Index, which had a return of 22.12%. The Mitchell Group, one of the System's equity managers, outperformed the S&P 500 Index by 8.44% with a return of 13.68% and outperformed the equal-weighted Dow Jones Energy Index plus 2% by 1.63%. The Mitchell Group is an investment advisor that specializes in North American energy stocks. Oak Associates, a large capitalization growth manager, had an outstanding fourth quarter returning 16.93%. Oak Associates has returned 12.34% annualized since September 1990.

Rebounding in the fourth quarter, the System's domestic equity portfolio produced an 8.35% return. The domestic equity portfolio has produced outstanding long-term results as shown by the 12.96% annualized returns since September 1980. As a result, the domestic equity portfolio has outperformed the broad Wilshire 5000 Index by 1.11% annualized since September 1980.

Fixed Income Portfolio

Domestic high grade bonds outperformed domestic high yield bonds by 15.08% in 2002. The domestic high grade fixed income market as evidenced by the Lehman Aggregate Index, produced a 10.26% return for the year. Domestic high yield bonds represented by the Salomon Smith Barney (SSB) Composite High Yield Index returned 4.82%.

The System's fixed income holdings represent approximately 28.6% of the entire investment portfolio and are divided into three categories: Domestic High Yield, Global Quality, and Global Opportunistic.

The System's Domestic High Yield portfolio underperformed its benchmark by 3.04% (6.36% versus 3.32%). The benchmark was the Salomon Smith Barney (SSB) Composite High Yield plus 1.5%. W.R. Huff, the Domestic High Yield investment manager, rebounded in the fourth quarter by returning 9.4%. W.R. Huff has achieved 11.86% annualized returns for the System since December 1990.

Last year, the System's Global Quality manager returned 15.74% using a combination of high quality domestic and high quality international bonds. The domestic bond component for the Global Quality bond portfolio returned 10.9% in 2002. The System's international bond component returned 20.54% in the Global Quality portfolio. The Global Quality bond portfolio is measured against a custom benchmark consisting of a 50% weight to the SSB Non-U.S. Government Bond Index and a 50% weight to the Lehman Brothers U.S. Aggregate Index plus 1.5%. The System's Global Quality bond portfolio underperformed the custom benchmark by 1.91%. During the fourth quarter the Global Quality bond portfolio returned 3.15%. On a longer-term basis, the Global Quality bond portfolio has returned 7.9% annualized since September 1989.

The Global Opportunistic portfolio returned 9.6% for the year, underperforming various custom indices. The Global Opportunistic portfolio has produced returns of 5.18% annualized since the inception date of September 1998. Loomis Sayles had an outstanding fourth quarter in 2002 by returning 13.43% in this category. W. R. Huff's management in the Global Opportunistic portfolio has produced 19.81% annualized returns since December 1994.

International Portfolio

The international equity portfolio representing approximately 22.8% of the System's assets returned 14.65%, outperforming the Morgan Stanley Capital International Europe Australia Far East (MSCI EAFE) Index by 1.29% for the year. The fund added two new international equity managers, Clay Finlay Inc., and Fidelity Management Trust Company during the year. Clay Finlay Inc. is an international investment manager that invests in non-U.S. companies using the MSCI All Country World Index ex United States plus 2.5% as a benchmark. Fidelity Management Trust Company is a large capitalization manager that will invest in non-U.S. companies using the MSCI EAFE Index plus 2.5% as a benchmark.

Although the new international equity managers, Clay Finlay Inc. and Fidelity Management Trust Company, have not completed a full year of performance, the returns for the fourth quarter were 7.68% and 6.82% respectively. The combined International Portfolio rebounded in the fourth quarter returning 7.00%.

Real Estate Portfolio

Real Estate produced a 4.75% return for the year 2002. The real estate portfolio is approximately 15.2 % of the System investment portfolio and currently invests in private real estate, public real estate securities, timber, and agricultural investments. The real estate portfolio has produced returns of 8.24%, 7.16%, and 9.57%, which represents three-year, five-year, and 10-year returns.

Private real estate investments for the System have outperformed the National Council of Real Estate Investment Fiduciaries (NCREIF) Index for the one year, three-year, five-year, and 10-year periods with returns of 8.02%, 9.44%, 10.74%, and 9.39% respectively. Kennedy Real Estate Counsel produced an outstanding one-year return in the

private real estate enhanced return category by returning 18.92%, a top 25% peer ranking by The Townsend Group, the System's real estate investment consultant. INVESCO has also had outstanding performance by returning 26.93% annualized for five years. INVESCO is the System's highest ranked manager by The Townsend Group in the private real estate enhanced return peer group.

RREEF, another of the System's real estate managers, manages public real estate securities investing in REITs (Real Estate Investment Trusts) for the System. RREEF had an outstanding year returning 6.38% and outperformed the Wilshire REIT Index plus 1.5% by 1.82%. RREEF has exceeded the performance benchmark for one, three-, five-year periods and is in the top 25% peer group ranking by the real estate investment consultant for three years. RREEF has returned 13.08% annualized since its inception in June 1995.

Lone Star Fund II and Lone Star Fund III had exceptional returns in the high-return real estate category, producing 17.58% and 18.67% respectively for the year. The high-return category generated returns of 11.3% annualized for three years and 9.91% annualized for five years.

Hancock Agricultural Group manages the System's agricultural investments in crops and farmland. Hancock had an outstanding fourth quarter by returning 8.49%. Forest Investment Associates manages the System's timber investments representing approximately 2.6% of the entire portfolio. The timber investments, located mainly in the Southeast portion of the United States, have returned 9.66% annualized for 10 years.

Inflation

Inflation, as measured by the Consumer Price Index for All Urban Consumers (CPI-U), reported by the U.S. Department of Labor, increased from 1.6% in 2001 to 2.4% for 2002.

Contributions

The System is funded through a combination of Member and City contributions and investment earnings. Members contribute 8.5% of their Computation Pay to the System. Computation Pay is the sum of a Member's Civil Service Pay, State Longevity Pay, Education Pay, and City Service Incentive Pay. The City makes contributions under the provisions of Article 6243a-1 of the Revised Civil Statutes of Texas in an amount equal to 27.5% of total payroll for Police Officers and Firefighters. The System does not participate in Social Security, and neither the Members nor the City make any retirement contributions to the Social Security program.

During 2002, the Pension System received \$16.3 million in contributions from Members of the System (less refunds) and \$77.1 million from the City of Dallas on behalf of Members.

Actuarial Valuation

The complete Actuarial Valuation for the Pension System is included in this Annual Report. The report shows that the market value has decreased from \$1.9 billion in the January 1, 2002, valuation to \$1.7 billion in the current valuation (January 1, 2003). The actuarial value of the assets decreased from \$2.16 billion to \$1.99 billion during the same period. The actuarial value is calculated using a smoothing process over five years of investment data to remove year-to-year volatility in asset returns. The ratio of a plan's actuarial value of assets to the actuarial accrued liability (AAL), expressed as a percentage, is an indicator of the plan's funding status. Due to the impact of a weak economy on investment performance and the resulting decrease in actuarial value, the AAL ratio changed from 84.5% to 72.8%, and the number of years to fully fund the Plan increased from 19 years to 69 years.

Changes in the DROP interest rate have no effect on actuarial valuation results.

These changes are reviewed in more detail in the Actuarial Valuation section of this Annual Report.

Plan Membership

The Dallas Police and Fire Pension System provides comprehensive retirement, death, and disability benefits for the City's 7,535 Police Officers, Firefighters, Pensioners, and their beneficiaries. During 2002, the System experienced a normal number of retirements and increase in active membership. As of December 31, 2002, 1,685 Firefighters and 2,980 Police Officers were Members of the Pension System. The total of 4,665 Active Members reflects an increase from last year's total of 4,560 (25 more Firefighters and 80 more Police Officers). The average Firefighter is 42.66 years of age and has 16.92 years of service with the City of Dallas. The average Police Officer is 40.27 years of age and has 14.11 years of service. The "Membership of the System" chart in the Statistics section of this report provides an analysis of the membership by length of service.

The number of DROP participants in active service was 951 during 2002, an increase of 91. The average DROP participant in active service is 53.75 years of age with 27.85 years of pension service. The average age at which members enter DROP is 50.2 years of age.

The System included 1,954 Pensioners, 222 disability Pensioners, and 694 beneficiaries at the end of 2002. The System paid more than \$88.8 million to 2,870 total benefit recipients in 2002. The history of growth in the number of pension recipients is included in the "Pensioners, Disabilities, and Survivors" chart in the Statistics section.

Plan Amendments

The System did not conduct a Plan amendment election in 2002, and no changes were made to the *Plan Document*.

Legislation

During 2002, the System, along with other public retirement systems and organizations, continued to oppose federal legislation that would require mandatory or universal Social Security coverage. The Board believes that federal legislation that would mandate Social Security coverage for all public employees would be bad public policy, would do little to correct any perceived shortcomings in the Social Security program, and would potentially jeopardize public pension plans. This effort has thus far been successful in that current plans for changing Social Security do not include mandatory provisions. The System supported other legislation that would make Social Security solvent for future generations. The System also supported proposed legislation that would eliminate the 10% early withdrawal penalty tax on DROP distributions. The System's involvement in these activities is ongoing.

On a state level, the Board of Trustees adopted a resolution supporting an amendment to the State Constitution to protect pension benefits in Texas. Texas is one of only nine states that does not protect public pension benefits. As a result of a Depression-era court ruling, the pension benefits of public employees in Texas can be reduced or even eliminated. The Constitutional Amendment would preserve a member's rights to vested, accrued pension benefits by preventing a plan sponsor from reducing these benefits.

Revenue and Expenses

Revenues received by the System are used to fund current and future benefits for System Members and their beneficiaries. Revenues for 2002 totaled \$147.5 million before depreciation in fair value of investments, and \$123.7 million after the reduction in the fair value of investments. Revenues came from City contributions (\$77.1 million), employee contributions (\$16.3 million), and other income (\$1.2 million). Investment return for 2002,

including gains and losses from investment activities was \$218.3 million.

Expenses consisted of benefits to retired Members and their qualified beneficiaries, refunds of contributions to former Members, fees for professional services, and the cost of administering the programs of the System. Total expenses for 2002 were \$104.4 million and consisted of the following: benefit payments (\$88.9 million), administrative and professional service fees (\$14.7 million), and refunds (\$0.9 million). Administrative and professional service fees were 0.88 %, of the System's total assets.

Summary

Pension System assets, membership, and programs remain strong. Participation in the DROP program continued to increase. The System's communications efforts continued to improve.

The long-term investment performance of the System is rated among the top of all public pension plans. Despite the reduced investment performance from recent years, the System's policy of diversification through the use of multiple managers employing different investment styles has kept the System's long-term performance on track, outperforming the actuarial rate of 8.5%.

As always, the Board of Trustees and staff welcome your comments. We appreciate your support and the opportunity to serve you.

Membership and Benefits

Program Highlights

Benefit Statements Distributed

4,932 Annual Benefit and DROP Statements

Counseling Sessions

565 Members

Deferred Retirement Option Plan (DROP)

In 2002, 174 new active participants and 97 new Pensioner participants enrolled in the program, bringing the total to 1,377 participants.

New Recruit Education Meetings

Six meetings with 259 new Members

Newsletters Mailed

- ◆ 90,848 total
- ◆ Pensioners—Mailed monthly to almost 2,900 Pensioners and survivors
- ◆ Active Members—Mailed monthly to more than 4,600 active Members and DROP participants

Pre-Retirement Education Program (PREP)

Six meetings, 310 attendees

Active Members

The number of active Members has increased from 4,560 at the end of 2001 to 4,665 as of December 31, 2002.

**Membership of the System
As of December 31, 2002**

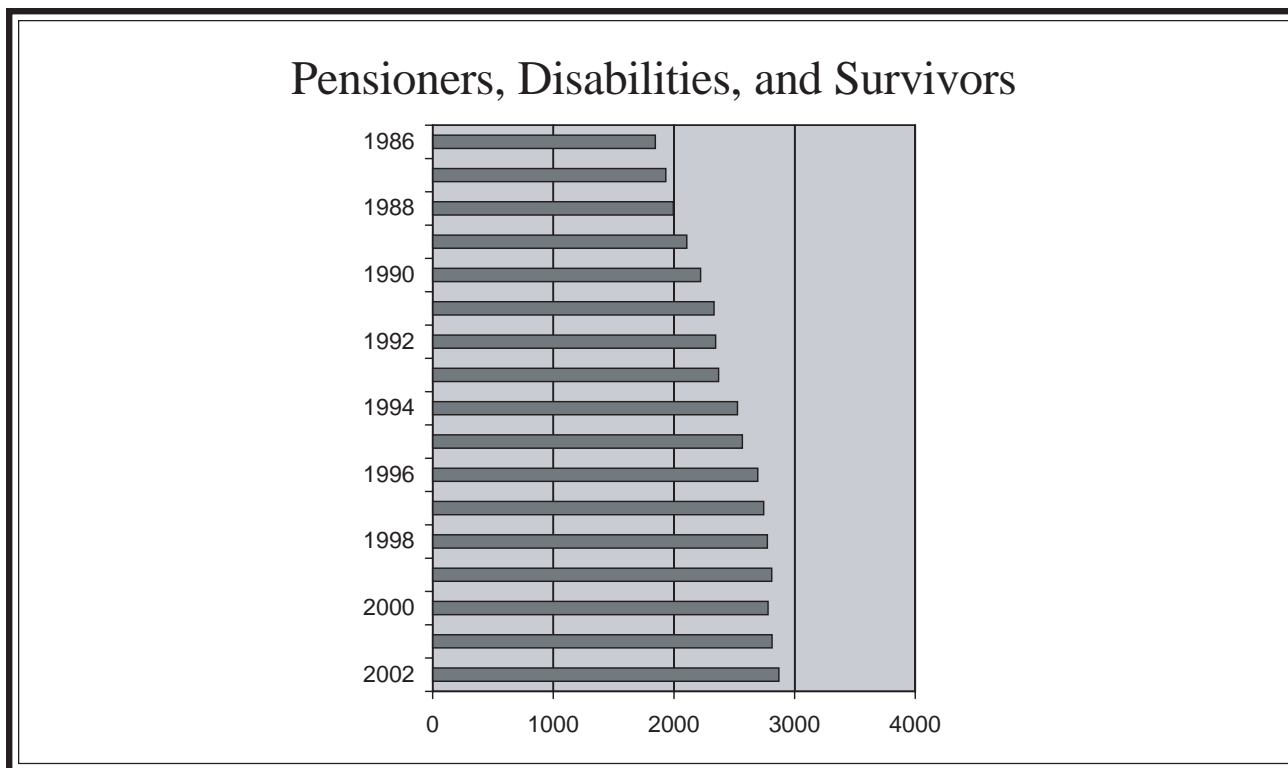
Years of Service	Fire	Police	Total
Fewer than 5	306	642	948
5–9	184	369	553
10–14	163	673	836
15–19	345	419	764
20–24	187	284	471
25–29	51	80	131
30 and more	6	5	11
DROP participants	<u>443</u>	<u>508</u>	<u>951</u>
TOTAL	1,685	2,980	4,665

The “Membership of the System” chart lists Active Members by Department according to years of service. The average service for all Active Members is 15.12 years, 16.92 years of service for Firefighters, and 14.11 for Police Officers. There were 4,665 Active Members as of December 31, 2002.

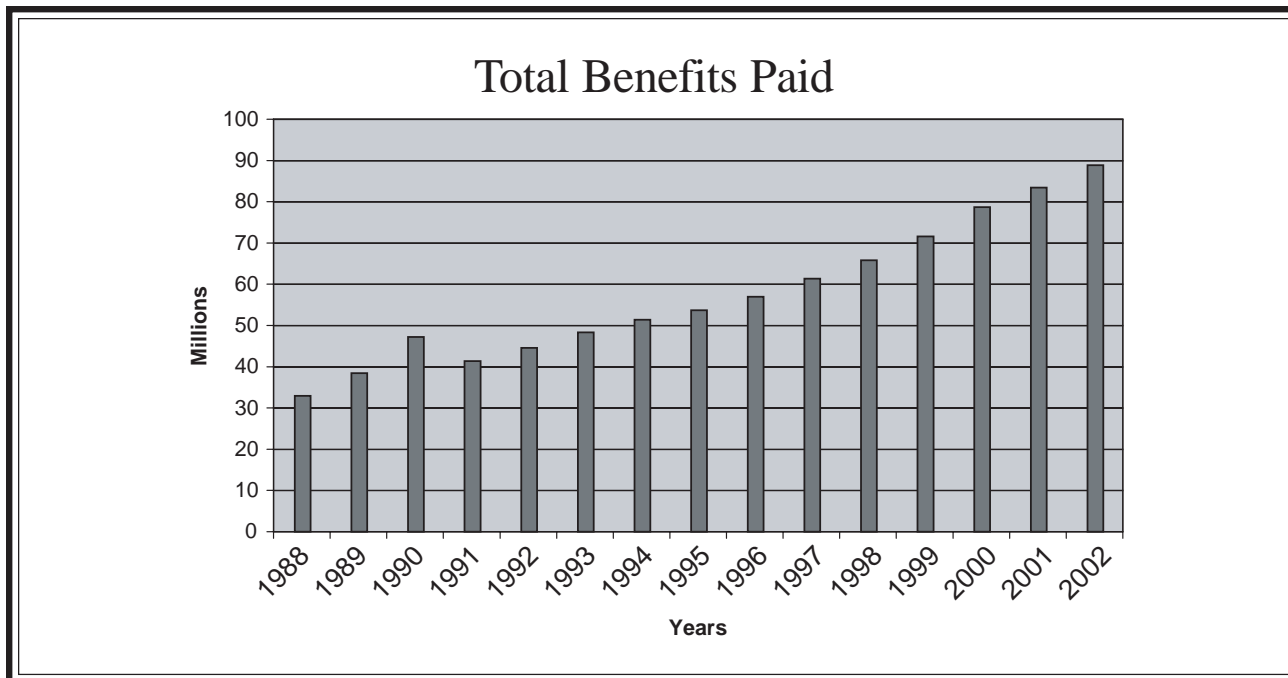
Benefit Recipients—2002

	<u>Police</u>	<u>Fire</u>	<u>Total</u>
Service Pensions Granted:	70	32	102
Disability Pensions Granted:	0	1	1
Pensions Discontinued due to Death:	25	26	51
Survivor Pensions Granted:	27	26	53
Survivor Pensions Discontinued:	13	9	22

During 2002, the System experienced a normal number of service and survivor pensions.



The history of growth in the number of benefit recipients is indicated in the above graph.



