



2004 Annual Report



DALLAS
POLICE & FIRE
PENSION SYSTEM



2004 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 = 4,597

Benefit Recipients = 3,034

Terminated Vested = 156

Total Participants = 7,787

Service Retirements Added

Police = 72

Fire = 45

Total = 117

Disability Retirements Added

Police = 3

Fire = 3

Total = 6

Fund Assets at Market Value = \$2,493,803,928

Benefits Paid = \$103,393,633

Member Contributions (Net of Refunds) = \$16,554,416

City Contributions = \$83,290,516

**Comprehensive Annual Financial 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, 2004

Richard L. Tettamant, Administrator
Dallas Police and Fire Pension System
2301 North Akard Street, Suite 200
Dallas, Texas 75201
214.638.3863 or 1.800.638.3861

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Introductory Section

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 and Actuarial Report of the Supplemental Police and Fire Pension Plan of the City of Dallas* for the fiscal year ended December 31, 2004 (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.

This annual report is divided into six sections:

- The **Introductory Section** includes this transmittal letter and a History and Overview of the System, highlighting the System's administrative structure, operations and programs, and provides a list of professional service providers.
- The **Financial Section** includes the independent auditor's report, Management's Discussion and Analysis (MD&A), basic financial statements and notes to the basic financial statements for the System, with required supplementary information.
- The **Investment Section** includes a report on investment activity and performance, a summary of investment policies, and other investment related schedules.
- The **Actuarial Section** contains the consulting actuary's Certification Letter and the full actuarial valuation report.
- The **Statistics Section** includes membership, benefit payment and additional financial information in graphic form and lists significant events in the System's modern history. Both current and historical data are presented.
- The **Supplemental Police and Fire Pension Plan of the City of Dallas Section** contains the *2004 Actuarial Valuation* and *2004 Financial Statements with Independent Auditors' Report* for the Supplemental Police and Fire Pension Plan of the City of Dallas.

The financial statements and notes were audited by Mir • Fox & Rodriguez and include all recent Governmental Accounting Standards Board rulings. The actuarial valuation was performed by Buck Consultants. Except where noted, Wilshire Associates and The Townsend Group provided the investment performance data included in this report. During the year ended December 31, 2004, both the Pension System and the Supplemental Plan remained broadly diversified with investments in equities and fixed income, and real estate. The total rate of return on investments for the year was 14.77% for the Pension System. The Supplemental Fund's total rate of return on

investments for the year was 10.20%. The System's investment return ranked the System among the top performing public pension plans in the country.

The Management 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.

At a time when the defined benefit form of public pension plan has been under attack in various jurisdictions, the System's outstanding investment return and the diligence of the Board in monitoring the System's funding status help assure its continued financial health.

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

The Board of Trustees and the staff are dedicated to maintaining the System's excellent financial condition through diversification and sound management of the Pension System. We believe that a strong Pension System is to the benefit of the City and its taxpayers, as well as to the Members of the 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

The System is a defined benefit plan qualified under section 401 (a) of the Internal Revenue Code. 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, a revision of previous state law.

Plan A became effective September 15, 1969, to provide a benefit based on a member’s average salary and years of service credit. Plan A and the Old Plan are now viewed together as Group A. There are no current Active Members of the Old Plan and only three Active Members of Plan A currently in the System. The Legislature created Plan B, the current plan for most Members, in March 1, 1973. In 2004, the System celebrated its 88th anniversary of ensuring the financial future of City of Dallas Police Officers and Firefighters and their families.

SYSTEM ADMINISTRATION

The System is administered by a Board of Trustees composed of 12 members:

- Three elected from the active membership of the Police Department,
- Three elected from the active membership of the Fire-Rescue Department,
- One elected by retired Police Officers,
- One elected by retired Firefighters, and
- Four appointed by the City Council from among its membership (two council trustee positions currently are vacant).

The Board has a fiduciary responsibility to the System and its members to exercise prudent oversight and administration of System assets. To meet their responsibility and stay current with technical concepts and approaches to asset management and plan administration, the Board and staff participate in educational conferences and perform due diligence concerning System investments. The Board also maintains active participation in many pension-related associations, notably the National Conference on Public Employee Retirement Systems (NCPERS) and the Texas Association of Public Employee Retirement Systems (TEXPERS).

The Board has retained the services of professional consultants and advisors considered essential to the effective operations of the System. 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.