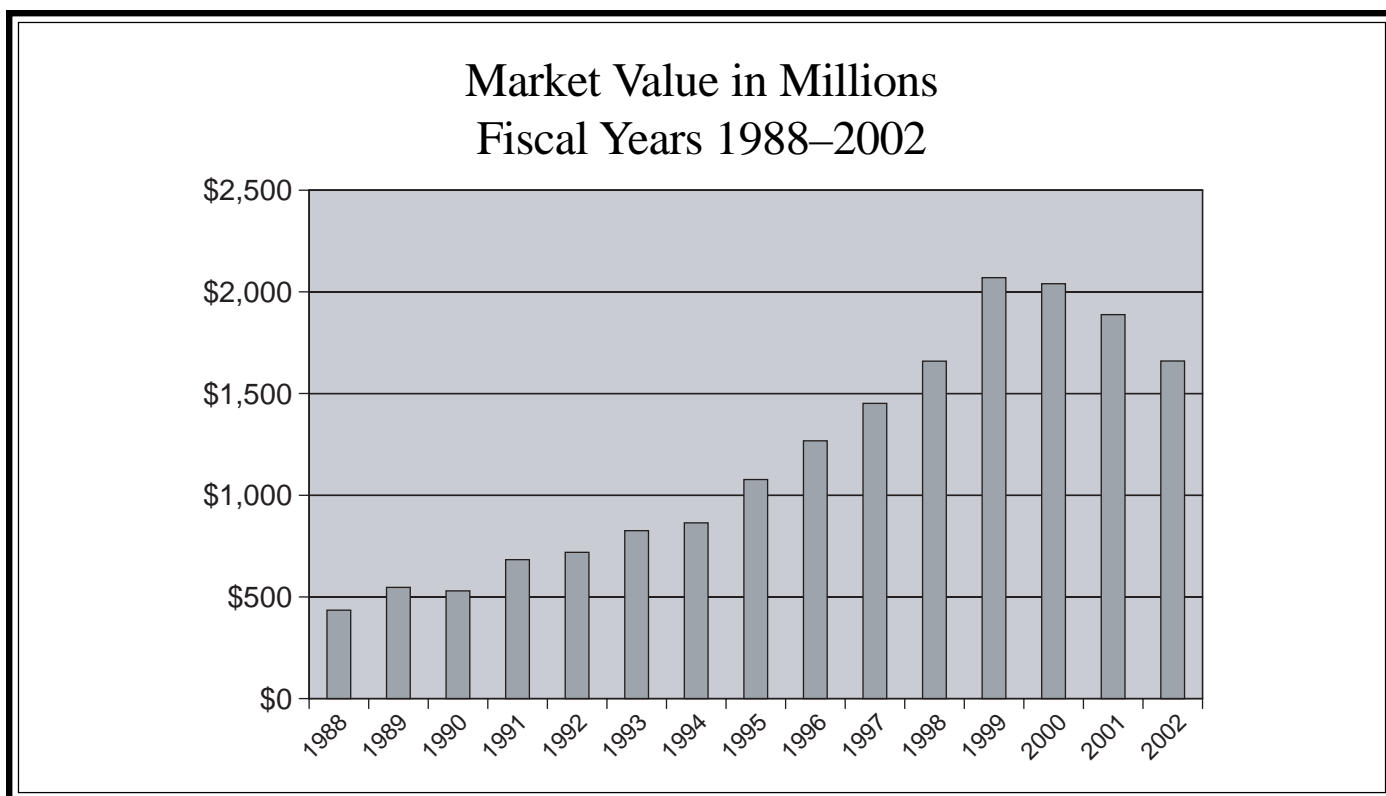
The amount of benefits paid to Pensioners and survivors has steadily increased throughout the years. In 2002, benefit payments totaled \$88.9 million.

Investments

Investments—Assets by Class

	Market Value
DOMESTIC EQUITIES	
AllianceBernstein Institutional Investment Management	\$93,141,013
Deutsche Asset Management	69,380,954
The Mitchell Group	16,885,701
North Texas Opportunity Fund	6,263,503
Oak Associates	95,306,025
SSgA S&P 500 Flagship Fund	227,168,455
W.R. Huff Alternative Fund	4,688,997
Subtotal	\$512,834,648
INTERNATIONAL EQUITIES	
Bank of Ireland Asset Management	\$163,855,682
Clay Finlay Inc.	91,216,600
Fidelity Management Trust Company	111,398,553
Loomis, Sayles & Company	8,821,890
Subtotal	\$374,792,725
DOMESTIC FIXED INCOME	
Deutsche Asset Management	83,516,898
Loomis, Sayles & Company	105,355,777
Oaktree OCM Fund IV	51,838,498
TCW Special Credit Trust IIIb	336,377
W.R. Huff Alternative Income Fund	23,606,242
W.R. Huff Asset Management Co., Inc.	71,903,181
Subtotal	\$337,056,974
INTERNATIONAL FIXED INCOME	
Deutsche Asset Management	\$76,389,273
Loomis, Sayles & Company	28,747,000
Subtotal	\$105,136,272
REAL ESTATE	
CDK Realty Advisors	8,331,168
Crow Holdings Realty Partners II, L.P.	11,777,898
Forest Investment Associates	42,631,936
Hancock Agricultural Investment Group	\$22,912,351
Hearthstone MSII Homebuilding Investors, LLC and Multi-State Residential Value-Added Fund III, LLC	2,113,557
Heitman Capital Management	62,291
INVESCO Realty Advisors	7,050,033
Kennedy Associates Real Estate Counsel	30,937,500
L & B Realty Advisors	49,310,721
Lone Star Funds (Brazos, I, II, III, IV)	27,496,727
Oaktree OCM Real Estate Fund B	15,056,282
Olympus Real Estate Fund II & III, L.P.	16,700,321
Prudential Strategic Value Investor	9,522,110
RREEF	29,946,765
Subtotal	\$273,849,660
Cash & Short Term Securities	\$ 48,206,464
Security Sold and Receivables	32,326,649
Securities Purchase and other Payables	(23,958,860)
Subtotal	\$56,574,253
Total Investments	\$1,660,244,532

The “Assets by Class” chart lists the market value of all plan assets by asset class and investment manager as of December 31, 2002.



The graph above indicates the long-term growth in market value of the System's assets.

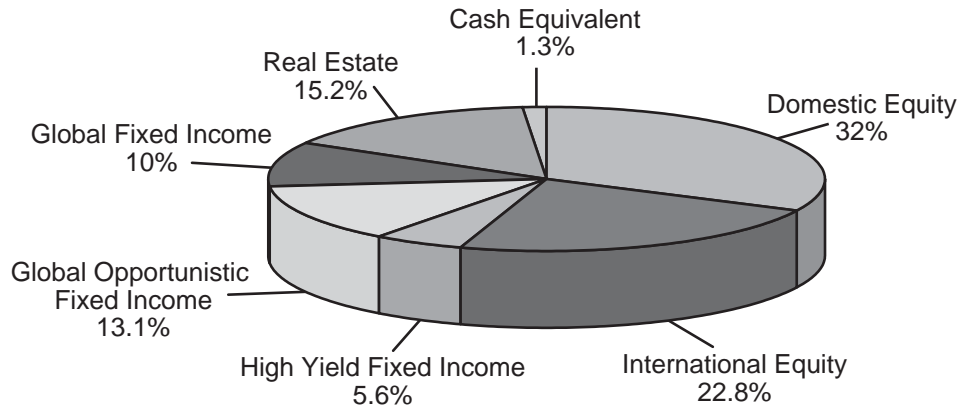
Changes in Assets Available for Benefits Years 1997–2002

(In Thousands)

	December 1997	December 1998	December 1999	December 2000	December 2001	December 2002
Assets at Cost—Beginning	\$ 1,018,749	\$ 1,312,621	\$ 1,415,483	\$ 1,655,216	\$ 1,884,622	\$1,905,785
Contributions:						
City	57,039	59,308	63,441	66,690	75,592	77,085
Employee (Less Refunds)	12,537	12,982	13,199	13,371	15,159	15,422
Interest, Dividends, and Realized Gains (Losses)	293,254	106,387	245,777	241,912	28,859	(103,350)
Benefit Payments and Administrative Fees	(68,958)	(75,815)	(82,684)	(92,567)	(98,447)	(103,553)
Assets at Cost—Ending	\$ 1,312,621	\$ 1,415,483	\$ 1,655,216	\$ 1,884,622	\$ 1,905,785	\$1,791,389
Assets at Market	\$ 1,452,336	\$ 1,659,397	\$ 2,069,734	\$ 2,039,741	\$ 1,888,387	\$1,660,244

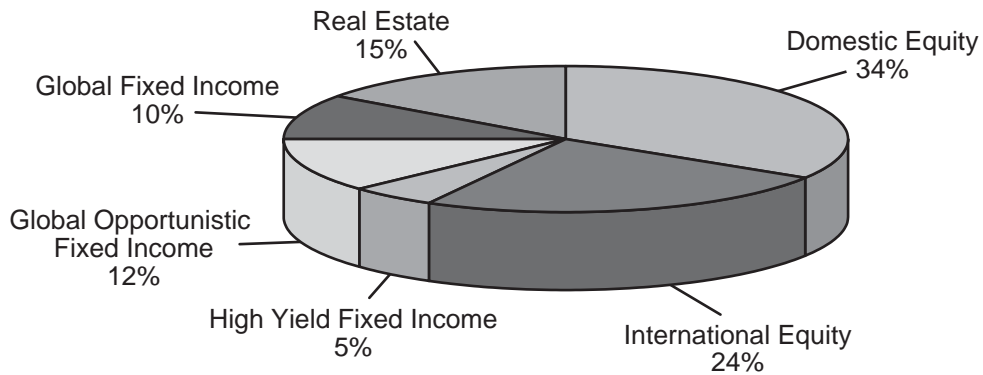
This chart shows the income, disbursements, and growth in plan assets from 1997.

Asset Allocation as of December 31, 2002



Pension System assets were diversified into the categories shown above as of December 31, 2002.

Asset Allocation Model as of December 31, 2002



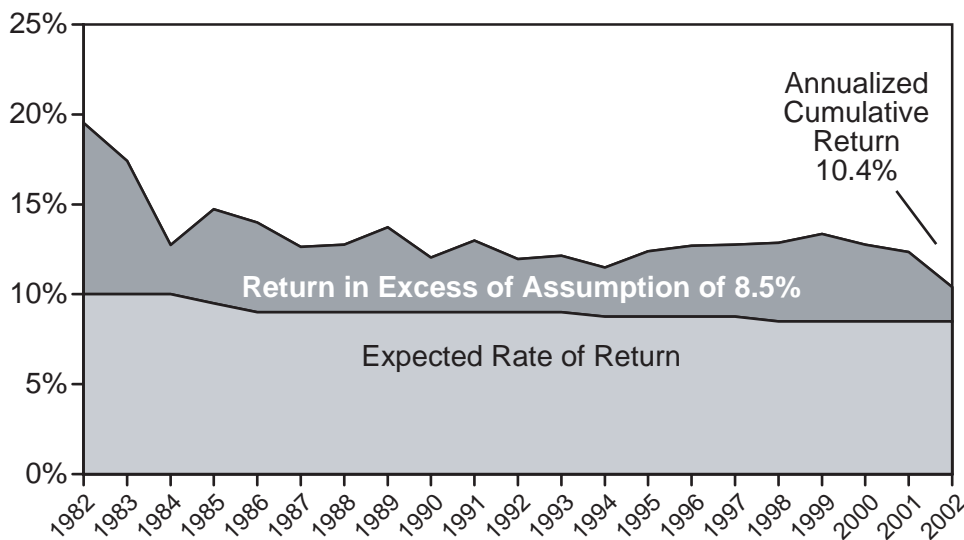
The model of the Pension System's diversified assets are shown above as of December 31, 2002.

Rates of Return by Asset Class

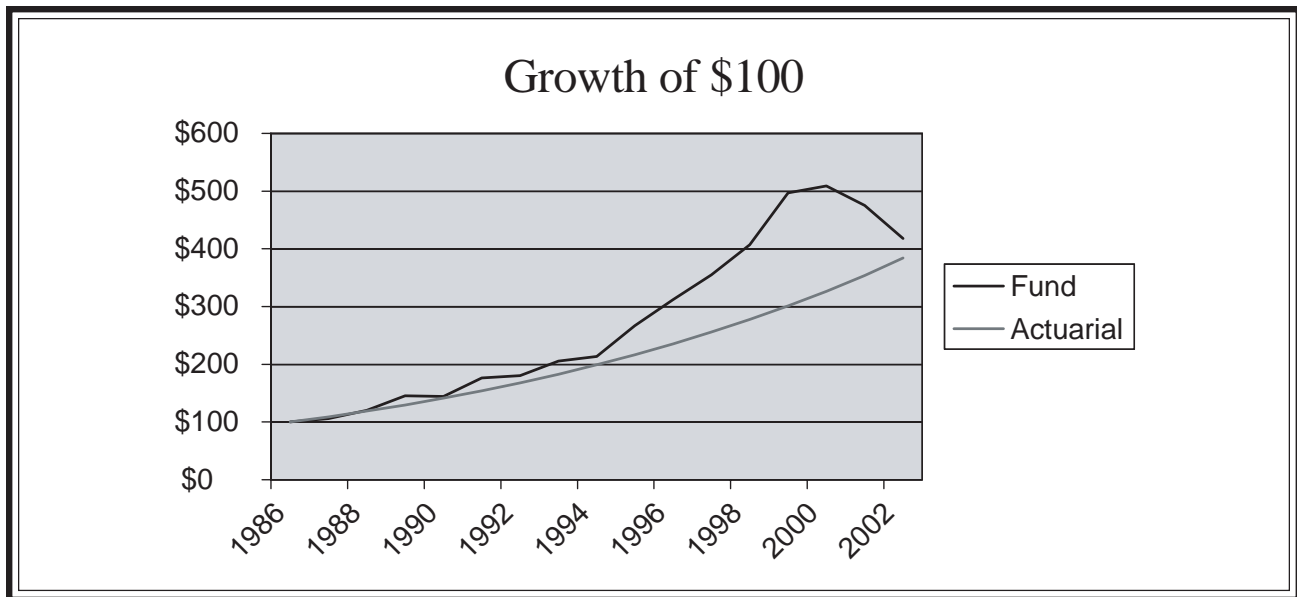
Investment Category	Rate of Return	Benchmark Comparison
Domestic Equities	27.07%	22.12% S&P 500 Index
International Equities	14.65%	15.94% EAFE Index
Domestic Fixed Income	6.36%	4.82% Salomon Comp. High Yield
Global Fixed Income	15.74%	16.15% Custom global benchmark
Global Opportunistic Fixed	9.60%	3.44% Custom bond index
Real Estate	4.75%	6.74% NCREIF Property Index
Cash & Equivalents	2.37%	1.78% 91-Day Treasury Bill
Total Portfolio	11.94%	2.40% Consumer Price Index (CPI-U)
		8.50% Actuarial Assumption

Investments are diversified among various asset classes, and the performance of each category is compared to a benchmark index.

Annualized Cumulative Investment Return



The graph above shows the System's long term investment return exceeds the expected rate of return.



One hundred dollars invested in the Pension System's portfolio 15 years ago as of December 31, 2002, is worth \$475. If the \$100 had earned the actuarial interest rate, it would be worth \$354.

Actuarial Information

Actuarial Valuation Results	January 1, 2003 Valuation	January 1, 2002 Valuation	January 1, 2001 Valuation
Level Funding ¹	\$745,776,422	\$395,501,252	\$323,007,168
Actuarial Value ²	\$1,992,252,337	\$2,158,395,018	\$2,005,078,546
Market Value ³	\$1,660,210,281	\$1,888,386,893	\$2,039,741,240
Normal Cost Rate ⁴	23.43%	23.82%	23.75%
AAL Ratio ⁵	72.8%	84.50%	86.10%
Years To Fund ⁶	69	19	17

- 1 Level Funding Requirements Accumulated to Date
- 2 Actuarial Value of Assets
- 3 Market Value of Assets
- 4 Normal Cost Rate
- 5 Actuarial Accrued Liability (GASB 25)
- 6 Projected Years to Fund Level Funding

The chart above summarizes the Actuarial Valuation report and indicates that the actuarial value of assets decreased from \$2.16 billion to \$1.99 billion during 2002.

Significant Events in the System's Modern History

1977

- Separation of pension administration from the City Secretary's Office
- Appointment of first Administrator of the Dallas Police and Fire Pension System—Ray Ward
- Retention of A.S. Hansen Inc. as the System's actuary

1978

- Development of a plan to resolve unfunded past service cost
- System's assets topped \$74 million (12-31-78)

1979

- New city and employee contribution plan implemented
- Retention of Compensation & Capital Inc. to monitor investments
- System's assets topped \$85.8 million (12-31-79)

1980

- Retention of Eppler, Guerin & Turner Inc. as the System's first investment consultant
- Retention of Peat, Marwick, Mitchell & Co. as actuary
- Retention of First City Bank as custodian
- System's assets top \$103.3 million (9-30-80)

1981

- Distinction of becoming the first retirement system to be officially registered with the Texas State Pension Review Board
- System's assets topped \$110.4 million (9-30-81)

1982

- Retention of two real estate investment advisors
- Jerry Hast named as the Fund's second Administrator
- Renewal of Master Custodian service by First City Bank—Dallas
- System's assets topped \$136.7 million (9-30-82)

1983

- Largest growth in the history of the System (to date)
- Benefit improvements to Plan B and Plan A, increasing cost of living to 4% simple
- System's assets topped \$196.9 million (9-30-83)

1984

- Retention of Pension Real Estate Services Inc. as real estate investment consultant
- Hired three additional real estate managers and designated 10% of fund for real estate
- Citizens voted approval of change in city and employee contribution rates
- System's assets topped \$218.8 million (9-30-84)

1985

- Increased Plan A and Plan B benefits, including survivor and retiree minimum benefit amounts
- Equity assets invested 100% with mutual funds
- System's assets topped \$262.1 million (9-30-85)

1986

- Pension System benefit counseling program created
- Members vote to begin paying administrative fees from System's assets
- System's assets topped \$329.5 million (9-30-86)

1987

- Wilshire Associates retained as general investment consultant (10-1-86)
- Assets reallocated: 52% domestic equity, 10% international equity, 18% fixed income, and 20% real estate
- System's assets topped \$425 million (9-30-87)

1988

- Approval of Plan amendments increased pension service credits from 2.5% to 2.75% per year
- Stock market dropped October 19, 1987
- System's assets topped \$434 million (9-30-88)

1989

- The Old Pension Plan and Plan A were combined to form the Combined Pension Plan
- Buck Consultants Inc. retained as System's actuary
- The Finance and Administrative Board Committees were created
- Participation in securities lending and commission recapture programs
- System's assets topped \$547 million (9-30-89)

1990

- Benefit changes made during the year included:
 - 1) the benefit supplement increased and
 - 2) the yearly pension service credit was increased from 2.75% to 3%
- Changes in asset allocation included global fixed income (9%) and international small capitalization (5%)
- System's assets decreased to \$529.7 million (9-30-90)

1991

- Plan amendment election held July 1991
- The System changed its year-end to December 31
- System's assets topped \$683 million (12-31-91)

1992

- Plan Amendment election held October, 1992:
 - created Deferred Retirement Option Plan (DROP),
 - increased the minimum benefit to \$1,500 per month,
 - allowed active Members to buy back service time they lost or to repay contributions withdrawn by a Qualified Domestic Relations Order (QDRO), and
 - Integrated Plan B of the System into the Combined Pension Plan
- Appointed a new administrator, Richard Tettamant
- System's assets topped \$719 million (12-31-92)

1993

- Plan amendment election held September 1993
- Implemented multifamily residential (apartment) investment program in the investment portfolio
- Exit strategy for real estate commingled funds implemented
- Deferred Retirement Option Plan (DROP) implemented January 1st
 - 220 Members joined
 - Annual benefit statements distributed
- System's assets topped \$825.8 million (12-31-93)

1994

- Relocated Pension System office to 2777 Stemmons Freeway
- Plan improved to reinstate benefits for 68 surviving widows whose benefits had been previously terminated upon remarriage
- Texas State Pension Review Board reaffirmed the System's actuarial soundness
- Initiated Pre-Retirement Education Program (PREP) for active employees
- System's assets exceeded \$863.8 million (12-31-94)

1995

- Initiated Periodic Retirement Education and Planning seminars (PREP, Jr.) for active employees with 5–15 years of service
- Retained LRS' Pension Plus for new automated pension administration
- System's assets topped \$1 billion in July
- System's assets exceeded \$1.077 billion (12-31-95)

1996

- Plan amended to correct, clarify, and delete inoperative provisions, initiate excess benefit plan, and authorize pretax contributions
- System's assets exceeded \$1.268 billion (12-31-96)

1997

- Member pretax contributions began
- DROP five-year actuarial review completed— approved by the Board with no changes to DROP
- System’s assets exceeded \$1.452 billion (12-31-97)

1998

- “20 and Out” and/or “20 and DROP” began
- Minimum benefit increased to \$1,800 per month
- DROP interest rate calculation based on 10-year treasury bond with a range of 8% to 10%
- Trustee positions given place numbers
- Pension System’s Internet Web page initiated
- System’s assets exceeded \$1.659 billion (12-31-98)

1999

- Pensioners began receiving a one-time opportunity to defer their pension benefits into DROP
- Ten-year certain benefit began
- Pension service purchases could now be made with a tax-deferred rollover from other qualified plans
- City Council Trustee Board positions given place numbers
- DROP had 959 total participants with more than \$109 million in deposits
- System’s assets exceeded \$2.069 billion (12-31-99)

2000

- Began computing Group B Member’s average computation pay over 36 months
- SWAR (Spouse wed after retirement) option begins
- Age and service credits requirement for the special survivor benefit decreased
- Minimum benefit increased to \$2,000 per month
- DROP funds could be transferred to the Member’s City of Dallas 401(k) account
- Pensioners could participate in DROP

- A Police pensioner and a Firefighter pensioner place added to the Board of Trustees
- System’s assets exceeded \$2.039 billion (12-31-00)

2001

- Relocated Pension System office to 2301 North Akard Street
- Police Pensioner and Firefighter Pensioner Trustees elected to the Board
- Plan amendment election held December 2001
 - Pension Service purchase could be made on a pretax basis through payroll deductions
 - Pension Service purchases could be made with pretax dollars from rollovers
 - Partial Pension Service purchases were allowed
 - Persons disabled while on military leave of absence could now receive a non-service disability pension
 - A 100% joint and survivor annuity option added
 - Minimum benefit increased to \$2,200 per month
 - DROP interest increased, and future changes in interest rate would be based on the System’s 10-year investment return
 - Special elections required to fill vacant Trustee positions
- System’s assets totaled \$1.9 billion (12-31-01)

2002

- JP Morgan Chase Bank selected as custodian bank
- Pensioner advocate position authorized
- System assets totaled \$1.7 billion (12-31-02)

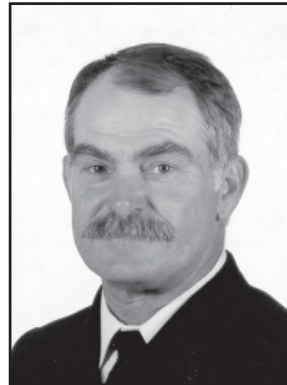
Board of Trustees—2002



*Gerald Brown
Fire Department
Chairman*



*Steve Shaw
Police Department
Vice Chairman*



*Gary Edge
Fire Department
Deputy Vice Chairman*



*Rector McCollum
Police Department*



*George Tomasovic
Fire Department*



*Steve Umlor
Police Department*



*John Mays
Police Pensioner Trustee*



*Richard Wachsman
Fire Pensioner Trustee*

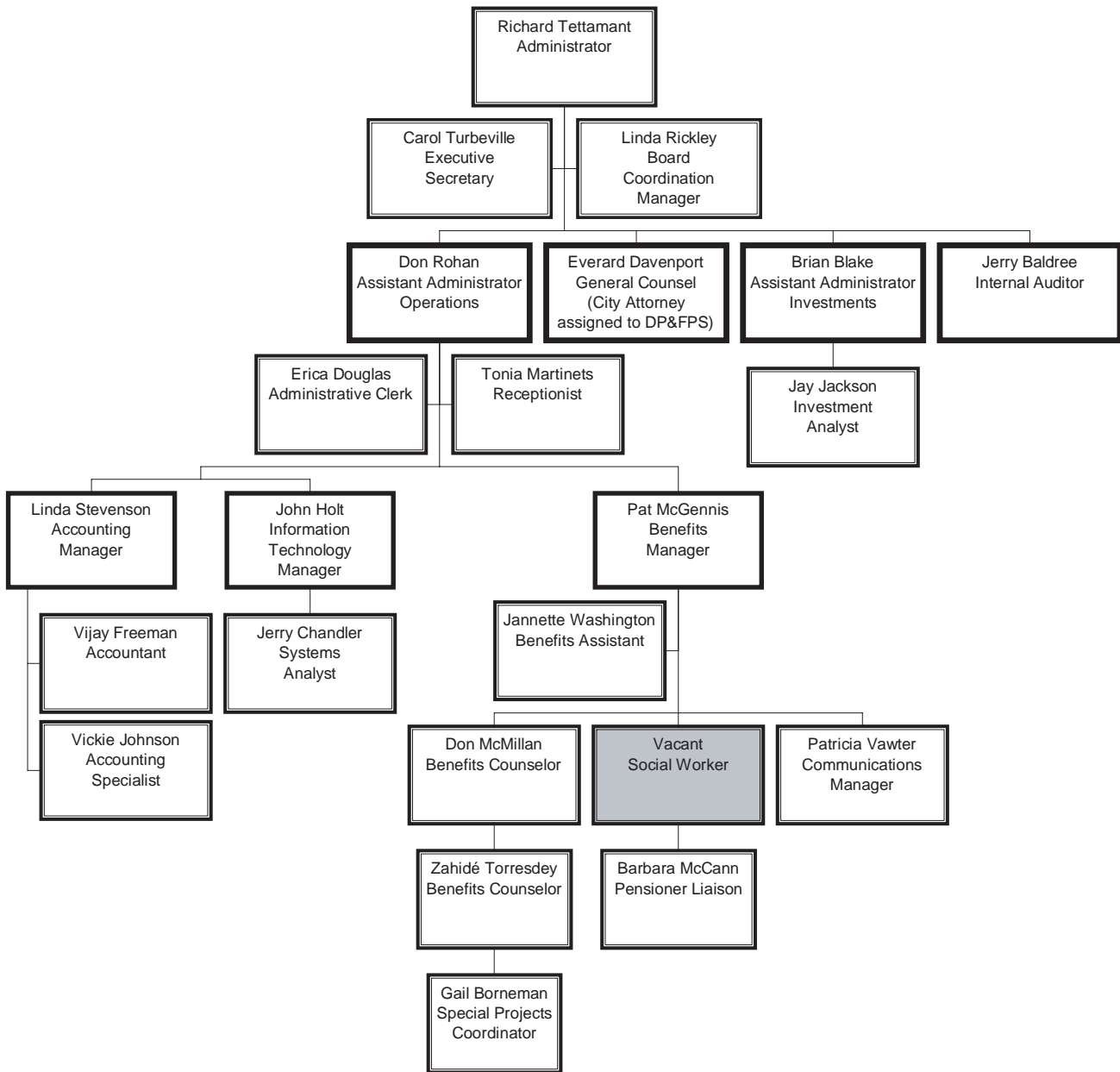


*Donald Hill
City Councilmember*



*Maxine Thornton-Reese
City Councilmember*

Administrative Staff Organizational Chart



Pension System staff as of December 31, 2002.

DALLAS POLICE AND FIRE PENSION SYSTEM
ACTUARIAL VALUATION
AS OF JANUARY 1, 2003

July 21, 2003

Mr. Richard L. Tettamant
Administrator
Dallas Police and Fire Pension System
2301 N. Akard Street, Suite 200
Dallas, TX 75201

Re: Dallas Police and Fire Pension System Actuarial Valuation as of January 1, 2003

Dear Mr. Tettamant:

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 (the System) as of January 1, 2003.

Actuarial Valuation

The primary purpose of the valuation report is to determine the adequacy of the current City's contribution rate, to describe the current financial condition of the System, and to analyze changes in the System's condition. In addition, the report provides information required by the City of Dallas in connection with Governmental Accounting Standards Board Statements Number 25 and Number 27.

Basis for Funding

The member and City contribution rates are established by statute. The City's and the members' contributions are intended to be sufficient to pay the normal cost and to amortize the System's unfunded actuarial accrued liability.

Funding Progress

As of January 1, 2003, the employer contribution rate needed in order to pay the normal cost and fund the Unfunded Actuarial Accrued Liability over 40 years is 29.33%. This amount is more than the 23.85% employer contribution calculated as of January 1, 2002. The current contribution rate covers the normal cost and the amortization of the Unfunded Actuarial Accrued Liability (UAAL) over 69 years.

Benefit Provisions

The actuarial valuation reflects the benefit and contribution provisions set forth in the System's statutes. The valuation is based on the same benefit provisions as the previous valuation.

Mr. Richard Tettamant
July 21, 2003
Page 2

Assumptions and Methods

The actuarial assumptions and methods used in the valuation are presented in Schedule C. The only change in assumptions from the previous valuation was the change in retirement rates. This change was made to better reflect expectations about future experience. The assumptions used are individually reasonable and reasonable in the aggregate.

Data

Asset information and member data for retired, active, and inactive members was supplied as of January 1, 2003 by the Administrator. 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.

Very truly yours,

Signed (RICHARD A. MACKESEY)

Richard A. Mackesey, F.S.A.
Principal, Consulting Actuary

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Enclosures

Dallas Police and Fire Pension System
 Actuarial Valuation - January 1, 2003

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Dallas Police and Fire Pension System
 Actuarial Valuation - January 1, 2003

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Summary of Principal Results

	January 1, 2003	January 1, 2002
Membership		
Active	4,665	4,560
Terminated with deferred benefits	139	121
Retired members and beneficiaries	2,870	2,813
Compensation		
Total	\$ 270,199,284	\$ 251,103,654
Average	\$ 57,921	\$ 55,067
Assets		
Market value	\$ 1,660,210,281	\$ 1,888,386,893
Actuarial value	\$ 1,992,252,337	\$ 2,158,395,018
Valuation Results		
Unfunded actuarial accrued liability	\$ 745,776,422	\$ 395,501,252
Funding period	69	19
40-year funding cost (City)	29.33%	23.85%
Margin	-1.83%	3.65%
GASB No. 25		
Actuarial accrued liability (AAL)	\$ 2,738,028,759	\$ 2,553,896,270
Assets (actuarial)	\$ 1,992,252,337	\$ 2,158,395,018
GASB ratio	72.8%	84.5%
Unfunded AAL	\$ 745,776,422	\$ 395,501,252

Comments on the Valuation**Overview**

Based on the current membership data, the current financial data, the current benefit provisions and the actuarial assumptions and methods used to determine liabilities and costs, the current contribution rates are not sufficient to keep the System actuarially sound over a reasonable period of time.

The funding period increased to 69 years from 19 years. This increase was due to a significant loss on the actuarial value of assets. Due to the asset valuation method, additional losses on the actuarial value of assets will continue to occur over the next few years unless the performance on the assets improves significantly.

Section 3 shows in more detail the changes to the 40-year funding cost and the funding period based on the current contribution rates.

Funding status

There are two significant measures of the funding status of the System. The first is the 40-year funding cost. This is the City contribution rate required to pay the normal cost and to amortize the UAAL over a 40-year period. This rate is currently 29.33% compared with the City's actual contribution rate of 27.50% and with the 40-year funding cost in 2002 of 23.85%. Section 3 shows a reconciliation of the changes between the 2002 and 2003 figures.

The other measure is the funding period. This is the length of time in years that will be required to amortize the current UAAL based on the current contribution rate. The current contribution rate is sufficient to pay the normal cost and amortize the UAAL over 69 years.

The UAAL is the excess of the liability assigned to prior years (the actuarial accrued liability) over the value of assets. Section 3 shows a reconciliation of this amount between 2002 and 2003.

GASB Statements

Section 4 provides the information required for reporting under GASB No. 25.

Benefit Provisions

Schedule B summarizes all the benefit provisions of the System. There are no significant benefits which were not taken into account in this valuation. The valuation is based on the same benefit provisions as the previous valuation.

Actuarial Assumptions and Methods

The actuarial assumptions and methods used in the valuation are presented in Schedule C. The only change in assumptions from the previous valuation was the change in retirement rates. This change was made to better reflect expectations about future experience. The assumptions used are individually reasonable and reasonable in the aggregate.

Schedule D compares the assumptions to the recent experience of the system and describes the adequacy of the assumptions.

GASB Statement No. 27

Under GASB Statement No. 27, which is effective for fiscal years beginning after June 15, 1997, employers must determine a pension expense based on a 40-year amortization of the UAAL. The amortization can assume payroll growth due to inflation, but no membership growth. After a 10-year transition period, the required amortization period will drop to 30 years. If the actual contribution rate is less than the rate required by GASB No. 27, the excess must be expensed. This will result in the employer showing an accrued but unpaid liability for pension benefits on its financial statements.

A City Contribution rate of 29.33% would be required for the City to avoid showing an accrued pension liability on its financial statements for the fiscal year beginning in 2003 if not for the fact that previous contributions have exceeded the GASB requirements. At the current rate of contribution, and assuming no other changes, the City will be required to show an accrued but unpaid pension liability for the System on its financial statement in the future.

Financial Data

The financial data used in this report was supplied by the System.

Section 5 reconciles the System's assets between 2002 and 2003 and shows the development of the actuarial value of assets (AVA). Rather than using the market value for cost calculations, an adjusted market value, which phases in gains and losses (compared to the assumed investment return rate) over five years, is used. This method is designed to reduce the volatility of the results. The estimated rates of return for 2002 are (12.26)% and (7.86)% for the market value of assets and the actuarial value of assets, respectively.

Membership Statistics

Data on active members and on retired members was supplied by the Administrator. Growth among active members was small and growth of the total payroll for active members was moderate during the last year. The active membership increased from 4,560 members as of January 1, 2002 to 4,665 members as of January 1, 2003. The total active payroll increased from \$251,103,654 to \$270,199,284 over the same period, a 7.6% increase. Schedule A shows a summary of the membership data.

Experience

Schedule D compares the actual experience of the system with the actuarial expectations.

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2003

Section 3

Actuarial Cost, Margin and Funding Period

	January 1, 2003	January 1, 2002
1. Covered Payroll		
a. Active members excluding DROP	\$ 201,770,834	\$ 190,879,663
b. DROP members	\$ 68,428,450	\$ 60,223,991
c. Total	\$ 270,199,284	\$ 251,103,654
2. Actuarial value of future pay		
a. Active members excluding DROP	\$ 1,438,433,000	\$ 1,242,720,624
b. DROP members	\$ 939,715,800	\$ 483,577,976
c. Total	\$ 2,378,148,800	\$ 1,726,298,600
3. Current contribution rates		
a. City	27.50%	27.50%
b. Member	8.50%	8.50%
c. Total	36.00%	36.00%
4. Actuarial present value of future benefits	\$ 3,295,344,564	\$ 2,965,152,647
5. Actuarial present value of future normal costs		
a. Total	\$ 557,315,805	\$ 411,256,377
b. Member (3b x 2a)	\$ 122,266,805	\$ 105,631,253
c. City (5a - 5b)	\$ 435,049,000	\$ 305,625,124
6. Actuarial accrued liability (4 - 5a)	\$ 2,738,028,759	\$ 2,553,896,270
7. Actuarial value of assets	\$ 1,992,252,337	\$ 2,158,395,018
8. Unfunded actuarial accrued liability (UAAL) (6 - 7)	\$ 745,776,422	\$ 395,501,252
9. Normal cost		
a. Normal cost percentage (5a ÷ 2c)	23.43%	23.82%
b. Total normal cost (1c x 9a)	\$ 63,307,692	\$ 59,812,890
c. Member normal cost (1a x 3b)	\$ 17,150,521	\$ 16,224,771
d. City normal cost (9b - 9c)	\$ 46,157,171	\$ 43,588,119
e. City normal rate (9d ÷ [1c x 1.07])	15.97%	16.22%

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2003

Section 3
(continued)

Actuarial Cost, Margin and Funding Period
(continued)

	January 1, 2003	January 1, 2002
10. 40-year funding cost*		
a. City normal cost rate	15.97%	16.22%
b. Amortization rate	13.36%	7.63%
c. Total	29.33%	23.85%
11. Margin over/(under) 40-year cost* (3a - 10c)	-1.83%	3.65%
12. Funding period to amortize UAAL	69	19

* 40-year funding cost is necessary for accounting purposes only. The actual funding period is calculated each year based on level contributions and is currently 69 years.

Analysis of Change in UAAL

1. UAAL as of January 1, 2002	\$ 395,501,252
2. Changes due to:	
a. Expected increase (negative amortization)	\$ 1,372,749
b. Actual contributions greater than expected	(3,385,227)
c. Liability experience	36,722,127
d. Asset experience	353,376,156
e. Assumption change	(37,810,635)
f. Plan amendments	<u>0</u>
g. Total changes	\$ 350,275,170
3. UAAL as of January 1, 2003	\$ 745,776,422

Analysis of Change in Funding Cost

1. 40-year funding cost* as of January 1, 2002	23.85%
2. Changes due to:	
a. Actual contributions greater than expected	(0.06)
b. Liability experience	0.58
c. Asset experience	6.06
d. Assumption change	<u>(1.10)</u>
e. Total	5.48
3. 40-year funding cost* as of January 1, 2003	29.33%

* 40-year funding cost is necessary for accounting purposes only. The actual funding period is calculated each year based on level contributions and is currently 69 years.

Analysis of Change in Funding Period

1. Funding period as of January 1, 2002	19
2. Changes due to:	
a. Passage of time	(1)
b. Actual contributions greater than expected	0
c. Liability experience	2
d. Assumption change	(3)
e. Asset experience	<u>52</u>
f. Total	50
3. Funding period as of January 1, 2003	69

Historical Trend Information

(As required by GASB #25 - Amounts are in millions of dollars)

	Actuarial Value of <u>Assets</u>	Actuarial Accrued Liability (AAL) <u>Entry Age</u>	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 1998	1,307	1,782	475	73.3%	193	246.1%
January 1, 1999	1,503	1,958	455	76.8%	205	222.0%
January 1, 2000	1,772	2,094	322	84.6%	213	151.2%
January 1, 2001	2,005	2,328	323	86.1%	224	144.2%
January 1, 2002	2,158	2,554	396	84.5%	251	157.8%
January 1, 2003	1,992	2,738	746	72.8%	270	276.3%

**GASB #25 Schedule of Employer Contributions
 for Year Ending December 31, 2002**

<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
27.50% of Pay	100%

**Summary of Accumulated Benefits
 (FASB #35)**

Accumulated Benefits at January 1, 2003

Vested benefits of participants and beneficiaries currently receiving payments	\$1,139,400,459
Other vested benefits	1,298,187,238
Nonvested benefits	<u>133,154,796</u>
Total benefits	\$2,570,742,493

FASB #35 Reconciliation

Accumulated benefits at January 1, 2002		\$2,366,619,080
Benefits accumulated	\$ 109,071,409	
Interest	197,426,320	
Benefits paid	(89,743,031)	
Assumption change	<u>(12,631,285)</u>	
Total Change		<u>204,123,413</u>
Accumulated benefits at January 1, 2003		\$2,570,742,493

Reconciliation of Fund Assets

	Year Ending December 31, 2002
1. Value of fund at beginning of year	\$ 1,888,386,893
2. Contributions	
a. City	77,085,173
b. Member	<u>16,274,068</u>
c. Total	\$ 93,359,241
3. Benefit payments	(88,891,103)
4. Refunds	(851,928)
5. Earnings	(217,225,889)
6. Expenses	(14,566,933)
7. Value of assets at end of year	\$ 1,660,210,281
8. Estimated rate of return	-12.26%

Determination of Excess Earnings To Be Deferred

	<u>Year Ending</u> <u>December 31, 2002</u>
1. Market value at beginning of year	\$ 1,888,386,893
2. Net new investments	
a. Contributions	\$ 93,359,241
b. Benefit payments	(88,891,103)
c. Refunds	<u>(851,928)</u>
d. Total	\$ 3,616,210
3. Market value at end of year	\$ 1,660,210,281
4. Yield (3 - 1 - 2d)	\$ (231,792,822)
5. Average balance [1 + 1/2(2d)]	1,890,194,998
6. Assumed investment return rate	8.50%
7. Expected net return (5 x 6)	\$ 160,666,575
8. Gains/(losses) subject to deferral (4 - 7)	\$ (392,459,397)