Professional Service Providers

Investment Advisors

AllianceBernstein Inst. Inv. Management
Bank of Ireland Asset Management
Brandywine Investment Management
CDK Realty Advisors
Crow Holdings
Clay Finlay International
Deutsche Asset Management
Fidelity Management Trust Company
Forest Investment Associates
Frank Russell Company
GMAC Institutional Advisors
Hancock Agricultural Investment Group
Hearthstone Advisors
Heitman Capital Management
Highland Capital Management
W. R. Huff Asset Management
INVESCO Realty Advisors
Kennedy Associates Real Estate Counsel
L&B Realty Advisors
Lone Star Advisors
Loomis, Sayles & Company
Merit Energy
The Mitchell Group
Mondrian Investment Partners
North Texas Opportunity Fund Capital Partners
LP
Oak Associates
Oaktree Capital Management
Olympus Real Estate Partners
Pareto Partners
Prudential Investment Corporation
RREEF
State Street Global Advisors
TCW Asset Management Company

Actuary

Mellon Consultants Inc.

Auditor

Mir • Fox & Rodriguez, P.C.

Custodian Bank

JP Morgan Chase Bank

Investment Consultants

The Townsend Group
Wilshire Associates Inc.

Performance Measurement Consultants

Financial Control Systems Inc.

Legal Advisors

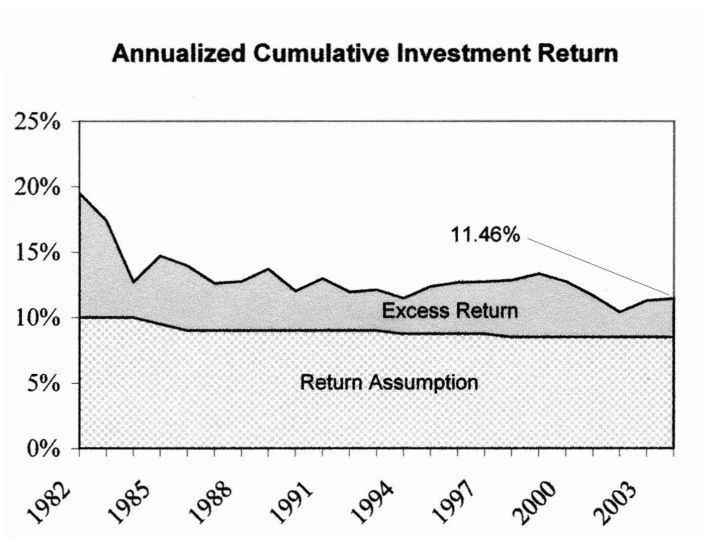
Lawson, Fields and Calhoun, P.C.

The Board meets monthly and as needed in the performance of its fiduciary duties. The Board also meets at least quarterly with its investment consultants to review the performance of each investment manager, asset class and fund investments. Periodically, the Board conducts an asset allocation study to optimize the allocation of System assets.

The administrative staff performs the day-to-day operations of the System. At year end, the staff consisted of 24 members and included the Administrative, Benefits, Accounting, Investment, and Information Systems teams. The staff's main functions are (1) payment of benefits, (2) audit and control, (3) retirement counseling, (4) investment of assets (5) review and monitoring of investments, (6) Member communications, (7) coordination with professional service providers, (8) legal, and (9) staff support to the Board. The new position of Internal Control Manager was added in 2004 to oversee System investment accounting and to strengthen internal controls.

INVESTMENT HIGHLIGHTS

During 2004, System assets, at market value, increased by more than \$310 million, reaching \$2.49 billion. Through diversification and prudent investment management, assets grew during the year at a rate of return of 14.77%. The System's outstanding investment performance ranked the System among the top performing funds for 2004 among the plans included in the data base of Wilshire Associates, Inc., the System's investment consulting firm. The System's investment return of 11.49% over the last ten years placed in the top 6 percentile of public pension plans measured by Wilshire over this period. See Section 3, Investments, for more information on System investment performance in 2004.



The above chart demonstrates that the System's long-term investment performance has exceeded the expected rate of return -- 11.46% since 1982.

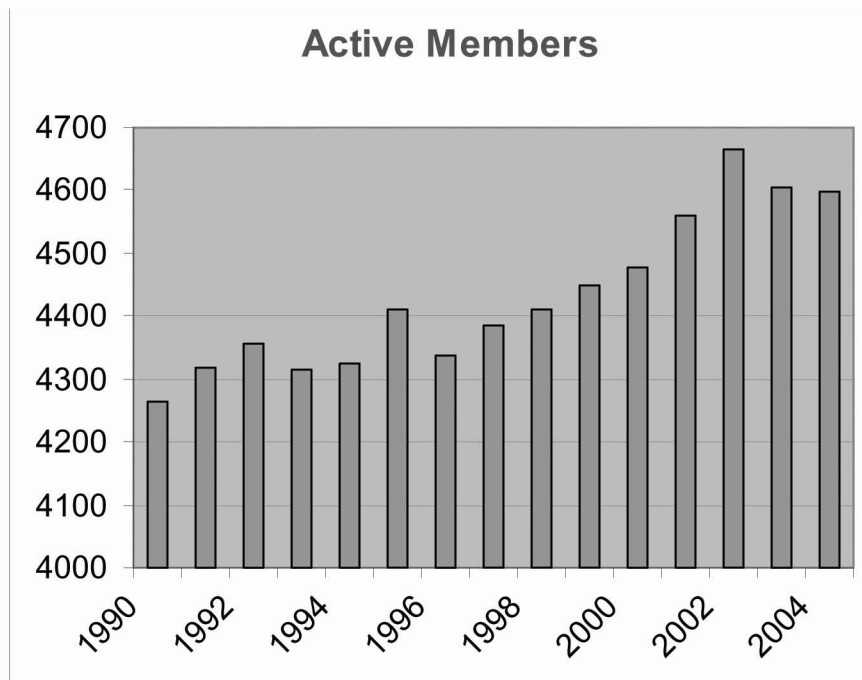
MAJOR INITIATIVES

The System established a \$50,000,000 loan program designed to enhance investment return on System real estate investments. The enhancement is realized through a substantial lowering of the interest cost on the System’s real estate loans by lending the System’s fixed income securities as collateral for the loan under a repurchase agreement between the System and JPMorgan Securities, Inc.

To increase Pensioner access to the education programs, the System began in 2004 to present the Pensioner Financial Planning program at offsite locations outside the immediate Dallas area in Canton, De Soto and Allen, Texas. The change proved very successful with the class in Canton attracting 80 participants.

PLAN MEMBERSHIP

The System provides comprehensive retirement, death, and disability benefits for the City’s 7,631 Police Officers, Firefighters, Pensioners, and their beneficiaries. As of December 31, 2004, 1,679 Firefighters and 2,918 Police Officers were Members of the Pension System. The total of 4,597 Active Members reflects a decrease of 9 from last year’s total of 4,606 (6 additional Firefighters and 15 fewer Police Officers). The average Firefighter is 43.11 years of age and has 17.15 years of pension service with the City of Dallas. The average Police Officer is 41.04 years of age with 14.80 years of pension service.



Membership has declined slightly in the last two years, but generally has increased over the last fifteen years.

The number of Active DROP participants in active service reached 978 during 2004, a decrease of 16 from the prior year. The average DROP participant in active service is 54.30 years of age with 28.29 years of pension service. The average age at which members enter DROP is 50.0 years of age, a slight decrease from the average DROP entry age of 50.2 as reflected in the 2003 actuarial valuation.

The System paid \$103.4 million in pension benefit payments to 3,034 total benefit recipients in 2004, including 2,112 Pensioners, 204 disability Pensioners, and 718 beneficiaries.

For a review of System benefit provisions, see the *Actuarial Valuation* and the *Notes to Financial Statements*. You may obtain more information on the Pension System's Web site at www.dpfp.org



The number of benefit recipients, service retirement and disability pensioners and beneficiaries, has increased by about 27% since 1990.

MEMBER COMMUNICATIONS PROGRAMS

The System's Member programs continued to provide meaningful education and communications to our Members. These programs include Member education programs (PREP—Pre-Retirement Education Program, the Rookie Orientation Program, and the new Financial Planning and Pensioner Financial programs), pre-retirement counseling, the Active Member and Pensioner newsletters and the System website www.dpfp.org. The System's education programs brought together staff and outside professionals to provide retirement, investment and legal information to more than 1,000 Members and Spouses in 19 sessions.

Pre-retirement Counseling

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

of 631 Members attended personal pre-retirement counseling in 2004.

Communications

Each month in 2004, the System sent a new issue 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 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.