Calculation of Actuarial Value of Assets

1. Market value of assets as of January 1, 2003	\$1,660,210,281																								
2. Deferral amounts																									
	<table border="0" style="width: 100%;"> <thead> <tr> <th style="text-align: left;"><u>Year</u></th> <th style="text-align: right;"><u>Total Gain/(Loss)</u></th> <th style="text-align: right;"><u>Percent Deferred</u></th> <th style="text-align: right;"><u>Deferral Amount</u></th> </tr> </thead> <tbody> <tr> <td>a. 2002</td> <td style="text-align: right;">\$(392,459,397)</td> <td style="text-align: right;">80%</td> <td style="text-align: right;">\$ (313,967,518)</td> </tr> <tr> <td>b. 2001</td> <td style="text-align: right;">(332,351,653)</td> <td style="text-align: right;">60%</td> <td style="text-align: right;">(199,410,992)</td> </tr> <tr> <td>c. 2000</td> <td style="text-align: right;">(207,378,713)</td> <td style="text-align: right;">40%</td> <td style="text-align: right;">(82,951,485)</td> </tr> <tr> <td>d. 1999</td> <td style="text-align: right;">264,873,251</td> <td style="text-align: right;">20%</td> <td style="text-align: right;">52,974,650</td> </tr> <tr> <td>e. Total</td> <td></td> <td></td> <td style="text-align: right;">\$ (543,355,345)</td> </tr> </tbody> </table>	<u>Year</u>	<u>Total Gain/(Loss)</u>	<u>Percent Deferred</u>	<u>Deferral Amount</u>	a. 2002	\$(392,459,397)	80%	\$ (313,967,518)	b. 2001	(332,351,653)	60%	(199,410,992)	c. 2000	(207,378,713)	40%	(82,951,485)	d. 1999	264,873,251	20%	52,974,650	e. Total			\$ (543,355,345)
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c. 2000	(207,378,713)	40%	(82,951,485)																						
d. 1999	264,873,251	20%	52,974,650																						
e. Total			\$ (543,355,345)																						
3. Preliminary actuarial value of assets (1 - 2e)	2,203,565,626																								
4. 80% of Market value	1,328,168,225																								
5. 120% of Market value	1,992,252,337																								
6. Actuarial value of assets (3, not less than 4 or more than 5)	1,992,252,337																								
7. Rate of return on actuarial value of assets	-7.86%																								

Membership Data

	January 1, 2003	January 1, 2002
1. Active members (excluding DROP)		
a. Police and Fire		
1. Number	3,714	3,700
2. Covered payroll	\$ 201,770,834	\$ 190,879,663
3. Average annual pay	\$ 54,327	\$ 51,589
4. Average age	37.90	38.01
5. Average service (years)	11.86	12.23
b. Police		
1. Number	2,472	2,437
2. Covered payroll	\$ 133,115,880	\$ 124,725,329
3. Average annual pay	\$ 53,849	\$ 51,180
4. Average age	37.50	37.56
5. Average service (years)	11.39	11.74
c. Fire		
1. Number	1,242	1,263
2. Covered payroll	\$ 68,654,954	\$ 66,154,334
3. Average annual pay	\$ 55,278	\$ 52,379
4. Average age	38.70	38.87
5. Average service (years)	12.81	13.17

Membership Data
 (continued)

	January 1, 2003	January 1, 2002
2. Active members (DROP only)		
a. Police and Fire		
1. Number	951	860
2. Covered payroll	\$ 68,428,450	\$ 60,223,991
3. Average annual pay	\$ 71,954	\$ 70,028
4. Average age	53.75	53.69
5. Average service (years)	27.85	27.72
6. DROP account balance	\$ 150,992,598	\$ 126,014,451
b. Police		
1. Number	508	463
2. Covered payroll	\$ 36,605,926	\$ 32,346,260
3. Average annual pay	\$ 72,059	\$ 69,862
4. Average age	53.73	53.77
5. Average service (years)	27.34	27.24
6. DROP account balance	\$ 75,962,979	\$ 65,294,662
c. Fire		
1. Number	443	397
2. Covered payroll	\$ 31,822,524	\$ 27,877,731
3. Average annual pay	\$ 71,834	\$ 70,221
4. Average age	53.78	53.59
5. Average service (years)	28.44	28.28
6. DROP account balance	\$ 75,029,619	\$ 60,719,789

Membership Data
 (continued)

	January 1, 2003	January 1, 2002
3. Active members (including DROP)		
a. Police and Fire		
1. Number	4,665	4,560
2. Covered payroll	\$ 270,199,284	\$ 251,103,654
3. Average annual pay	\$ 57,921	\$ 55,067
4. Average age	41.13	40.96
5. Average service (years)	15.12	15.15
6. DROP account balance	\$ 150,992,598	\$ 126,014,451
b. Police		
1. Number	2,980	2,900
2. Covered payroll	\$ 169,721,806	\$ 157,071,589
3. Average annual pay	\$ 56,954	\$ 54,163
4. Average age	40.27	40.15
5. Average service (years)	14.11	14.21
6. DROP account balance	\$ 75,962,979	\$ 65,294,662
c. Fire		
1. Number	1,685	1,660
2. Covered payroll	\$ 100,477,478	\$ 94,032,065
3. Average annual pay	\$ 59,631	\$ 56,646
4. Average age	42.66	42.39
5. Average service (years)	16.92	16.78
6. DROP account balance	\$ 75,029,619	\$ 60,719,789

Membership Data
 (continued)

	January 1, 2003	January 1, 2002
4. Inactive members		
a. Retired members	2,176	2,140
b. Beneficiaries	694	673
c. Number entitled to deferred benefits	<u>139</u>	<u>121</u>
d. Total number of inactive members	3,009	2,934
e. Total annual benefit	\$ 89,037,805	\$ 83,872,896
f. Average annual benefit	\$ 29,590	\$ 28,587

**Summary of Benefit Provisions
As of January 1, 2003
For Actuarial Calculations**

Group A

Definitions

Base Pay: The annualized maximum monthly civil service pay established by the City for a police officer or fire fighter exclusive of any and all other forms of compensation.

City Service Incentive Pay: Additional annualized salary granted to Member under the authority of the City Charter.

Longevity Pay (Service Pay): Additional annualized salary granted to Member under provisions of Section 141.032, Local Government Code, for each year of service completed by such Member.

Pension Service: Time in years (prorated for fractional years) that Member made contributions under the terms of the Combined Pension Plan or under any Pension Plan within the Pension System.

Pension System: The Dallas Police and Fire Pension System

Qualified Surviving Spouse: The Member's legal spouse at time of death providing the marriage occurred prior to the Member's termination of employment (entering DROP is not considered termination of employment) and continued until the member's death.

Qualified Surviving Children: All surviving unmarried children under 19 years of age (23 for a disabled child) provided they were born or adopted before Member terminated his employment.

Contribution Rates

The Member contribution rate is 6.5%. Members contribute for a maximum of 32 years.

The City's contribution rate is a function of the highest Member contribution rate of any pension plan within the Pension System (currently Group B) as follows:

<u>City</u>	<u>Member</u>
28.5%	9.0%
27.5	8.5
26.0	8.0
24.5	7.5
23.0	7.0
21.5	6.5

Service Retirement Benefits

Annual Normal Retirement Pension

Greater of I or II:

I. Condition for Retirement: Age 50 with 20 years of Pension Service.

Amount of Pension Benefit: 50% of Base Pay, plus 50% of Longevity Pay, plus 50% of City Service Incentive Pay. Pension is increased annually to reflect changes in the rate of

Longevity Pay and City Service Incentive Pay based on Member's Pension Service and status at date of retirement.

Member may retire as early as age 45 with 20 years of Pension Service. Pension benefit will be reduced by 2/3 of 1% per month of retirement prior to age 50.

II. Condition for Retirement: Age 55 with 20 years of Pension Service.

Amount of Pension Benefit: 3% of Base Pay for each year of Pension Service (maximum of 32 years), plus 50% of Longevity Pay, plus 50% of City Service Incentive Pay. Pension is increased annually by 4% of the original pension benefit.

Member may retire as early as age 50 with 20 years of Pension Service. Pension benefit will be reduced by 2/3 of 1% for each month of retirement prior to age 55.

Disability Retirement Benefits

Condition for Retirement: Disability preventing Member from performing his or her duties with his or her department and lasting for a period of not less than 90 days.

Annual Amount of Pension

Greater of I or II:

I. Same as Normal Retirement Pension (I).

II. Depending on Source of Disability

a. Service Related Disability: 3% of Base Pay for each year of Pension Service (minimum of 20 years, maximum of 32 years), plus 50% of Longevity Pay, plus 50% of City Service Incentive Pay. Benefit is increased annually by 4% of the original amount, or

b. Non-Service Related Disability: 3% of Base Pay for each year of Pension Service (maximum 32 years), plus 50% of Longevity Pay, plus 50% of City Service Incentive Pay. Benefit is increased annually by 4% of the original amount.

Survivor Benefits

Survivor Benefits for Qualified Surviving Spouse: Death in Active Service: 50% of Service Retirement Pension calculated with a minimum of 20 years of Pension Service.

Survivor Benefits when no Qualified Surviving Spouse: Death in Active Service: 50% of Service Retirement Pension calculated with a minimum of 20 years of Pension Service. The benefit will be paid as a lump sum equal to the value of the lesser of a 10-year benefit or the remainder of the 10-year period if Qualified Surviving Children receive benefit.

Survivor Benefits After Retirement: The Qualifying Surviving Spouse shall receive 50% of any benefits paid to the Member. The percentage is increased if the Qualified Surviving Spouse has attained age 55, there are no Qualified Surviving Children who are eligible for death benefits, the member retired after age 55 with 20 years of Pension Service or the Member's age plus Pension Service at retirement was at least 78 and the Member was receiving a benefit based on the former Plan A formulas.

Survivor Benefits After Retirement or Termination for a Non-Qualifying Surviving Spouse: The Surviving Spouse shall receive 50% of any benefits paid to the Member. However, the Member's benefit will be reduced for this coverage.

Survivor Benefits for Qualified Surviving Children: An amount equal to the amount paid to the Qualified Surviving Spouse divided among the Qualified Surviving Children. Amount paid as long as one or more children continue to qualify.

Survivor Benefits After December 17, 2001: For Members leaving active service after December 17, 2001, a Member may elect to receive an actuarially reduced benefit in order to provide a greater survivor percentage to the qualified spouse. Minimum benefits do not apply.

Minimum Benefits

The minimum benefit is \$2,200 monthly for 20 years of Pension Service at retirement, and \$1,200 monthly for Qualified Surviving Spouses, 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. This minimum does not affect the base benefit. The benefit will not increase until the base retirement benefit with annual increases exceeds the minimum.

Benefit Supplement

If a Member retires with 20 years of Pension Service or if a Member is receiving a service related disability the Member or the Member's Qualified Surviving Spouse is entitled to receive the greater of \$75 or 3% of the monthly benefit payable to the member when the Member or the Qualified Surviving Spouse attains age 55. This supplement is also available for both the Member or the Member's Non-Qualifying Surviving Spouse for a member who has elected a reduced benefit to obtain coverage for a Non-Qualifying Surviving Spouse.

Group B

Definitions

Computation Pay: The annualized monthly rate of pay for the highest civil service rank held by a Member plus Educational Incentive Pay plus Longevity Pay plus City Service Incentive Pay.

Average Computation Pay: Computation Pay averaged over 36 months.

City Service Incentive Pay: Additional annualized salary granted to Member under the authority of the City Charter.

Longevity Pay: Additional annualized salary granted to Members under a provision of Section 141.032, Local Government Code, for each year of service completed by such Member.

Pension Service: The period, in years, months, and days, during which the Member made contributions under the terms of the Combined Plan or any Pension Plan within the Pension System.

Qualified Surviving Spouse: The Member's legal spouse at the time of death providing the marriage occurred prior to the Member's termination of employment (entering DROP is not considered termination of employment).

Pension System: The Dallas Police and Fire Pension System.

Qualified Surviving Children: All surviving unmarried children under 19 years of age (23 for a disabled child) provided they were born or adopted before the Member terminated his employment.

Educational Incentive Pay: Additional annualized salary granted to reward completion of college credits.

Contribution Rates

The City's contribution percentage is a function of the Member's contribution percentage as shown below:

<u>City</u>	<u>Member</u>
28.5%	9.0%
27.5	8.5
26.0	8.0
24.5	7.5
23.0	7.0
21.5	6.5

The Member contribution rate is currently 8.50%. Members contribute for a maximum of 32 years.

Service Retirement Benefits

Annual Normal Retirement Pension

Condition for Retirement: Attainment of age 50 and five years of Pension Service.

Amount for Allowance: 3% of Average Computation Pay for each year of Pension Service to a maximum of 32 such years.

Early Retirement Pension

Condition for Retirement:

- a. Attainment of age 45 and five years of Pension Service.

Amount of Pension: 3% of Average Computation Pay for each year of Pension Service reduced 2/3 of 1% for each month by which retirement precedes age 50.

- b. 20 years of Pension Service

Amount of Pension: 20 & Out multiplier of Average Compensation Pay for each year of Pension Service.

<u>Age</u>	<u>20 & Out Multiplier</u>
50 & above	3.00%
49	3.00% reduced by 2/3 of 1% for each month prior to age 50
48	2.75%
47	2.50
46	2.25
45 & below	2.00

Special Rule for Members of former Old Plan or Plan A

Group B Members who formerly were Members of either the former Old Plan or Plan A may elect to receive Group A benefits and receive a reimbursement of the additional contributions paid under Group B provisions in excess of the contributions that would have been made under Group A.

Disability Retirement Benefits

Service-Related Disability

Condition for Retirement: Disability preventing the Member from performing his or her duties with his or her department and lasting for a period of not less than 90 days.

Amount of Pension: 60% plus 3% for each year of Pension Service (maximum of 32 years) over 20, of Average Computation Pay.

Non-Service Related Disability

Condition for Retirement: Disability preventing the Member from performing his or her duties with his or her department and lasting for a period of not less than 90 days.

Amount of Pension: 3% of Average Computation Pay for each year of Pension Service (maximum 32 years).

Survivor Benefits

Survivor Benefits for Qualified Surviving Spouse: Death in Active Service: 1.50% of the Member's Average Computation Pay for each year of Pension Service with a minimum of 20 such years and a maximum of 32 such years.

Survivor Benefits When no Qualified Surviving Spouse: Death in Active Service: 50% of Service Retirement Pension calculated with a minimum of 20 years of Pension Service. The benefit will be paid as a lump sum equal to the value of the lesser of a 10-year benefit or the remainder of the 10-year period if Qualifying Surviving Children receive benefit.

Survivor Benefits After Retirement: The Qualified Surviving Spouse shall receive 50% of any benefits paid to the Member. The percentage is increased if the Qualified Surviving Spouse has attained age 55, there are no Qualified Surviving Children who are eligible for death benefits and the Member retired after age 55 with 20 years of Pension Service or if the Member's age plus Pension Service at retirement was at least 78.

Survivor Benefits After Retirement or Termination for a Non-Qualifying Surviving Spouse: The Surviving Spouse shall receive 50% of any benefits paid to the Member. However, the Member's benefit will be reduced for this coverage.

Survivor Benefits for Qualified Surviving Children: An amount equal to the amount paid to a Qualified Surviving Spouse is divided among the Qualified Surviving Children and continues to be paid as long as one or more of the children continue to qualify.

Survivor Benefits After December 17, 2001: For Members leaving active service after December 17, 2001, a Member may elect to receive an actuarially reduced benefit in order to provide a greater survivor percentage to the qualified spouse. Minimum benefits do not apply.

Post-Retirement Cost of Living Adjustments

Annually, on the first day of October, benefits in pay status will be increased by an amount equal to 4% of the original pension amount.

Minimum Benefits

The minimum benefit for normal retirement is \$2,200 monthly (prorated if less than 20 years at retirement) and \$1,200 monthly for Qualified Surviving Spouses, 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. This benefit does not affect the base benefit. The benefit will not increase until the base retirement benefit with annual increases exceeds the minimum.

Benefit Supplement

If a Member retires with 20 years of Pension Service or if a Member is receiving a service related disability the Member or the Member's Qualified Surviving Spouse is entitled to receive the greater of \$75 or 3% of the monthly benefit payable to the Member when the Member or the Qualified Surviving Spouse attains age 55. This supplement is also available for the Member or the Member's Non-Qualifying Surviving Spouse for a member who has elected a reduced benefit to obtain coverage for a Non-Qualifying Surviving Spouse.

Deferred Retirement Option Plan

As of January 1, 1993, at normal retirement age, a member may elect to enter the Deferred Retirement Option Plan (DROP). As of January 1, 1999, a member may also elect to enter DROP after 20 years of Pension Service. Retirement benefits will be calculated as if the Member retired on that date. Employee contributions made under the Combined Pension Plan will cease as will accruals under the Combined Pension Plan. Each month, the retirement benefit will be accumulated in an account earning interest based on a ten-year weighted average of the System's actual market return. Upon termination of employment, the Member will have the balance in account in addition to the monthly benefit payable as though the Member retired at the date the Member entered DROP.

**Statement of Actuarial Methods and Assumptions
 (Effective as of January 1, 2003)**

Investment Return: 8.50% per annum, compounded annually, net all expenses including administrative expenses. This rate reflects an underlying inflation rate of 4.00% and a real rate of return of 4.50%.

DROP balances are assumed to earn 9.00% per annum.

Separations Before Normal Retirement: Representative values of the assumed annual rates of withdrawal, death, and disability are as follows:

Age	Annual Rate per 1,000 Members							
	Withdrawal		Mortality - Disableds		Mortality - Other		Disability	
	Police	Fire	Male	Female	Male	Female	Police	Fire
20	43.0	21.0	48.30	26.30	.51	.28	.35	.70
25	43.0	21.0	48.30	26.30	.66	.29	.37	.75
30	32.0	16.0	36.20	23.70	.80	.35	.42	.84
35	23.0	16.0	27.80	21.40	.85	.48	.48	.96
40	23.0	16.0	28.20	20.90	1.07	.71	.57	1.15
45	23.0	16.0	32.20	22.40	1.58	.97	.79	1.58
50	NA	NA	38.30	25.70	2.58	1.43	NA	NA
60	NA	NA	60.30	33.10	7.98	4.44	NA	NA
70	NA	NA	73.90	41.10	23.73	13.73	NA	NA
75	NA	NA	84.20	49.20	37.21	22.69	NA	NA

Salary Increases: Representative values of the assumed annual rates of future salary increase attributable to seniority and promotion are as follows:

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2003

**Schedule C
(continued)**

Age	Annual Rate of Salary Increase
20	10.00%
30	5.23
40	4.57
50	4.37
60	4.33

Total payroll is assumed to increase 4.00% per year. New hires are assumed to replace terminations.

Overtime is assumed to be 7% of base pay. The city contributes on total pay including overtime. This assumption is consistent with past experience and the city's budget.

Retirement Rates: The percentage of population assumed to retire at various ages is as follows:

Age	Rate	Age	Rate	Age	Rate
38	5%	48	5%	58	10%
39	5	49	5	59	15
40	5	50	10	60	20
41	5	51	7.5	61	25
42	5	52	7.5	62	60
43	5	53	7.5	63	70
44	5	54	7.5	64	80
45	5	55	10	65	100
46	5	56	10		
47	5	57	10		

Rates are only applied when member is eligible to retire. That is, age 50 with five years or 20 years for Plan B, age 55 with 20 years for Plan A, and age 50 with 20 years for Old Plan.

Postretirement Mortality: According to the 1994 Group Annuity Mortality Table for males and females.

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2003

**Schedule C
(continued)**

DROP Election: Members are assumed to elect DROP at age 50 with five years for Plan B, age 55 with 20 years for Plan A, and age 50 with 20 years for Old Plan.

Spouses: 80% of active members are assumed to be married with the male three years older than the female. The age of the youngest child is assumed to be one year.

Assumption as to Choice of Plan Provisions: Those Members eligible to elect between Plan B and the Old Plan are assumed to elect in a manner which maximizes the benefit they receive.

Assumed Post Retirement Cost of Living:

Plan A and Plan B: 4% of original pension annually
Old Plan: 4% compounded annually

Future Expenses: All expenses, investment and administration, are paid from the Fund. The 8.50% assumed rate of return is net of these expenses.

Valuation Method: The method used to determine Normal Cost and Accrued Actuarial Liability is the Entry Age Normal Cost Method. Under the Entry Age Normal Cost Method, an annual Normal Cost is determined for each covered active Member 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 compensation. The Actuarial Accrued Liability 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 Actuarial Accrued Liability over the assets of the Fund.

The Normal Cost and Accrued Actuarial Liability are derived by making certain assumptions as to the rates of interest, mortality, turnover, etc., which are assumed to reflect experience for

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2003

Schedule C
(continued)

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 Plan. The effects of any actuarial gains or losses are immediately reflected in the Unfunded Actuarial Accrued Liability and the Normal Cost.

Actuarial Value of Assets: The actuarial value of assets is calculated based on the following formula:

$$MV - (4/5) \times G/(L)_1 - (3/5) \times G/(L)_2 \\ - (2/5) \times G/(L)_3 - (1/5) \times G/(L)_4$$

where:

MV = the market value of assets as of the valuation date

G/(L)_i = the asset gain or (loss) (i.e., actual return on assets less expected return on assets) for the i-th year preceding the valuation date.

This method was phased in beginning January 1, 1995. Asset gains or losses prior to January 1, 1994, are fully reflected in the calculation of the Actuarial Value of Assets. In no event is the actuarial value of assets less than 80% nor more than 120% of the market value of assets.

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2003

Schedule D

Comparison of Actual Experience and Actuarial Expectations

Demographic Assumptions

The demographic assumptions used to value the liabilities of the System are used to estimate the timing and duration of the member contributions and benefit payments of the System. The main demographic assumptions used to value the liabilities of the System consist of termination prior to retirement, disability, retirement, death and DROP age. A comparison of the actual experience of the System to each of these assumptions follows.

Terminations Prior to Retirement

This assumption was last changed as of January 1, 1999 to better reflect the actual experience of the System and to better anticipate future expectations. The ratio of actual terminations prior to retirement to the expected terminations prior to retirement for the period January 1, 1998 through December 31, 2002 shows that during this period there have been about 17% more terminations than expected. Since the difference in assumed terminations and actual terminations is small and the period over which this assumption has been measured is short, we do not feel that any change in this assumption is necessary at this time.

January 1, 1998 through December 31, 2002

	<u>Actual</u>	<u>Expected</u>	<u>Actual/Expected</u>
Termination Prior to Retirement	426	365	117%

Disability

This assumption was last changed as of January 1, 1999 to better reflect the actual experience of the System and to better anticipate future expectations. The ratio of actual disability retirements to the expected disability retirements for the period January 1, 1998 through December 31, 2002 shows that during this period there have been about 29% less disability retirements than expected. Since the difference in assumed disability retirements and actual disability retirements is small, we do not feel that any change in this assumption is necessary at this time.

January 1, 1998 through December 31, 2002

	<u>Actual</u>	<u>Expected</u>	<u>Actual/Expected</u>
Disability Retirements	10	14	71%

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2003

Schedule D
(continued)

Retirement (Leaving Active Service)

This assumption was changed as of January 1, 2003 to better reflect the actual experience of the System and to better anticipate future expectations. The ratio of actual retirements to the expected retirements using the new retirement rates for the period January 1, 2002 through December 31, 2002 shows that during this period there have been about 35% less retirements than expected.

January 1, 2002 through December 31, 2002

	<u>Actual</u>	<u>Expected</u>	<u>Actual/Expected</u>
Retirement	84	130	65%

Death

This assumption was last changed as of January 1, 2001 to better reflect the actual experience of the System and to better anticipate future expectations. The ratio of actual deaths to the expected deaths for the period January 1, 2000 through December 31, 2002 shows that during this period there have been about 2% less deaths than expected. Since the difference in assumed deaths and actual deaths is small and the period over which the assumption has been measured is short, we do not feel that any change in this assumption is necessary at this time.

January 1, 2000 through December 31, 2002

	<u>Actual</u>	<u>Expected</u>	<u>Actual/Expected</u>
Death	234	240	98%

Age at DROP

This assumption has not changed since the implementation of DROP in 1993. The actual age at DROP is only slightly higher than the assumed age of 50. We do not feel that any change of assumption is necessary at this time since the difference in the assumed age at DROP and the actual age at DROP is very small.

January 1, 1996 through December 31, 2002

	<u>Actual</u>	<u>Expected</u>	<u>Actual/Expected</u>
Age at DROP	50.2	50.0	100%

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Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2003

Schedule D
(continued)

Economic Assumptions

The economic assumptions used to value the liabilities of the System are used to estimate the amount and cost of the benefit payments of the System. Economic assumptions are generally based on a building block approach with the inflation rate used as the initial basis. For example, in setting the long-term rate of return, the expected inflation rate is added to the expected real-rate of return to determine the nominal rate of return. This nominal rate of return is then used to determine the present value of future benefit payment amounts. The main economic assumptions used to value the liabilities of the System consist of inflation, long-term rate of return and salary increase rate. A discussion of these assumptions follows.

Inflation

The inflation assumption used to value the liabilities of the System is 4%. This assumption was last changed as of January 1, 1999 to better anticipate future expectations. The average annual inflation rate (as measured by CPI-U) over the 60 years ending December 31, 2002 has been 4.04%. We feel that given the history of inflation rates and reasonable expectations of the future that the 4% inflation rate assumption is reasonable.

January 1, 1943 through December 31, 2002

	<u>Actual</u>	<u>Expected</u>	<u>Actual/Expected</u>
Inflation	4.04%	4.00%	101%

Salary Increases

The salary increase assumption used to value the liabilities of the System varies by the age of the Member. This assumption was last changed as of January 1, 1999 to reflect the change in the inflation rate. Recent pay increases have increased the ratio of actual to expected experience to almost 103%. A ratio this high warrants close monitoring of the assumption. At this time, based on the expectation of future experience, we do not feel that a change in assumption is necessary. However, if this ratio continues to stay high, an increase in the salary increase assumption may be warranted. A summary of the actual valuation earnings to the expected valuation earnings over the period January 1, 1998 through December 31, 2002 follows.

January 1, 1998 through December 31, 2002

	<u>Actual</u>	<u>Expected</u>	<u>Actual/Expected</u>
Valuation Compensation	\$1,089,244,508	\$1,058,998,321	103%

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Long-Term Rate of Return on Plan Assets			
The long-term rate of return on plan assets used to value the liabilities of the System is 8.5%. This assumption was last changed as of January 1, 1999 to better anticipate future expectations and to reflect the change in the inflation rate. Based on the asset allocation policy, expectations of future real rates of return and the expected administrative expenses of the System, we feel that an 8.5% long-term rate of return is reasonable. A summary of the nominal rates of return over the period October 1, 1988 through December 31, 2002 follows.			
Period		Annualized Rate of Return	
10/1/1988	through 9/30/1989	25.40%	
10/1/1989	through 9/30/1990	(6.53)	
10/1/1990	through 12/31/1991	20.73	
1/1/1992	through 12/31/1992	2.94	
1/1/1993	through 12/31/1993	14.06	
1/1/1994	through 12/31/1994	2.78	
1/1/1995	through 12/31/1995	24.33	
1/1/1996	through 12/31/1996	16.69	
1/1/1997	through 12/31/1997	13.84	
1/1/1998	through 12/31/1998	13.68	
1/1/1999	through 12/31/1999	24.39	
1/1/2000	through 12/31/2000	(1.52)	
1/1/2001	through 12/31/2001	(7.76)	
1/1/2002	through 12/31/2002	(12.26)%	
10/1/1988	through 12/31/2002	8.67%	

Effective for years beginning on October 1, 2002 and each October 1 thereafter, the DROP interest rate will be determined at a daily rate based on the arithmetic average of the annual market return on the System's investments for the preceding ten calendar years. However, the rate shall not be more than 25 basis points different from the prior year and shall not be less than 8% nor more than 10%. The ten-year arithmetic average of the annual market return on the System's investments for the preceding ten calendar years is 8.82%. Last year's DROP interest rate was 9.25%. Therefore, the annual DROP interest rate for October 1, 2003 is 9%.

TABLE 1
 THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
 (excluding DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
 AS OF JANUARY 1, 2003

ATTAINED AGE	POLICE																			
	YEARS OF SERVICE																			
	Under 1		1 to 4		5 to 9		10 to 14		15 to 19		20 to 24		25 to 29		30 to 34		35 to 39		40 & up	
#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	
Under 25	50	36,016	45	37,500	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	69	36,240	203	40,699	54	45,271	0	0	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	51	36,588	138	40,881	186	47,535	123	53,953	0	0	0	0	0	0	0	0	0	0	0	0
35 to 39	16	35,967	33	40,488	91	47,448	336	55,471	100	62,883	0	0	0	0	0	0	0	0	0	0
40 to 44	9	36,013	17	41,506	32	50,651	155	56,107	224	65,911	144	69,573	0	0	0	0	0	0	0	0
45 to 49	4	40,331	3	39,204	4	47,462	46	57,431	83	66,112	135	69,909	72	70,329	2	73,335	0	0	0	0
50 to 54	0	0	2	49,476	2	53,727	11	57,598	8	66,298	4	68,667	8	66,920	3	60,181	0	0	0	0
55 to 59	1	36,417	1	45,124	0	0	2	59,529	4	70,332	1	60,679	0	0	0	0	0	0	0	0
60 to 64	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
65 to 69	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

TABLE 1

THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(excluding DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2003

FIRE

ATTAINED AGE	YEARS OF SERVICE																					
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 & up												
	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp										
Under 25	10	36,295	17	37,517	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	32	37,190	115	40,113	20	45,508	1	37,471	0	0	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	19	36,662	76	40,716	98	48,104	17	54,528	0	0	0	0	0	0	0	0	0	0	0	0	0	0
35 to 39	4	36,520	25	40,745	46	49,201	75	55,479	85	63,561	0	0	0	0	0	0	0	0	0	0	0	0
40 to 44	1	37,641	3	38,848	17	49,131	42	56,030	170	63,942	63	67,494	1	66,530	0	0	0	0	0	0	0	0
45 to 49	1	36,542	2	37,721	2	49,424	20	55,996	82	64,550	120	67,687	44	69,305	3	76,864	0	0	0	0	0	0
50 to 54	0	0	1	42,386	1	61,790	8	59,955	8	62,682	4	66,091	6	68,283	3	54,228	0	0	0	0	0	0
55 to 59	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
60 to 64	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
65 to 69	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

TABLE 1

THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(excluding DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2003

POLICE AND FIRE

ATTAINED AGE	YEARS OF SERVICE																					
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 & up												
	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp										
Under 25	60	36,062	62	37,504	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	101	36,541	318	40,487	74	45,335	1	37,471	0	0	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	70	36,608	214	40,823	284	47,732	140	54,023	0	0	0	0	0	0	0	0	0	0	0	0	0	0
35 to 39	20	36,077	58	40,599	137	48,036	411	55,472	185	63,194	0	0	0	0	0	0	0	0	0	0	0	0
40 to 44	10	36,176	20	41,107	49	50,124	197	56,091	394	65,062	207	68,940	1	66,530	0	0	0	0	0	0	0	0
45 to 49	5	39,573	5	38,611	6	48,116	66	56,996	165	65,336	255	68,863	116	69,941	5	75,452	0	0	0	0	0	0
50 to 54	0	0	3	47,112	3	56,414	19	58,590	16	64,490	8	67,379	14	67,504	6	57,204	0	0	0	0	0	0
55 to 59	1	36,417	1	45,124	0	0	2	59,529	4	70,332	1	60,679	0	0	0	0	0	0	0	0	0	0
60 to 64	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
65 to 69	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

TABLE 2

THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(including DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2003

POLICE

ATTAINED AGE	YEARS OF SERVICE												
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 & up			
	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	
Under 25	50	36,016	45	37,500	0	0	0	0	0	0	0	0	0
25 to 29	69	36,240	203	40,699	54	45,271	0	0	0	0	0	0	0
30 to 34	51	36,588	138	40,881	186	47,535	123	53,953	0	0	0	0	0
35 to 39	16	35,967	33	40,488	91	47,448	336	55,471	100	62,883	0	0	0
40 to 44	9	36,013	17	41,506	32	50,651	155	56,107	224	65,911	147	69,515	0
45 to 49	4	40,331	3	39,204	4	47,462	46	57,431	86	66,094	141	69,949	82
50 to 54	0	0	2	49,476	2	53,727	22	57,167	33	69,449	70	71,742	137
55 to 59	1	36,417	1	45,124	0	0	5	62,503	8	69,070	21	74,407	44
60 to 64	0	0	0	0	0	1	50,729	3	83,390	1	35,929	5	75,915
65 to 69	0	0	0	0	0	0	0	0	0	0	0	0	0
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0

TABLE 2

THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(including DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2003

FIRE

ATTAINED AGE	YEARS OF SERVICE												
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 & up			
	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	
Under 25	10	36,295	17	37,517	0	0	0	0	0	0	0	0	0
25 to 29	32	37,190	115	40,113	20	45,508	1	37,471	0	0	0	0	0
30 to 34	19	36,662	76	40,716	98	48,104	17	54,528	0	0	0	0	0
35 to 39	4	36,520	25	40,745	46	49,201	75	55,479	85	63,561	0	0	0
40 to 44	1	37,641	3	38,848	17	49,131	42	56,030	170	63,942	63	67,494	1
45 to 49	1	36,542	2	37,721	2	49,424	20	55,996	82	64,550	131	67,672	50
50 to 54	0	0	1	42,386	2	55,344	10	59,379	21	64,365	57	70,334	126
55 to 59	0	0	0	0	0	0	0	0	3	65,018	9	71,453	39
60 to 64	0	0	0	0	0	0	0	0	0	0	0	2	81,437
65 to 69	0	0	0	0	0	0	0	0	0	0	0	0	0
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0

TABLE 2

THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(including DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2003

POLICE AND FIRE

ATTAINED AGE	YEARS OF SERVICE																			
	Under 1		1 to 4		5 to 9		10 to 14		15 to 19		20 to 24		25 to 29		30 to 34		35 to 39		40 & up	
	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp
Under 25	60	36,062	62	37,504	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	101	36,541	318	40,487	74	45,335	1	37,471	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	70	36,608	214	40,823	284	47,732	140	54,023	0	0	0	0	0	0	0	0	0	0	0	0
35 to 39	20	36,077	58	40,599	137	48,036	411	55,472	185	63,194	0	0	0	0	0	0	0	0	0	0
40 to 44	10	36,176	20	41,107	49	50,124	197	56,091	394	65,062	210	68,909	1	66,530	0	0	0	0	0	0
45 to 49	5	39,573	5	38,611	6	48,116	66	56,996	168	65,341	272	68,852	132	69,775	6	74,786	0	0	0	0
50 to 54	0	0	3	47,112	4	54,535	32	57,859	54	67,472	127	71,110	263	71,168	201	72,563	2	65,511	0	0
55 to 59	1	36,417	1	45,124	0	0	5	62,503	11	67,965	30	73,521	83	72,076	110	73,003	27	81,201	0	0
60 to 64	0	0	0	0	0	0	1	50,729	3	83,390	1	35,929	7	77,493	7	71,970	9	73,971	3	86,335
65 to 69	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2	77,328	2	93,450
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

TABLE 3

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS
BY AGE AS OF JANUARY 1, 2003

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
42	1	\$ 4,587	\$ 4,587
43	1	27,257	27,257
45	1	28,130	28,130
46	1	11,531	11,531
47	6	112,861	18,810
48	5	106,106	21,221
49	6	140,348	23,391
50	8	248,690	31,086
51	19	616,919	32,469
52	23	702,054	30,524
53	31	995,471	32,112
54	35	1,073,533	30,672
55	67	2,391,867	35,700
56	84	3,167,934	37,714
57	75	2,674,349	35,658
58	64	2,253,927	35,218
59	84	3,304,682	39,341
60	96	3,721,941	38,770
61	74	2,965,302	40,072
62	101	3,793,693	37,561
63	87	3,430,843	39,435
64	92	3,796,813	41,270
65	78	3,181,019	40,782
66	64	2,409,045	37,641
67	71	2,563,984	36,112
68	72	2,476,932	34,402
69	72	2,385,870	33,137
70	71	2,535,533	35,712
71	71	2,182,808	30,744
72	72	2,311,743	32,108
73	65	1,973,789	30,366
74	57	1,752,250	30,741

TABLE 3
THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS
BY AGE AS OF JANUARY 1, 2003
CONTINUED

POLICE AND FIRE			
AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
77	37	\$ 1,112,900	\$ 30,078
78	40	1,235,105	30,878
79	26	818,010	31,462
80	17	493,434	29,026
81	18	523,945	29,108
82	21	653,445	31,116
83	20	588,246	29,412
84	6	186,335	31,056
85	11	321,376	29,216
86	8	259,217	32,402
87	2	58,772	29,386
88	2	58,844	29,422
89	1	27,797	27,797
90	2	57,324	28,662
91	1	29,422	29,422
92	2	56,674	28,337
93	1	14,147	14,147
95	2	58,796	29,398
TOTAL	1,954	\$ 68,604,241	\$ 35,110
POLICE	1,136	\$ 37,697,239	\$ 33,184
FIRE	818	\$ 30,907,002	\$ 37,784

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TABLE 4
THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF DISABLED MEMBERS
BY AGE AS OF JANUARY 1, 2003

POLICE AND FIRE			
AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
35	1	\$ 26,400	\$ 26,400
38	1	26,400	26,400
39	3	81,412	27,137
40	2	52,800	26,400
41	2	43,220	21,610
42	3	79,493	26,498
43	1	26,804	26,804
45	3	80,761	26,920
46	4	111,593	27,898
47	2	41,051	20,526
48	5	141,642	28,328
49	2	56,466	28,233
50	1	30,551	30,551
51	5	161,868	32,374
52	6	183,783	30,631
53	6	227,189	37,865
54	6	168,757	28,126
55	7	225,501	32,214
56	4	94,600	23,650
57	2	38,996	19,498
58	6	177,518	29,586
59	2	66,744	33,372
60	5	193,983	38,797
61	3	83,363	27,788
62	7	250,587	35,798
63	13	515,271	39,636
64	8	298,148	37,269
65	8	277,759	34,720
66	8	233,223	29,153
67	5	185,508	37,102
68	7	262,348	37,478
69	5	147,695	29,539
70	4	130,132	32,533
71	6	189,026	31,504

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TABLE 4
THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF DISABLED MEMBERS
BY AGE AS OF JANUARY 1, 2003
CONTINUED

POLICE AND FIRE			
AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
72	7	\$ 271,763	\$ 38,823
73	7	215,146	30,735
74	4	128,170	32,043
75	4	117,208	29,302
76	6	175,500	29,250
77	7	204,262	29,180
78	5	156,370	31,274
79	4	115,398	28,850
80	8	226,123	28,265
81	5	142,458	28,492
82	2	58,604	29,302
83	1	29,182	29,182
84	1	27,300	27,300
85	3	84,500	28,167
88	1	29,302	29,302
89	2	58,844	29,422
90	1	29,326	29,326
99	1	29,422	29,422
TOTAL	222	\$ 7,009,470	\$ 31,574
POLICE	81	\$ 2,306,832	\$ 28,479
FIRE	141	\$ 4,702,638	\$ 33,352

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TABLE 5
THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF BENEFICIARIES
BY AGE AS OF JANUARY 1, 2003

POLICE AND FIRE			
AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
2	1	\$ 5,231	\$ 5,231
3	1	4,400	4,400
4	1	4,668	4,668
5	1	4,400	4,400
6	1	6,992	6,992
8	2	18,431	9,216
9	1	13,200	13,200
10	2	11,516	5,758
11	3	23,411	7,804
12	2	17,473	8,737
13	5	61,216	12,243
14	3	37,756	12,585
15	4	36,792	9,198
16	1	3,300	3,300
17	6	56,543	9,424
18	3	41,268	13,756
19	5	71,740	14,348
29	2	27,329	13,665
31	1	19,109	19,109
32	1	13,200	13,200
33	2	28,550	14,275
35	1	13,200	13,200
36	2	27,600	13,800
37	1	13,200	13,200
38	1	14,400	14,400
40	1	31,190	31,190
41	2	33,513	16,757
42	2	26,897	13,449
43	3	52,168	17,389
44	2	28,601	14,301
45	4	64,838	16,210
46	3	44,232	14,744

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THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF BENEFICIARIES
BY AGE AS OF JANUARY 1, 2003
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
51	5	\$ 63,521	\$ 12,704
52	6	101,484	16,914
53	5	73,182	14,636
54	14	235,990	16,856
55	8	154,198	19,275
56	16	278,418	17,401
57	11	221,003	20,091
58	5	81,421	16,284
59	13	252,019	19,386
60	8	172,936	21,617
61	11	179,722	16,338
62	8	129,798	16,225
63	18	379,552	21,086
64	18	323,804	17,989
65	17	412,781	24,281
66	13	280,402	21,569
67	17	299,806	17,636
68	15	278,419	18,561
69	16	252,007	15,750
70	16	276,508	17,282
71	16	265,325	16,583
72	25	392,303	15,692
73	18	275,512	15,306
74	24	463,911	19,330
75	24	375,565	15,649
76	24	396,512	16,521
77	13	221,956	17,074
78	28	430,196	15,364
79	25	412,417	16,497
80	19	324,794	17,094
81	21	340,326	16,206
82	12	182,700	15,225
83	18	275,185	15,288
84	19	291,355	15,334