Membership and Benefits

2004 Program Highlights

Benefit Statements Distributed

5,763 Annual Benefit and DROP Statements

Counseling Sessions

631 Members

Deferred Retirement Option Plan (DROP)

73 New Active Members in DROP

978 Total Active Members in DROP

129 Retired Members in Deferred DROP

494 Retired Members with DROP accounts

19 Deceased or Spouses with DROP accounts

1620 Total DROP Accounts

New Recruit Education Meetings

7 meetings with 215 new Members

Pre-Retirement Education Program (PREP)

7 meetings, 347 attendees

Financial Planning Program

3 meetings, 254 attendees

Pensioner Financial Planning

2 meetings, 193 attendees

PLAN AMENDMENTS

There were no changes to System benefits in 2004.

LEGISLATION

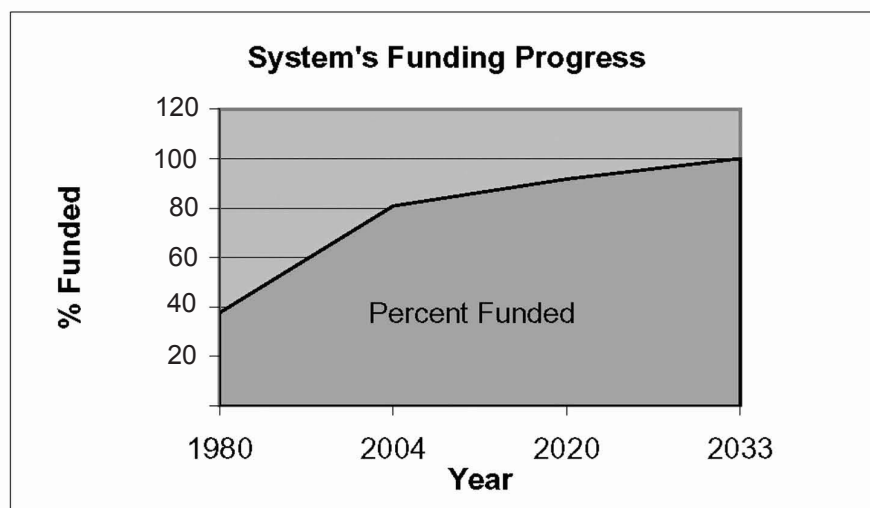
During 2004, the System worked with other state public retirement systems and organizations to support the introduction of legislation to address health care issues for retirees. Along with other public pension plans, the System also continued to oppose federal legislation that would require mandatory 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. The success of this effort is demonstrated by the fact that there is no current major legislation requiring mandatory provisions for Social Security coverage.

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.

SUMMARY

Pension System assets, membership, and programs remained strong. The System’s communications efforts continued to improve to better meet the needs of the membership.

The long-term investment performance of the System is rated among the top of all public pension plans. The use of multiple managers employing different investment styles has kept the System’s long-term performance on track, significantly outperforming the actuarial rate of 8.5%.



*The System is on schedule to be fully funded in 29 years.
The System is on track to be fully funded in 29 years.*

ACKNOWLEDGEMENTS

This annual report reflects the effort of the System staff under the guidance of the Board of Trustees. The 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.

2004 Board of Trustees



*Gerald Brown
Fire-Rescue Department
Chairman*



*Steve Shaw
Police Department
Vice Chairman*



*Gary Edge
Fire-Rescue Department
Deputy Vice Chairman*



*Rector McCollum
Police Department*



*George Tomasovic
Fire-Rescue Department*



*Steve Umlor
Police Department*



*John Mays
Police Pensioner Trustee*



*Richard Wachsman
Fire Pensioner Trustee*



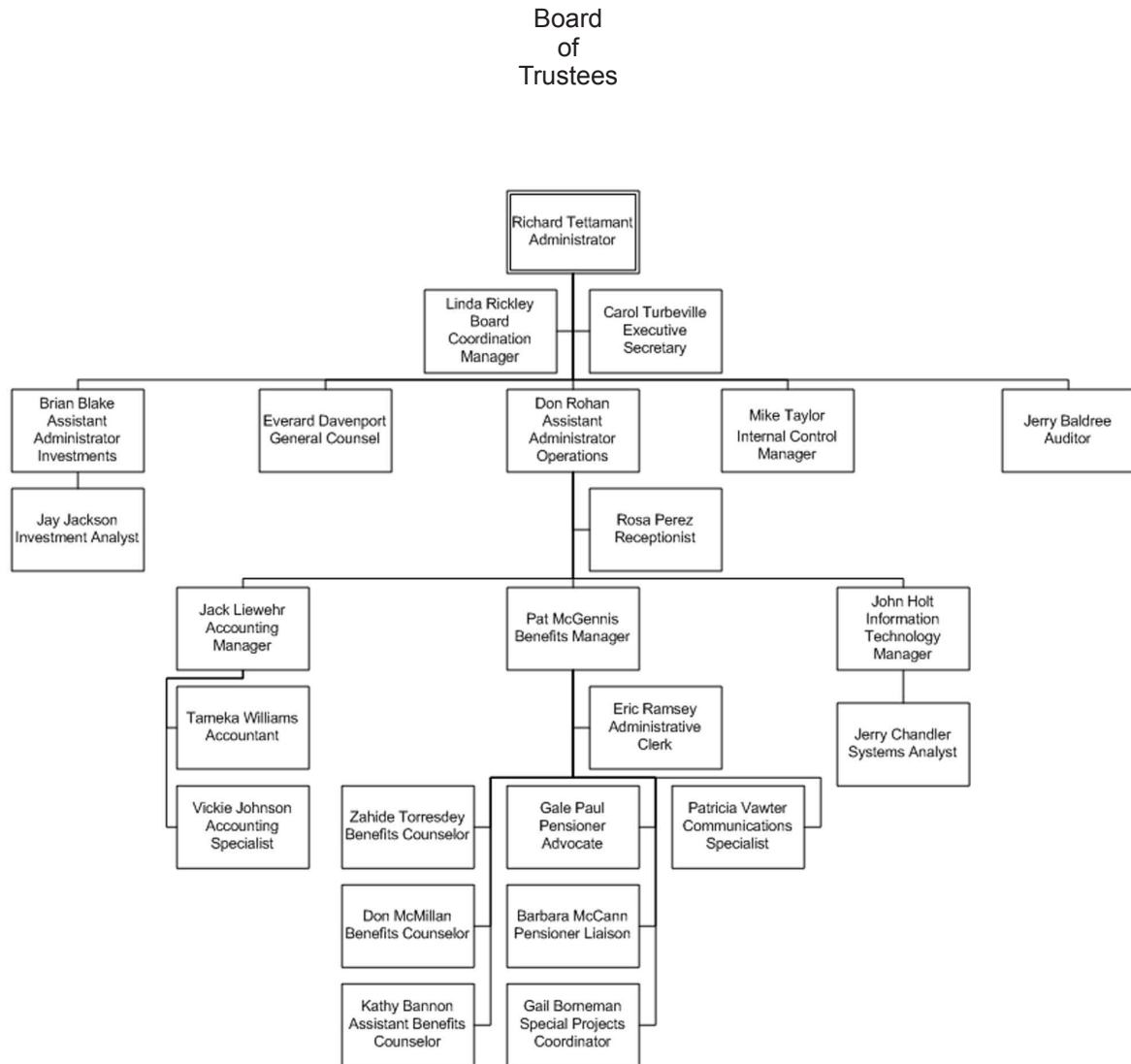
*Donald Hill
Mayor Pro Tem
City Councilmember*



*Maxine Thornton-Reese
City Councilmember*

Dallas Police & Fire Pension System

2004 Organization Chart



2004 Administrative Staff



Richard Tettamant
Administrator



Brian Blake
Asst. Administrator
Investments



Don Rohan
Asst. Administrator
Operations



Jerry Baldree
Auditor



Everard Davenport
General Counsel



Mike Taylor
Internal Control
Manager



Jack Liewehr
Accounting
Manager



Pat McGennis
Benefits
Manager



John Holt
Information Technology
Manager



Linda Rickley
Board Coordination
Manager



Kathy Bannon
Assistant
Benefits Counselor



Gail Borneman
Special Projects
Coordinator



Jerry Chandler
Systems Analyst



Erica Douglas
Administrative
Clerk



Jay Jackson
Investment Analyst



Vickie Johnson
Accounting
Specialist



Barbara McCann
Pensioner Liaison



Don McMillan
Benefits Counselor



Gale Paul
Pensioner Advocate



Rosa Perez
Receptionist



Zahide Torresdey
Benefits Counselor



Carol Turbeville
Executive
Secretary



Patri Vawter
Communications
Specialist



Tameka Williams
Accountant

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

- Implementation of new city and employee contribution plan
- 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

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

1987

- Retention of Wilshire Associates as general investment consultant (10-1-86)
- Reallocation of Assets: 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
- 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
- Creation of the Finance and Administrative Board Committees
- 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
- Change of System 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
- Appointment of new administrator, Richard Tettamant
- System's assets topped \$719 million (12-31-92)