BY AGE AS OF JANUARY 1, 2003
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
87	11	\$ 205,336	\$ 18,667
88	11	169,094	15,372
89	6	91,800	15,300
90	4	61,200	15,300
91	5	76,500	15,300
92	5	76,500	15,300
93	5	76,500	15,300
94	5	76,500	15,300
95	2	30,600	15,300
98	1	14,400	14,400
100	1	15,300	15,300
101	1	15,300	15,300
102	1	15,300	15,300
TOTAL	694	\$ 11,500,809	\$ 16,572
POLICE	371	\$ 5,977,684	\$ 16,112
FIRE	323	\$ 5,523,125	\$ 17,099

TABLE 6

THE NUMBER AND ANNUAL RETIREMENT ALLOWANCE OF RETIRED MEMBERS, DISABLED MEMBERS AND BENEFICIARIES BY AGE AS OF JANUARY 1, 2003

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
2	1	\$ 5,231	\$ 5,231
3	1	4,400	4,400
4	1	4,668	4,668
5	1	4,400	4,400
6	1	6,992	6,992
8	2	18,431	9,216
9	1	13,200	13,200
10	2	11,516	5,758
11	3	23,411	7,804
12	2	17,473	8,737
13	5	61,216	12,243
14	3	37,756	12,585
15	4	36,792	9,198
16	1	3,300	3,300
17	6	56,543	9,424
18	3	41,268	13,756
19	5	71,740	14,348
29	2	27,329	13,665
31	1	19,109	19,109
32	1	13,200	13,200
33	2	28,550	14,275
35	2	39,600	19,800
36	2	27,600	13,800
37	1	13,200	13,200
38	2	40,800	20,400
39	3	81,412	27,137
40	3	83,990	27,997
41	4	76,733	19,183
42	6	110,977	18,496
43	5	106,229	21,246
44	2	28,601	14,301

TABLE 6

THE NUMBER AND ANNUAL RETIREMENT ALLOWANCE OF RETIRED MEMBERS, DISABLED MEMBERS AND BENEFICIARIES BY AGE AS OF JANUARY 1, 2003
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
49	14	\$ 292,912	\$ 20,922
50	12	327,544	27,295
51	29	842,308	29,045
52	35	987,321	28,209
53	42	1,295,842	30,853
54	55	1,478,280	26,878
55	82	2,771,566	33,800
56	104	3,540,952	34,048
57	88	2,934,348	33,345
58	75	2,512,866	33,505
59	99	3,623,445	36,600
60	109	4,088,860	37,512
61	88	3,228,387	36,686
62	116	4,174,078	35,983
63	118	4,325,666	36,658
64	118	4,418,765	37,447
65	103	3,871,559	37,588
66	85	2,922,670	34,384
67	93	3,049,298	32,788
68	94	3,017,699	32,103
69	93	2,785,572	29,952
70	91	2,942,173	32,332
71	93	2,637,159	28,357
72	104	2,975,809	28,614
73	90	2,464,447	27,383
74	85	2,344,331	27,580
75	76	2,063,116	27,146
76	65	1,710,310	26,312
77	57	1,539,118	27,002
78	73	1,821,671	24,954
79	55	1,345,825	24,470

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS,
DISABLED MEMBERS AND BENEFICIARIES
BY AGE AS OF JANUARY 1, 2003
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
84	26	\$ 504,990	\$ 19,423
85	23	540,876	23,516
86	21	457,447	21,783
87	13	264,108	20,316
88	14	257,240	18,374
89	9	178,441	19,827
90	7	147,850	21,121
91	6	105,922	17,654
92	7	133,174	19,025
93	6	90,647	15,108
94	5	76,500	15,300
95	4	89,396	22,349
98	1	14,400	14,400
99	1	29,422	29,422
100	1	15,300	15,300
101	1	15,300	15,300
102	1	15,300	15,300
TOTAL	2,870	\$ 87,114,520	\$ 30,353
POLICE	1,588	\$ 45,981,755	\$ 28,956
FIRE	1,282	\$ 41,132,765	\$ 32,085

TABLE 7

THE NUMBER AND FUTURE ANNUAL
ALLOWANCE OF TERMINATED MEMBERS
ENTITLED TO A FUTURE BENEFIT
BY AGE AS OF JANUARY 1, 2003

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
30	2	\$ 12,788	\$ 6,394
31	2	12,927	6,464
32	4	29,825	7,456
33	9	70,048	7,783
34	5	43,627	8,725
35	4	43,595	10,899
36	7	63,009	9,001
37	11	114,612	10,419
38	5	71,939	14,388
39	10	140,268	14,027
40	11	168,214	15,292
41	8	95,605	11,951
42	13	221,292	17,022
43	4	54,938	13,735
44	7	114,881	16,412
45	8	122,222	15,278
46	9	95,989	10,665
47	4	106,933	26,733
48	9	237,027	26,336
49	6	88,373	14,729
50	1	14,861	14,861
TOTAL	139	\$ 1,922,973	\$ 13,834

TABLE 8
 THE NUMBER, ANNUAL RETIREMENT
 ALLOWANCE AND ACCOUNT BALANCE
 OF DROP MEMBERS
 BY AGE AS OF JANUARY 1, 2003

POLICE AND FIRE DROP					
AGE	NUMBER	BENEFIT	AVERAGE BENEFIT	ACCOUNT BALANCE	AVERAGE ACCOUNT BALANCE
42	1	\$ 23,894	\$ 23,894	\$ 47,296	\$ 47,296
43	2	47,965	23,983	63,248	31,624
46	2	40,173	20,087	83,894	41,947
47	3	81,265	27,088	143,383	47,794
48	15	598,302	39,887	180,589	12,039
49	17	680,657	40,039	649,065	38,180
50	118	5,620,802	47,634	3,664,001	31,051
51	133	5,784,991	43,496	9,193,105	69,121
52	126	5,340,286	42,383	13,113,056	104,072
53	123	5,272,574	42,866	17,930,602	145,777
54	118	4,653,392	39,436	21,537,589	182,522
55	105	4,170,111	39,715	22,877,208	217,878
56	66	2,699,839	40,907	17,088,868	258,922
57	31	1,264,846	40,801	9,428,685	304,151
58	30	1,229,240	40,975	11,054,289	368,476
59	26	1,012,147	38,929	10,322,399	397,015
60	12	468,198	39,017	4,931,345	410,945
61	6	255,050	42,508	2,522,474	420,412
62	8	268,772	33,597	2,402,317	300,290
63	4	142,590	35,648	1,509,894	377,474
64	1	17,629	17,629	131,596	131,596
65	2	106,055	53,028	1,370,993	685,497
66	2	122,143	61,072	746,702	373,351



DALLAS POLICE AND FIRE PENSION SYSTEM

Financial Statements

December 31, 2002 and 2001

(With Independent Auditors' Report Thereon)





KPMG LLP
Suite 3100
717 North Harwood Street
Dallas, TX 75201-6585

Independent Auditors' Report

The Board of Trustees
Dallas Police and Fire Pension System:

We have audited the accompanying statements of plan net assets of the Dallas Police and Fire Pension System (the System) as of December 31, 2002 and 2001, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the System as of December 31, 2002 and 2001, and the changes in its financial status for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Schedule of Contributions in note 1(d) and the Schedule of Funding Progress in note 3 are not a required part of the basic financial statements of the System, but are supplementary information required by accounting principles general accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

The System has not presented Management's Discussion and Analysis, which is supplementary information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

KPMG LLP

December 5, 2003



KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.-

DALLAS POLICE AND FIRE PENSION SYSTEM

Statements of Plan Net Assets
December 31, 2002 and 2001

Assets	<u>2002</u>	<u>2001</u>
Investments, at quoted market value (note 4):		
Cash and short term investments	\$ 218,780,878	159,537,144
United States government securities	30,467,196	34,106,396
Foreign government securities	92,869,805	95,078,011
Commingled Index Funds	309,213,075	509,730,450
Domestic equities	279,402,690	358,833,193
International equities	374,792,725	245,197,024
Corporate securities	243,075,129	264,795,407
Investments, at appraised value – real estate equity funds	<u>273,849,660</u>	<u>314,496,677</u>
	<u>1,822,451,158</u>	<u>1,981,774,302</u>
Receivables:		
Accrued interest and dividends	8,350,645	11,827,445
City contributions	2,990,086	2,695,952
Member contributions	632,344	566,137
Securities sold	<u>20,353,573</u>	<u>23,771,699</u>
	<u>32,326,648</u>	<u>38,861,233</u>
Total assets	<u>1,854,777,806</u>	<u>2,020,635,535</u>
Liabilities		
Bank overdraft	7,081,036	1,500,645
Payable for securities purchased	21,265,716	27,614,920
Administrative and professional fees payable	2,693,144	2,521,869
Securities lending collateral	<u>163,493,378</u>	<u>100,611,208</u>
Total liabilities	<u>194,533,274</u>	<u>132,248,642</u>
Net assets held in trust for pension benefits (a Schedule of Funding Progress is included on page 12)	<u>\$ 1,660,244,532</u>	<u>1,888,386,893</u>

See accompanying notes to financial statements.

DALLAS POLICE AND FIRE PENSION SYSTEM

Statements of Changes in Plan Net Assets
Years ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Additions:		
Investment income:		
Interest	\$ 23,218,835	18,399,220
Dividends	11,851,455	9,658,375
Real estate income	17,012,243	17,526,408
Net (depreciation) in fair value of investments	(271,218,565)	(190,756,578)
Securities lending income	2,658,357	8,872,192
Less investment expenses:		
Securities lending borrower rebates	(1,490,087)	(7,293,554)
Custody fees	<u>(307,379)</u>	<u>(473,592)</u>
Net investment (loss)	<u>(218,275,141)</u>	<u>(144,067,529)</u>
Contributions:		
City	77,085,173	75,592,062
Member	<u>16,274,069</u>	<u>16,143,737</u>
	93,359,242	91,735,799
Other income	<u>1,178,386</u>	<u>408,989</u>
Net additions	<u>(123,737,513)</u>	<u>(51,922,741)</u>
Deductions:		
Benefit payments	88,891,103	83,442,133
Withdrawal payments and refunds	851,928	984,984
Administrative expenses and professional fees	<u>14,661,817</u>	<u>15,004,489</u>
Total deductions	<u>104,404,848</u>	<u>99,431,606</u>
Net (decrease) in net assets available for benefits	(228,142,361)	(151,354,347)
Net assets held in trust for pension benefits, beginning of year	<u>1,888,386,893</u>	<u>2,039,741,240</u>
Net assets held in trust for pension benefits, end of year	<u>\$ 1,660,244,532</u>	<u>1,888,386,893</u>

See accompanying notes to financial statements.

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Financial Statements
December 31, 2002 and 2001

(1) Description of the System

(a) General

The Dallas Police and Fire Pension System (the System) is a single-employer pension and retirement fund for police officers and firefighters employed by the City of Dallas, Texas (the City or Employer). The general terms "police officers" and "firefighters" also include fire and rescue operators, fire alarm operators, fire inspectors, apprentice police officers, and apprentice firefighters. The System is comprised of a single defined benefit pension plan called the "Combined Pension Plan" designed to provide retirement, death, and disability benefits for firefighters and police officers (the Members). The System 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. Most active police officers and firefighters (as defined above) employed by the City are eligible to participate. As of December 31, 2002 and 2001, the System's Membership consisted of:

	<u>2002</u>	<u>2001</u>
Pensioners and qualified survivors currently receiving benefits and terminated employees entitled to benefits but not yet receiving them:		
Firefighters	1,282	1,270
Police officers	1,588	1,543
Terminated vested members not yet receiving benefits	<u>139</u>	<u>121</u>
Total	<u>3,009</u>	<u>2,934</u>
Current employees:		
Vested:		
Firefighters	1,379	1,388
Police officers	2,338	2,329
	<u>3,717</u>	<u>3,717</u>
Nonvested:		
Firefighters	306	272
Police officers	642	571
	<u>948</u>	<u>843</u>
Total	<u>4,665</u>	<u>4,560</u>

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Financial Statements
December 31, 2002 and 2001

(b) Pension Benefits

Group A Members of the Combined Pension Plan may elect to receive one of two benefits structures:

- (i) Members with 20 years or more of pension service are entitled to normal monthly pension benefits beginning at age 50 equal to 50% of their base pay as 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 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 according to changes in a Member's 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 who meet the service prerequisites may elect to take early retirement at age 45 with reduced pension benefits.
- (ii) Members with 20 years or more of pension service are entitled to normal monthly pension benefits beginning at age 55 equal to 3% of the base pay computed as noted in the prior paragraph for each year with a maximum of 32 years. In addition, a Member receives 50% of the Longevity Pay and 1/24 of any City service incentive pay the Member was receiving at the time he or she left active service with the City or the effective date the Member joined Deferred Retirement Option Plan (DROP). Pension benefit payments are increased in the same manner as under Group B (described below). Members who meet the service prerequisite may elect to take early retirement at age 50 with reduced pension benefits.

Group B Benefit – Members with five or more years of pension service are entitled to annual pension benefits beginning at age 50 equal to 3% of the Member's highest average annual Computation Pay over three consecutive years, multiplied by the number of years of pension service, up to a maximum of 32 years. Computation Pay, for purposes of this calculation, includes civil service pay for the highest rank attained by competitive exam and any educational incentive, longevity, or City service incentive pay. Certain Members who meet the service prerequisite may elect to take early retirement with reduced benefits starting at age 45. 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. The pension benefit calculation would be the same except the percent multiplier would be based on the Member's age at the time of applying for the pension. In addition, Group B benefits are increased by 4% of the initial benefit amount each October 1.

Additional benefits available under the System:

- 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.
- Disability benefits are available for Members who become disabled during the performance of their duties from the first day of employment. Reduced disability benefits are also available for nonduty-related disabilities as are survivor benefits for qualified survivors.

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Financial Statements
December 31, 2002 and 2001

- Members who are eligible to retire are allowed to enter the DROP program. DROP Members have their contribution discontinued, but the City's portion of the total contribution continues. The Member's monthly benefit remains in the System in a DROP account and accumulates interest. Upon retirement from the City, the Member is able to withdraw from their DROP account along with the normal benefits. DROP Members balances are \$234,605,728 and \$183,719,870 for December 31, 2002 and 2001, 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 plan document. The minimum benefit is prorated for Members who retire with less than 20 years of service credit.

(c) Termination

Although the System has not expressed any intent to do so, in the event the System is terminated or upon complete discontinuance of contributions, the Members and their beneficiaries shall be entitled to the benefits accrued to the date of such termination or discontinuance, to the extent then funded.

(d) Contributions

As a condition of participation, Group A Members are required to contribute to the System 6.5% of their base pay, as defined in the System's plan document. Group B Members are required to contribute to the System 8.5% of their Computation pay, as defined in the System's plan document. Article 6243a-1 of the Revised Civil Statutes of Texas requires the City to make contributions of 27.5% of total wages and salaries as defined in the System's plan document, in accordance with schedules contained in the plan documents.

The contribution schedules contained in the plan documents can be changed by the Texas State Legislature or majority votes of the voters of the City.

Members of Group B are immediately vested in their contributions and, with five years of pension service may, at termination of employment, leave their contribution on deposit with the System and receive a monthly benefit at normal retirement age. If a Member's employment is terminated, and the Member elects not to receive present or future pension benefits, the Member's contributions to the System are returned, without interest, upon written application. If application for refund is not made within three years, the Member forfeits the right to a refund of his or her contribution; however, a procedure does exist whereby the Member's right to the contributions can be reinstated. Under current law Group A Members must have 20 years of service to be eligible for a benefit. Group A Member contributions are not refunded upon termination of employment.

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Financial Statements
December 31, 2002 and 2001

The following table lists required supplementary information related to Employer contributions (amounts in thousands):

	<u>Annual required contribution</u>	<u>Percentage contributed</u>
Year ended December 31:		
1997	\$ 57,039	100%
1998	60,843	100
1999	63,441	100
2000	66,691	100
2001	75,592	100
2002	77,085	100

The percent contributed may vary from the legally required rate as the term "Annual Required Contribution" is based upon covered payroll as of the actuarial valuation date, January 1, whereas contributions are calculated and paid based upon actual payrolls throughout the year.

Certain factors, such as changes in benefit provisions, the size or composition of the population covered by the System, or the actuarial assumptions used may significantly affect the identification of trends in the amounts reported in this schedule.

(e) System Administration

The System is administered by a twelve-Member Board of Trustees (the Board) consisting of four City Council Members appointed by the City Council, three police officers and three firefighters, all elected by employees of their respective departments who are Members of the System, and one pensioner who has retired from the Police Department and one pensioner who has retired from the Fire Department, each of whom are elected by pensioners from their respective departments.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accompanying financial statements are presented on the accrual basis of accounting. Accordingly, interest earned but not received and dividends declared but not received as of the System's fiscal year-end are recorded as accrued interest and dividends receivable, respectively. In addition, unsettled investment purchases and sales are accrued.

(b) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the plan administrator to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Financial Statements
December 31, 2002 and 2001

(c) Investments

The System's investment policy requires that investments comply at all times with all applicable state laws. The investment policy is based upon an asset allocation study that considers the current and expected condition of the System, the expected long-term capital market outlook, and the System's risk tolerance.

Investments are valued at fair value based on quoted market prices, when available. Certain real estate investments are presented in the accompanying financial statements at estimated fair values which are based upon appraised values or other methods. Purchases and sales of securities are recorded on a trade-date basis.

(d) Benefits

Benefits and refunds are recorded in these financial statements when they are due and payable to Members.

(e) Foreign Currency Transactions

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

Gains and losses resulting from foreign exchange contracts (transactions denominated in a currency other than the System's functional currency – United States dollars) are recorded by the System based on changes in market values and are combined with similar transactions in the accompanying statements of changes in plan net assets and are included in net investment income. The System structures its foreign exchange contracts and enters into certain transactions to substantially mitigate the System's exposure to fluctuations in foreign exchange rates.

Investments and broker accounts denominated in foreign currencies outstanding at December 31, 2002 and 2001 were converted to the System's functional currency (United States Dollars) at the foreign exchange rates quoted at December 31, 2002 and 2001. These foreign exchange gains and losses are included in net appreciation in fair value of investments in the accompanying statements of changes in net assets.

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Financial Statements
December 31, 2002 and 2001

(f) Cash and Investments

The following shows the schedule of investments in Category 1 for custodial credit risk, which are insured or registered or for which the investments are held by the System or its agent in the System's name.

Investments – Category 1 (held by System's agent in System's name)	Total fair value December 31, 2002	Total fair value December 31, 2001
Cash and short-term investments	\$ 55,287,500	58,925,936
Commingled index funds	309,213,075	509,730,450
Domestic corporate fixed-income	200,727,979	252,698,912
International fixed-income	85,523,062	86,635,460
U.S. government and agency securities:		
Not on securities loan	20,475,908	4,072,278
On securities loan for securities collateral:		
Letter of credit	—	—
Tri-Party	—	2,593,132
Subtotal	<u>20,475,908</u>	<u>6,665,410</u>
Domestic equities:		
Not on securities loan	201,697,354	319,338,693
On securities loan for securities collateral – securities	8,995,162	129,630
Subtotal	<u>210,692,516</u>	<u>319,468,323</u>
International equities	<u>345,169,933</u>	<u>236,975,165</u>
Subtotal	<u>345,169,933</u>	<u>236,975,165</u>

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Financial Statements
December 31, 2002 and 2001

<u>Investments – Not categorized</u>	<u>Total fair value December 31, 2002</u>	<u>Total fair value December 31, 2001</u>
Investments held by broker-dealers under securities loans with cash collateral:		
U.S. government and agency securities	\$ 9,991,287	27,440,986
Domestic corporate fixed-income	42,347,150	12,096,494
Domestic equities	68,710,174	39,364,870
International equities	29,622,793	8,221,859
International fixed-income	7,346,743	8,442,552
Subtotal	<u>158,018,147</u>	<u>95,566,761</u>
Securities lending short-term collateral investment pool	163,493,378	100,611,208
Real estate	<u>273,849,660</u>	<u>314,496,677</u>
Subtotal	<u>437,343,038</u>	<u>415,107,885</u>
Total	<u>\$ 1,822,451,158</u>	<u>1,981,774,302</u>

(g) Securities Lending

The Board has authorized the System to enter into an agreement with State Street Bank and Trust Company (State Street) and effective 2002 September 1, 2002 with JP Morgan Chase (JP Morgan) for the lending of certain of the System's securities (the Securities Lending Program or program) including, but not limited to, stocks and bonds to counterparty brokers and banks (borrowers) for a predetermined period of time and fee. Such transactions are allowed by state statute.

During the fiscal year, State Street and effective September 1, 2002, JP Morgan lent, on behalf of the System, securities held by State Street and JP Morgan as the Systems custodians and received United States dollars and United States government securities as collateral. State Street and JP Morgan did not have the ability to pledge or sell collateral securities absent a borrower default. Borrowers were required to put up collateral for each loan equal to: (i) in the case of loaned securities denominated in United States dollars or whose primary trading market was in the United States 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 United States dollars or whose primary trading market was not in the United States, 105% of the fair market value of the loaned securities.

The Board did not impose any restrictions during the fiscal year on the amount of the loans that State Street and JP Morgan made on its behalf. There were no failures by any borrowers to return the loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers, State Street or JP Morgan. State Street and JP Morgan maintain a Banker's Blanket Bond in the amount of \$75 million and have insurance coverage in the amount of \$50 million for any losses which could result from borrower's defaults.

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Financial Statements
December 31, 2002 and 2001

During the fiscal year, 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 State Street and, effective September 1, 2002, by JP Morgan. The relationship between the average maturities of the investment pool and the Board's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine. On December 31, 2002 and 2001, the System had no credit risk exposure to borrowers. The market value of securities on loan and the collateral held for the System were \$167,013,309 and \$172,668,442 at December 31, 2002 and \$103,465,860 and \$120,222,842 at December 31, 2001:

Disclosure of securities lending revenue is shown gross with the associated reductions for investment expenses on the face of the Statements of Changes in Plan Net Assets, and the cash collateral and associated securities lending payable is shown on the face of the Statements of Plan Net Assets for December 31, 2002 and 2001.

(h) Management's Discussion and Analysis

The System has not presented Management's Discussion and Analysis, which is supplementary information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

(3) Funding Progress

The actuarial information presented is determined by the actuarial firm Buck Consultants and results from applying various assumptions with regard to termination, disability, retirement, mortality, and the time value of money to the accumulated plan benefits.

The foregoing actuarial assumptions are based on the presumption that the System will continue. Were the System to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Financial Statements
December 31, 2002 and 2001

Actuarial calculations were made by the consulting actuary as of January 1, 2003 and 2002 and are not materially different from what they would have been had they been calculated on December 31, 2002 and 2001. The following assumptions are used by the System's actuary to determine the System's obligations only, and are not used to calculate the actual System benefits. Plan benefits are fully described in the System's governing document. The significant assumptions underlying the actuarial calculations at January 1, 2003 and 2002 are as follows:

Actuarially assumed investment rate of return*	8.5% per annum, compounded annually
Mortality, retirement, disability, and separation rates	Graduated rates detailed in actuary's report
Projected salary increases*	Range 4.3% to 10%
Actuarial cost method	Entry age normal

* Includes inflation rate of 4%

Postretirement benefit increases:
Group A (former Plan A) and Group B members

4% of original pension annually
4% compounded annually

Group A (former old Plan) members

Fair market value

Asset valuation

Amortization method

Open level % payroll

Remaining amortization period

69 years

GASB required supplementary information (unaudited) related to the System's funding progress is as follows (amounts are in millions):

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
January 1, 1997	\$ 1,137	1,630	493	69.7	178	277.0%
January 1, 1998	1,307	1,782	475	73.3	193	246.1
January 1, 1999	1,503	1,958	455	76.8	205	222.0
January 1, 2000	1,772	2,094	322	84.6	213	151.2
January 1, 2001	2,005	2,328	323	86.1	224	144.2
January 1, 2002	2,158	2,554	396	84.5	251	157.8
January 1, 2003	1,992	2,738	746	72.8	270	276.3

Certain factors, such as changes in benefit provisions, the size or composition of the population covered by the System, or the actuarial assumptions used may significantly affect the identification of trends in the amounts reported in this schedule.

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Financial Statements
December 31, 2002 and 2001

(4) Investments

The Board has contracted with investment managers to manage the investment portfolio of the System, subject to the policies and guidelines established by the Board. The Board has custody agreements with State Street Bank and Trust Company and, effective September 1, 2002, JP Morgan Chase, and under such agreements, State Street and JP Morgan assume responsibility for the safekeeping of certain investments, handling of transactions based on the instructions of investment managers, and accounting for the investment transactions.

Investments that individually represent 5% or more of the Plan net assets and the total of investments that individually represent less than 5% of the Plan net assets at December 31, 2002 and 2001, are as follows:

	2002		2001	
	Number of shares /units	Fair value	Number of shares /units	Fair value
Investments greater than 5% of net assets, at quoted market value:				
Bank commingled trust funds:				
S&P 500 Index Fund:				
State Street Global Advisors	1,467,733	\$ 227,168,454	1,386,633	\$ 275,300,835
International equity:				
Clay Finlay Inc. EAFE	9,667,290	91,216,600	—	—
State Street EAFE Provisional	—	—	20,178,880	183,708,528
Securities Lending:				
State Street Bank and Trust				
Global Securities Lending	—	163,493,378	—	100,611,208
International equity:				
Bank of Ireland	20,580,943	163,355,682	15,950,649	149,533,245
Fidelity Management Trust Co.	14,546,705	111,398,553	—	—
Domestic equities funds:				
Deutsche Asset Management				
Micro Cap	5,389,665	69,380,954	5,796,150	97,071,947
Oak Associates	6,740,000	95,306,025	5,565,000	122,666,250
Alliance Capital	3,102,987	93,141,013	3,488,779	112,857,615
Corporate securities funds:				
W.R. Huff Asset Management	111,133,000	71,903,181	110,712,000	79,305,106
International Fixed Income:				
Loomis Sayles	226,669,366	115,457,366	290,797,927	116,167,651
Deutsche Asset Management	1,132,669,652	162,490,893	—	—
		1,364,312,099		1,237,222,385
Investments less than 5% of net assets:				
At quoted market value		184,289,399		430,055,240
At appraised value		273,849,660		314,496,677
Total investments		\$ 1,822,451,158		\$ 1,981,774,302

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Financial Statements
December 31, 2002 and 2001

For the years ended December 31, 2002 and 2001, the System's investments, including investments bought, sold, as well as held during the year, appreciated (depreciated) in value as follows:

	<u>2002</u>	<u>2001</u>
Investments, at quoted market value:		
Cash (foreign exchange)	\$ (168,347)	(15,129)
U.S. government securities	2,025,537	(1,051,223)
Foreign government securities	8,446,249	(4,533,615)
Bank commingled trust funds	(76,392,450)	(89,621,184)
Domestic equities	(118,283,004)	(24,976,818)
International equities	(61,747,521)	(43,688,937)
Corporate securities	<u>(21,850,317)</u>	<u>(27,754,744)</u>
	(267,969,853)	(191,641,650)
Investment, at appraised value – real estate equity funds	<u>(3,248,712)</u>	885,072
	\$ <u>(271,218,565)</u>	<u>(190,756,578)</u>

(5) Foreign Exchange Transactions

During 2002 and 2001, the System recognized net realized gains (losses) on foreign currency forward contracts of \$(3,112,628) and 597,097, respectively. At December 31, 2002 and 2001, the System had net unrealized appreciation (depreciation) on forward contracts reflected in the accompanying financial statements of approximately \$(580,222) and \$(502,128), respectively.

(6) Federal Income Tax Status

A favorable determination that the System is qualified and exempt from federal income taxes was received on January 24, 2001, from the Internal Revenue Service (IRS). The Board believes that the Plan is designed and continues to operate in compliance with the applicable requirements of the Internal Revenue Code.

(7) Administrative Expenses

The System's plan document authorizes the Board to pay administrative costs from the System, provided that the System's actuary has determined that the System has sufficient income to pay such costs. Of the System's total administrative costs, \$731,482 and \$612,286 were reimbursed to the City by the System during the years ended December 31, 2002 and 2001, respectively.

Investment related expenses for the years ended December 31, 2002 and 2001, also include approximately \$10,438,407 and \$11,570,405, respectively, in asset management fees.

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Financial Statements
December 31, 2002 and 2001

(8) Uncertainties

Several lawsuits are pending against the City by third-party police officers and firefighters, which claim the right to significant back pay on behalf of most current and many former Dallas police officers and firefighters. If these lawsuits are successful, they will likely result in large over-due pension claims on behalf of many retired pensioners and large increases in the actuarial accrued liabilities of current Members of the System because pensions are generally a percentage of the pay of the police officers and firefighters.

The System has intervened in the above lawsuits to protect the System's right to Members and City contributions which the System 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 accrued in the City's financial statements as of December 31, 2002 and 2001.

**DALLAS POLICE AND FIRE PENSION SYSTEM
SUPPLEMENTAL PLAN
ACTUARIAL VALUATION
AS OF JANUARY 1, 2003**

September 4, 2003

Mr. Richard L. Tettamant
Administrator
Dallas Police and Fire Pension System
2301 N. Akard Street, Suite 200
Dallas, TX 75201

**Re: Dallas Police and Fire Pension System Supplemental Plan Actuarial Valuation as of
January 1, 2003**

Dear Mr. Tettamant:

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 Supplemental Plan (the Plan) as of January 1, 2003.

Actuarial Valuation

The primary purpose of the valuation report is to determine the City's contribution rate, to describe the current financial condition of the Plan, and to analyze changes in the Plan's condition. In addition, the report provides information required by the City of Dallas in connection with Governmental Accounting Standards Board Statements Number 25 and Number 27.

Basis for Funding

The member contribution rates are established by statute. The City's contribution rate is intended to be sufficient to amortize the unfunded actuarial accrued liability over five years, including the normal cost. The contribution is also limited to be within \$100,000 of the previous year's contribution. However, in no event will the City's contribution be less than the amount necessary to satisfy GASB 27. For 2003, the contribution is \$1,000,000.

Funding Progress

As of January 1, 2003, the City's contribution rate needed in order to meet the funding goal is 116.57% of covered payroll. This amount is lower than the 122.17% employer rate calculated as of January 1, 2002. The current contribution rate of 116.57% of covered payroll covers the normal cost and the amortization of the Unfunded Actuarial Accrued Liability (UAAL).

Mr. Richard Tettamant
September 4, 2003
Page 2

The main reasons for the increase in the City's contribution are the poor return on assets and the higher than expected salary increases. The investment return on the market value of assets was (8.34)% compared to the assumed return of 8.50%.

Benefit Provisions

The actuarial valuation reflects the benefit and contribution provisions set forth in the System's statutes. The valuation is based on the same benefit provisions as the previous valuation.

Assumptions and Methods

The actuarial assumptions and methods used in the valuation are presented in Schedule C. The only change in assumptions from the previous valuation was the change in retirement rates. This change was made to better reflect expectations about future experience. The assumptions used are individually reasonable and reasonable in the aggregate.

Data

Asset information and member data for retired, active, and inactive members was supplied as of January 1, 2003, by the Administrator. 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.

Very truly yours,

Signed (RICHARD A. MACKESEY)

Richard A. Mackesey, F.S.A.
Principal, Consulting Actuary

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Enclosures

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Summary of Principal Results

	January 1, 2003	January 1, 2002
Membership		
Active	34	36
Retired and terminated members and beneficiaries	98	94
Compensation		
Total	\$ 857,857	\$ 736,669
Average	\$ 25,231	\$ 20,463
Assets		
Market value	\$ 14,081,156	\$ 15,495,548
Valuation Results		
Unfunded actuarial accrued liability (UAAL)	\$ 8,316,779	\$ 5,718,423
City's normal cost contribution	\$ 141,755	\$ 129,023
Funding Policy contribution	\$ 1,000,000	\$ 900,000
GASB No. 25		
Actuarial accrued liability (AAL)	\$ 22,397,935	\$ 21,213,971
Assets	\$ 14,081,156	\$ 15,495,548
GASB ratio	62.9%	73.0%
Unfunded AAL	\$ 8,316,779	\$ 5,718,423

Comments on the Valuation

Overview

The current valuation indicates that a total contribution of \$1,000,000 should be contributed during 2003.

The contribution requirements are calculated to be sufficient to pay the City's portion of each year's normal cost and an amount calculated to amortize the UAAL.

GASB Statements

Section 4 provides the information required for reporting under GASB No. 25.

Benefit Provisions

Schedule B summarizes all the benefit provisions of the Plan. There are no significant benefits which were not taken into account in this valuation. The actuarial valuation reflects the benefit and contribution provisions set forth in the System's statutes. The valuation is based on the same benefit provisions as the previous valuation.

Actuarial Assumptions and Methods

The actuarial assumptions and methods used in the valuation are presented in Schedule C. The only change in assumptions from the previous valuation was the change in retirement rates. This change was made to better reflect expectations about future experience. The assumptions used are individually reasonable and reasonable in the aggregate.

GASB Statement No. 27

Under GASB Statement No. 27, which became effective for fiscal years beginning after June 15, 1997, employers must determine a pension expense based on a 40-year amortization of the UAAL. The amortization can assume payroll growth due to inflation, but no membership growth. After a 10-year transition period, the required amortization period will drop to 30 years. If the actual contribution rate is less than the rate required by GASB No. 27, the excess must be expensed. This will result in the employer showing an accrued but unpaid liability for pension benefits on its financial statements.

A City Contribution rate of 65.78% will be required for the City to avoid showing an accrued pension liability on its financial statements for the fiscal year beginning in 2003, assuming no other changes are made. Under the current funding arrangement, the City would not be required to show an accrued but unpaid pension liability for the Supplemental Plan.

Financial Data

The financial data used in this report was supplied by the Administrator.

Section 5 reconciles the Plan's assets between 2002 and 2003. The estimated rate of return for 2002 was (8.34)%.

Membership Statistics

Data on active members and on retired members was supplied by the Administrator. The number of active members decreased over the last year. The active membership decreased from 36 members as of January 1, 2002, to 34 members as of January 1, 2003. The payroll increased from January 1, 2002 to January 1, 2003 (\$736,669 for 2002 and \$857,857 for 2003). Schedule A shows a summary of the membership data.

It should be noted that even though the active membership decreased slightly from January 1, 2002 to January 1, 2003, there have been 16 new members covered by this Supplemental Plan since the January 1, 1999 valuation. These additional members added about \$700,000 to the unfunded actuarial accrued liability.

Actuarial Cost

	<u>January 1, 2003</u>	<u>January 1, 2002</u>
1. Covered Payroll	\$ 857,857	\$ 736,669
2. Actuarial present value of future benefits	\$ 23,668,068	\$ 21,964,353
3. Actuarial present value of future normal costs	\$ 1,270,133	\$ 750,382
4. Actuarial accrued liability (2 - 3)	\$ 22,397,935	\$ 21,213,971
5. Actuarial value of assets	\$ 14,081,156	\$ 15,495,548
6. Unfunded actuarial accrued liability (UAAL) (4 - 5)	\$ 8,316,779	\$ 5,718,423
7. City's normal cost contribution	\$ 141,755	\$ 129,023
8. Funding Policy contribution	\$ 1,000,000	\$ 900,000
9. Total contribution as a percentage of covered payroll (8 ÷ 1)	116.57%	122.17%

Analysis of Change in UAAL

1. UAAL as of January 1, 2002	\$ 5,718,423
2. Changes due to:	
a. Expected decrease	\$ (350,444)
b. Actual contributions greater than expected	0
c. Liability experience	502,925
d. Asset experience	2,598,172
e. Assumption changes	(152,297)
f. Plan amendment	<u>0</u>
g. Total Changes	\$ 2,598,356
3. UAAL as of January 1, 2003	\$ 8,316,779

Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2003

Section 4

Historical Trend Information

(As required by GASB #25 - Amounts are in millions of dollars)

<u>Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
January 1, 1998	12.685	15.278	2.593	83.0%	0.852	304.3%
January 1, 1999	15.506	17.106	1.600	90.6%	0.851	188.0%
January 1, 2000	17.628	18.146	0.518	97.1%	0.934	55.5%
January 1, 2001	16.626	19.566	2.940	85.0%	0.655	448.9%
January 1, 2002	15.496	21.214	5.718	73.0%	0.737	775.8%
January 1, 2003	14.081	22.398	8.317	62.9%	0.858	969.3%

**GASB #25 Schedule of Employer Contributions
for Year Ending December 31, 2002**

<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
\$900,000	100%

Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2003

**Section 4
(continued)**

**Summary of Accumulated Benefits
(FASB #35)**

Accumulated Benefits at January 1, 2003

Vested benefits of participants and beneficiaries currently receiving payments	\$ 15,735,876
Other vested benefits	5,946,105
Nonvested benefits	<u>321,800</u>
Total benefits	\$ 22,003,781

FASB #35 Reconciliation

Accumulated benefits at January 1, 2002	\$ 20,508,204
Benefits accumulated	\$ 911,494
Interest	1,698,405
Benefits paid	(1,075,880)
Assumption changes	<u>(38,442)</u>
Total change	1,495,577
Accumulated benefits at January 1, 2003	\$ 22,003,781

Reconciliation of Fund Assets

	Year Ending December 31, 2002
1. Value of fund at beginning of year	\$ 15,495,548
2. Contributions	
a. City	900,000
b. Member	47,974
c. Total	\$ 947,974
3. Benefit payments	(1,075,880)
4. Refunds	0
5. Earnings	(1,243,695)
6. Expenses	(42,791)
7. Value of assets at end of year	14,081,156
8. Estimated rate of return	(8.34)%

Membership Data

	January 1, 2003	January 1, 2002
1. Active members (excluding DROP)		
a. Number	19	22
b. Compensation	\$ 575,849	\$ 471,089
c. Average compensation	\$ 30,308	\$ 21,413
d. Average age	46.68	46.23
e. Average service (years)	21.84	21.86
2. Active members (DROP only)		
a. Number	15	14
b. Compensation	\$ 282,008	\$ 265,580
c. Average Compensation	\$ 18,801	\$ 18,970
d. Average age	53.47	53.00
e. Average service	30.47	29.93
f. DROP account balance	\$ 627,568	\$ 500,508
3. Inactive members		
a. Number	98	94
b. Total current annual benefit	\$ 1,174,286	\$ 1,081,649
c. Average current annual benefit	\$ 11,983	\$ 11,507

**Summary of Benefit Provisions
As of January 1, 2003
For Actuarial Calculations**

The Supplemental Plan was adopted and effective on March 1, 1973. Contributing Group B members who hold a permanent rank higher than the highest Civil Service rank held as a result of competitive examination are allowed to join the Supplemental Plan within 60 days of attaining such higher rank, or within 60 days of the effective date, if later.

Definitions

Computation Pay: The difference between the monthly base pay for the rank currently held and the monthly rate of pay due for the highest Civil Service rank held as a result of competitive examination.

Average Computation Pay: Computation Pay averaged over 36 months.

Pension Service: The period, in years, months, and days, during which the Member made contributions under the terms of the Combined Plan or any Pension Plan within the Pension System.

Qualified Surviving Spouse: The Member's legal spouse at the time of death providing the marriage occurred prior to the Member's termination of employment (entering DROP is not considered termination of employment).

Pension Plan: The Dallas Police and Fire Pension System Supplemental Plan.

Qualified Surviving Children: All surviving unmarried children under 19 years of age (23 for a disabled child) provided they were born or adopted before the Member terminated his employment.

Contribution Rates

The City's contributions are made in accordance with actuarial requirements.

The Member contribution rate is currently 8.50%. Members contribute for a maximum of 32 years.

Service Retirement Benefits

Annual Normal Retirement Pension

Condition for Retirement: Attainment of age 50 and five years of Pension Service.

Amount for Pension: 3% of Average Computation Pay for each year of Pension Service to a maximum of 32 such years.

Early Retirement Pension

Condition for Retirement:

- a. Attainment of age 45 and five years of Pension Service.

Amount of Pension: 3% of Average Computation Pay for each year of Pension Service reduced 2/3 of 1% for each month by which retirement precedes age 50.

- b. 20 years of Pension Service

Amount of Pension: 20 & out multiplier of Average Compensation Pay for each year of Pension Service.

<u>Age</u>	<u>20 & Out Multiplier</u>
50 - above	3.00%
49	3.00% reduced by 2/3 of 1/% for each month prior to age 50
48	2.75%
47	2.50
46	2.25
45 & below	2.00

Special Rule for Members of former Old Plan or Plan A

Group B Members who formerly were Members of either the former Old plan or Plan A may elect to receive Group A benefits and receive a reimbursement of the additional contributions paid under Group B provisions in excess of the contributions that would have been made under Group A.

Disability Retirement Benefits

Service-Related Disability

Condition for Retirement: Disability preventing the Member from performing his or her duties with his or her department and lasting for a period of not less than 90 days.

Amount of Pension: 60% plus 3% for each year of Pension Service (maximum 32 years) over 20, of Average Computation Pay.

Non-Service Related Disability

Condition for Retirement: Disability preventing the Member from performing his or her duties with his or her department and lasting for a period of not less than 90 days.

Amount of Pension: 3% of Average Computation Pay for each year of Pension Service (maximum 32 years).

Survivor Benefits

Survivor Benefits for Qualified Surviving Spouse: 1.50% of the Member's Average Computation Pay for each year of Pension Service with a minimum of 20 such years and a maximum of 32 such years.

Survivor Benefits when no Qualified Surviving Spouse: Death in Active Service: 50% of Service Retirement Pension calculated with a minimum of 20 years of Pension Service. The benefit will be paid as a lump sum equal to the value of the lesser of a 10-year benefit or the remainder of the 10-year period if Qualified Surviving Children receive benefit.

Survivor Benefits After Retirement: The Qualified Surviving Spouse shall receive 50% of any benefits paid to the Member. The percentage is increased if the Qualified Surviving Spouse has attained age 55, there are no Qualified Surviving Children who are eligible for death benefits and the Member retired after age 55 with 20 years of Pension Service or if the Member's age plus Pension Service at retirement was at least 78.

Survivor Benefits After Retirement or Termination for a Non-Qualifying Surviving Spouse: The Surviving Spouse shall receive 50% of any benefits paid to the Member. However, the Member's benefit will be reduced for this coverage.

Survivor Benefits for Qualified Surviving Children: An amount equal to the amount paid to a Qualified Surviving Spouse is divided among the Qualified Surviving Children and continues to be paid as long as one or more of the children continue to qualify.

Post-Retirement Cost of Living Adjustments

Annually, on the first day of October, benefits in pay status will be increased by an amount equal to 4% of the original pension amount.

Benefit Supplement

If a Member retires with 20 years of Pension Service or if a Member is receiving a service related disability the Member or the Member's Qualified Surviving Spouse is entitled to receive 3% of the monthly benefit payable to the Member when the Member or the Qualified Surviving Spouse attains age 55. This supplement is also available for both the Member or the Member's Non-Qualifying Surviving Spouse for a member who has elected a reduced benefit to obtain coverage for a Non-Qualifying Surviving Spouse.

Deferred Retirement Option Plan

As of January 1, 1993, at normal retirement age, a member may elect to enter the Deferred Retirement Option Plan (DROP). As of January 1, 1999, a member may also elect to enter DROP after 20 years of Pension Service. Retirement benefits will be calculated as if the Member retired on that date. Employee contributions made under the Combined Pension Plan will cease, as will accruals under the Combined Pension Plan. Each month, the retirement benefit will be accumulated in an account earning interest based on a ten-year average of the

System's actual market return. Upon termination of employment, the Member will have the balance in account in addition to the monthly benefit payable as though the Member retired at the date the Member entered DROP.

**Statement of Actuarial Methods and Assumptions
 (Effective as of January 1, 2003)**

Investment Return: 8.50% per annum, compounded annually, net all expenses including administrative expenses. This rate reflects an underlying inflation rate of 4.00% and a real rate of return of 4.50%.

DROP balances are assumed to earn 9.00% per annum.

Separations Before Normal Retirement: Representative values of the assumed annual rates of withdrawal, death, and disability are as follows:

Age	Annual Rate per 1,000 Members							
	Withdrawal		Mortality - Disableds		Mortality - Other		Disability	
	Police	Fire	Male	Female	Male	Female	Police	Fire
20	43.0	21.0	48.30	26.30	.51	.28	.35	.70
25	43.0	21.0	48.30	26.30	.66	.29	.37	.75
30	32.0	16.0	36.20	23.70	.80	.35	.42	.84
35	23.0	16.0	27.80	21.40	.85	.48	.48	.96
40	23.0	16.0	28.20	20.90	1.07	.71	.57	1.15
45	23.0	16.0	32.20	22.40	1.58	.97	.79	1.58
50	NA	NA	38.30	25.70	2.58	1.43	NA	NA
60	NA	NA	60.30	33.10	7.98	4.44	NA	NA
70	NA	NA	73.90	41.10	23.73	13.73	NA	NA
75	NA	NA	84.20	49.20	37.21	22.69	NA	NA

Salary Increases: Representative values of the assumed annual rates of future salary increase attributable to seniority and promotion are as follows:

Age	Annual Rate of Salary Increase
20	10.00%
30	5.23
40	4.57
50	4.37
60	4.33

Total payroll is assumed to increase 4.00% per year. New hires are assumed to replace terminations.

Overtime is assumed to be 7% of base pay. The city contributes on total pay including overtime. This assumption is consistent with past experience and the city's budget.

Retirement Rates: To determine the value of future normal cost, the percentage of population assumed to retire at various ages is as follows:

Age	Rate	Age	Rate	Age	Rate
38	5%	48	5%	58	10%
39	5	49	5	59	15
40	5	50	10	60	20
41	5	51	7.5	61	25
42	5	52	7.5	62	60
43	5	53	7.5	63	70
44	5	54	7.5	64	80
45	5	55	10	65	100
46	5	56	10		
47	5	57	10		

Rates are only applied when member is eligible to retire. That is, age 50 with five years or 20 years.

Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2003

Schedule C
(continued)

Postretirement Mortality: According to the 1994 Group Annuity Mortality Table for males and females.

DROP Election: Members are assumed to elect DROP at age 50 with five years.

Spouses: 80% of active members are assumed to be married with the male three years older than the female. The age of the youngest child is assumed to be one year.

Assumed Post Retirement Cost of Living: Annually, on the first day of October, benefits in pay status will be increased by an amount equal to 4% of the original pension amount.

Future Expenses: All expenses, investment and administration, are paid from the Fund. The 8.50% assumed rate of return is net of these expenses.

Valuation Method: The method used to determine Normal Cost and Accrued Actuarial Liability is the Entry Age Normal Cost Method. Under the Entry Age Normal Cost Method, an annual Normal Cost is determined for each covered active Member 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 compensation. The Actuarial Accrued Liability 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 Actuarial Accrued Liability over the assets of the Fund.

Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2003

Schedule C
(continued)

The Normal Cost and Accrued Actuarial Liability are derived by making certain assumptions as to the rates of interest, mortality, turnover, etc., 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 Plan. The effects of any actuarial gains or losses are immediately reflected in the Unfunded Actuarial Accrued Liability and the Normal Cost.

Actuarial Value of Assets: The actuarial value of assets is the market value of assets.



**POLICE AND FIRE SUPPLEMENTAL PENSION PLAN
OF THE CITY OF DALLAS**

Financial Statements

December 31, 2002 and 2001

(With Independent Auditors' Report Thereon)





KPMG LLP
Suite 3100
717 North Harwood Street
Dallas, TX 75201-6585

Independent Auditors' Report

The Board of Trustees
Police and Fire Supplemental Pension Plan
of the City of Dallas:

We have audited the accompanying statements of plan net assets of the Police and Fire Supplemental Pension Plan of the City of Dallas (the Plan) as of December 31, 2002 and 2001, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Plan as of December 31, 2002 and 2001, and the changes in its financial status for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Schedule of Contributions included in note 1(c) and the Schedule of Funding Progress in note 3 are not a required part of the basic financial statements of the Plan but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

The System has not presented Management's Discussion and Analysis, which is supplementary information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

KPMG LLP

December 5, 2003



KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

**POLICE AND FIRE SUPPLEMENTAL PENSION PLAN
OF THE CITY OF DALLAS**

Statements of Plan Net Assets
December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Assets:		
Investments, at fair value (note 4):		
Short-term investments	\$ 99,035	175,701
Bank commingled trust funds	14,040,900	15,343,070
	<u>14,139,935</u>	<u>15,518,771</u>
Accrued interest, dividends, and member contributions receivable	<u>3,116</u>	<u>1,757</u>
Total assets	<u>14,143,051</u>	<u>15,520,528</u>
Liabilities:		
Administrative and benefit expenses payable	<u>61,895</u>	<u>24,980</u>
Net assets held in trust for pension benefits (a Schedule of Funding Progress is presented on page 8)	<u>\$ 14,081,156</u>	<u>15,495,548</u>

See accompanying notes to financial statements.

**POLICE AND FIRE SUPPLEMENTAL PENSION PLAN
OF THE CITY OF DALLAS**

Statements of Changes in Plan Net Assets
Years ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Additions:		
Net investment income:		
Interest and dividends	\$ 3,512	8,314
Security lending (index fund)	2,777	4,900
Net (depreciation) in fair value of investments	<u>(1,249,984)</u>	<u>(1,003,089)</u>
	<u>(1,243,695)</u>	<u>(989,875)</u>
Contributions:		
City	900,000	800,000
Member	47,974	40,596
	<u>947,974</u>	<u>840,596</u>
Net additions	<u>(295,721)</u>	<u>(149,279)</u>
Deductions:		
Benefit payments	1,075,880	947,281
Administrative and professional fees	42,791	33,925
Total deductions	<u>1,118,671</u>	<u>981,206</u>
Net (decrease) in plan net assets	<u>(1,414,392)</u>	<u>(1,130,485)</u>
Net asset held in trust for pension benefits (a Schedule of Funding Progress is presented on page 8):		
Beginning of year	<u>15,495,548</u>	<u>16,626,033</u>
End of year	<u>\$ 14,081,156</u>	<u>15,495,548</u>

See accompanying notes to financial statements.

**POLICE AND FIRE SUPPLEMENTAL PENSION PLAN
OF THE CITY OF DALLAS**

Notes to Financial Statements
December 31, 2002 and 2001

(1) Description of the Plan

(a) General

The Police and Fire Supplemental Pension Plan of the City of Dallas (the Plan) is a single-employer, defined benefit pension plan for police officers and firefighters employed by the City of Dallas, Texas (the City or Employer) and was created in 1973 to supplement the Dallas Police and Fire Pension System's (the System) Plan B Defined Benefit Pension Plan (Plan B). The Plan B benefit structure was consolidated into the System's Combined Pension Plan in 1992. Former Plan B members are now denominated as "Group B" members of the Combined Pension Plan. The intent of the Plan is to provide additional retirement benefits (as discussed below) to those members of the Plan (the Members) 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 in the Supplemental Plan and Compensation while in the Supplemental Plan. The Plan was established and derives its authority from a noncodified City ordinance. As of December 31, 2002 and 2001, plan membership consisted of:

	<u>2002</u>	<u>2001</u>
Pensioners and qualified survivors currently receiving benefits:		
Firefighters	\$ 41	40
Police officers	57	54
Terminated vested members not yet receiving benefits	—	—
Total	<u>\$ 98</u>	<u>94</u>
Current employees:		
Vested:		
Firefighters	\$ 17	17
Police officers	17	19
Total	<u>\$ 34</u>	<u>36</u>

In 1992, an amendment to Article 6243a-1 was approved by the Members of the Combined Plan allowing for a Deferred Retirement Option Plan (DROP). The amendment automatically modified the Supplemental Plan so members that enter the DROP program in the Combined Plan also enter the DROP program in the Supplemental Plan. DROP Members have their contribution discontinued but the City's portion of the total contribution continues. The Member's monthly benefit remains in the Plan and accumulates interest. Upon retirement from the City, the Member is able to withdraw from their DROP account along with the Member's normal benefits. Amounts included in these financial statements related to DROP members are \$1,634,703 and \$1,141,119 for December 31, 2002 and 2001, respectively.

**POLICE AND FIRE SUPPLEMENTAL PENSION PLAN
OF THE CITY OF DALLAS**

Notes to Financial Statements
December 31, 2002 and 2001

(b) Pension Benefits

The 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 Plan benefits are capped by that plan's definition of considered compensation. Accordingly, when Group B benefits are amended, the 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 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 Plan shall be deemed to be application for benefits under the Plan, and no additional application need be filed.

(c) Contributions

The City is required by ordinance to contribute amounts, as determined by an actuary, necessary to maintain the Plan.

Members electing to participate in the 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.

Members are immediately vested in their contributions and with five years of service in the Supplemental Plan or the Combined Plan may, at termination of employment, leave their contributions or deposit with the System and receive a monthly benefit at normal retirement age. If a Member's employment is terminated, and the Member elects not to retire or not to have vested rights, the Member's contributions are returned, without interest, upon written application. If application for refund is not made within three years, the Member forfeits the right to a refund of his or her contributions; however, a procedure does exist whereby the Member's right to the contributions can be reinstated.

The following table lists required supplementary information related to Employer contributions:

	<u>Annual required contribution</u>	<u>Percentage contributed</u>
Year ended December 31:		
1997	\$ 1,159,376	100%
1998	1,010,687	100
1999	800,000	100
2000	700,000	100
2001	800,000	100
2002	900,000	100

**POLICE AND FIRE SUPPLEMENTAL PENSION PLAN
OF THE CITY OF DALLAS**

Notes to Financial Statements
December 31, 2002 and 2001

The percent contributed may vary from the legally required rate as the term Annual Required Contribution is based upon covered payroll as of the actuarial valuation date, January 1, whereas actuarial contributions are calculated and paid based upon actual payrolls throughout the year.

Certain factors, such as changes in benefit provisions, the size or composition of the population covered by the system, or the actuarial assumptions used may significantly affect the identification of trends in the amounts reported in this schedule.

(d) Plan Administration and Termination

The Plan is administered by a board of trustees (the Board). Although there has been no expressed intent to do so, in the event the Plan is terminated or upon complete discontinuance of contributions, the Members and their beneficiaries shall be entitled to the benefits accrued to the date of such termination or discontinuance to the extent then funded.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accompanying financial statements are presented on the accrual basis of accounting. Accordingly, interest earned but not received and dividends declared but not received as of the Plan's fiscal year end are recorded as accrued interest and dividends receivable, respectively.

(b) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the plan administrator to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(c) Investments

The Plan's investments policy requires investments comply at all times with all applicable state laws. The investments policy is based upon an asset allocation study that considers the current and expected condition of the Plan, the expected long-term capital market outlook, and the Plan's risk tolerance.

Investments are valued at fair value based on quoted market prices. Purchases and sales of securities are recorded on a trade-date basis.

(d) Benefits

Benefits and refunds are recorded in these financial statements when they are due and payable to members.

**POLICE AND FIRE SUPPLEMENTAL PENSION PLAN
OF THE CITY OF DALLAS**

Notes to Financial Statements
December 31, 2002 and 2001

(e) Cash and Investments

The following shows investments reported at fair value at December 31, 2002 and 2001:

	2002	2001
Short-term investment fund	\$ 99,035	175,701
Commingled index funds	14,040,900	15,343,070
Total	\$ 14,139,935	15,518,771

Amounts invested in the above funds are not categorized in accordance with Government Accounting Standards Board (GASB) No. 3 because they are not evidenced by securities that exist in physical or book entry form.

(f) Management's Discussion and Analysis

The Plan has not presented Management's Discussion and Analysis, which is supplementary information that the GASB has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

(3) Funding Progress

The actuarial information presented is determined by the actuarial firm of Buck Consultants and results from applying various assumptions with regard to termination, disability, retirement, mortality, and the time value of money to the accumulated plan benefits.

The actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

**POLICE AND FIRE SUPPLEMENTAL PENSION PLAN
OF THE CITY OF DALLAS**

Notes to Financial Statements
December 31, 2002 and 2001

Actuarial calculations were made by the consulting actuary as of January 1, 2003 and 2002 and are not materially different from what they would have been had they been calculated on December 31, 2002 and 2001. The following assumptions are used by the Plan's actuary to determine the Plan's obligations only and are not used to calculate the actual Plan benefits. Plan benefits are fully described in the Plan's document. The significant assumptions underlying the actuarial liability calculations at January 1, 2003 and 2002 are as follows:

Actuarially Assumed Investment Rate of Return*	8.50% per annum, compounded annually
Mortality, Retirement, Disability, and Separation Rates	Graduated rates detailed in actuary's report
Projected Salary Increases*	Range 4.3 to 10%
Actuarial Cost Method	Entry age normal
Postretirement Benefit Increases	4% per annum of original pension amount
Asset Valuation	Fair market value
Amortization Method	Open level fixed %
Remaining Amortization Period	13 years

*Includes inflation rate of 4%

GASB required supplementary information (unaudited) related to the Plan's funding progress is as follows (amounts are in thousands):

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
12/31/1996	\$ 10,490	\$ 14,414	\$ 3,924	72.8	\$ 795	493.6
12/31/1997	12,685	15,278	2,593	83.0	852	304.3
12/31/1998	15,506	17,106	1,600	90.6	851	188.0
12/31/1999	17,628	18,146	518	97.1	934	55.5
12/31/2000	16,636	19,566	2,940	85.0	655	448.9
12/31/2001	15,496	21,214	5,718	73.0	737	775.8
12/31/2002	14,081	22,398	8,317	62.9	858	969.3

Certain factors, such as changes in benefit provisions, the size or composition of the population covered by the plan or the actuarial assumptions used, may significantly affect the identification of trends in the amounts reported in this schedule.

**POLICE AND FIRE SUPPLEMENTAL PENSION PLAN
OF THE CITY OF DALLAS**

Notes to Financial Statements
December 31, 2002 and 2001

(4) Investments

The Board has contracted with investment managers to manage the investment portfolio of the Plan, subject to the policies and guidelines established by the Board. The Board has custody agreements with State Street Bank and Trust Company and effective September 1, 2002 with our new Custodian, JP Morgan Chase Bank. Under such agreements, State Street and JP Morgan assume responsibility for the safekeeping of certain investments, handling of transactions based on the instructions of investment managers, and accounting for the investment transactions.

The Plan's investments at December 31, 2002 and 2001 consisted of the following:

	2002		2001	
	Number of shares/units	Fair value	Number of shares/units	Fair value
Investments greater than 5% of net assets, at quoted market value:				
S&P 500 Index Commingled Equity Trust Fund State Street Global Advisors	356,470	\$ 5,644,726	32,927	\$ 6,537,348
Commingled Bond Index Trust Funds State Street Global Advisors	254,600	5,492,248	303,899	5,931,196
Commingled EAFE Provisional Index Trust Funds State Street Global Advisors	97,339	2,903,926	315,743	2,874,526
State Street Short-Term Investment Fund	99,035	99,035	175,701	175,701
Total investments		\$ 14,139,935		\$ 15,518,771

For the years ended December 31, 2002 and 2001, the Plan's investments, including investments bought, sold, as well as held during the year, appreciated (depreciated) in value as follows:

	2002	2001
Investments, at quoted market value:		
S&P 500 Index Commingled Equity Trust Fund	\$ (1,399,057)	(772,405)
Commingled Bond Index Trust Fund	594,052	524,896
Commingled EAFE Provisional Index Trust Fund	(444,979)	(755,580)
	\$ (1,249,984)	(1,003,089)

**POLICE AND FIRE SUPPLEMENTAL PENSION PLAN
OF THE CITY OF DALLAS**

Notes to Financial Statements

December 31, 2002 and 2001

(5) Federal Income Tax Status

A favorable determination that the System is qualified and exempt from federal income taxes was received on January 24, 2001 from the Internal Revenue Service (IRS). The Board believes that the Plan is designed and continues to operate in compliance with the applicable requirements of the Internal Revenue Code.