1993

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

1994

- Relocation of Pension System office to 2777 Stemmons Freeway
- Reinstatement of benefits for 68 surviving widows whose benefits had been previously terminated upon remarriage
- Reaffirmation by Texas State Pension Review Board of the System's actuarial soundness
- Initiation of Pre-Retirement Education Program (PREP) for active employees
- System's assets exceeded \$863.8 million (12-31-94)

1995

- Initiation of Periodic Retirement Education and Planning seminars (PREP, Jr.) for active employees with 5–15 years of service
- Retention of 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

- Amendment of Plan 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

- Initiation of pretaxing of Member contributions
- Completion of DRO five-year actuarial review
- System's assets exceeded \$1.452 billion (12-31-97)

1998

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

1999

- Extension of DROP to Pensioners
- Implementation of Ten-year certain benefit provision
- Initiation of tax-deferred rollover from other qualified plans for Pension service purchase
- Assignment of place numbers to City Council Trustee Board positions
- DROP had 959 total participants with more than \$109 million in deposits
- System’s assets exceeded \$2.069 billion (12-31-99)

2000

- Implementation of 36 month average for computing Group B Member’s average computation pay
- Implementation of SWAR (Spouse Wed After Retirement) option
- Decrease in age and service credits requirement for the special survivor benefit
- Increase in Minimum benefit to \$2,000 per month
- Implementation of provisions to allow transfer of DROP funds to the Member’s City of Dallas 401(k) account
- Creation of Police pensioner and a Firefighter pensioner positions on the Board of Trustees
- System’s assets exceeded \$2.039 billion (12-31-00)

2001

- Relocation of Pension System office to 2301 North Akard Street
- Election of first Police Pensioner and Firefighter Pensioner Trustees 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

- Selection of JP Morgan Chase Bank as custodian bank
- Authorization by Board of Pensioner advocate position
- System assets totaled \$1.7 billion (12-31-02)

2003

- Initiation of Pensioner Advocate Program
- Initiation of Financial Planning and Pensioner Financial Planning Programs
- System assets at \$2.2 billion (12-31-03)

2004

- Established loan program to enhance real estate investment return
- Moved Pensioner Financial Planning education program to offsite
- Established a Business Continuity cold site.

Financial Section

DALLAS POLICE AND FIRE PENSION SYSTEM

**Financial Statements
and
Required Supplemental Information**

December 31, 2004 and 2003
(With Independent Auditors' Report Thereon)

DALLAS POLICE AND FIRE PENSION SYSTEM

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INDEPENDENT AUDITORS' REPORT

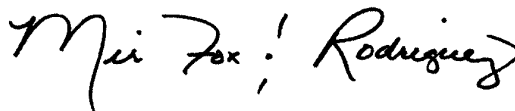
To the Board of Trustees
Dallas Police and Fire Pension System:

We have audited the accompanying statements of plan net assets of the Dallas Police and Fire Pension System (the System) as of December 31, 2004 and 2003, and the related statements of changes in plan net assets for the years then ended. These basic financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial status of the System as of December 31, 2004 and 2003, 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.

Management's discussion and analysis (MD&A) and the required supplemental information (schedules 1 and 2), are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A and required supplemental information. However, we did not audit such information and do not express an opinion on it.



August 1, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

The Management's Discussion and Analysis (MD&A) of the Dallas Police and Fire Pension System's (the System) financial position and performance provides an overview of the System's financial activities for the fiscal year ended December 31, 2004 and 2003. The System is a defined benefit pension plan.

Certain comparative information between the current year and the prior year is required to be presented in the MD&A. The analysis should be read in conjunction with the Introductory Section of the annual report, the basic financial statements, notes to the basic financial statements and required supplemental information.

FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the System's basic financial statements which consist of (1) Basic Financial Statements, (2) Notes to Basic Financial Statements, and (3) Required Supplemental Information.

The Statement of Plan Net Assets presents the System's assets and liabilities and plan net assets held in trust for the payment of pension benefits. The Statement of Changes in Plan Net Assets summarizes additions to and deductions from System assets, providing plan net assets held in trust at the end of the year for pension benefits. The difference between assets and liabilities is one measure of the System's financial position and the change in this measure over time is an indication of whether the System's financial health is improving or deteriorating.

The Notes to Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the Basic Financial Statements.

The required supplemental information consists of schedules of funding progress and employer required contributions.

CONDENSED FINANCIAL INFORMATION

(in thousands)	<u>2004</u>	<u>2003</u>
Assets	\$ 2,721,469	2,480,812
Liabilities	227,665	297,753
Net Assets Available for Benefits	2,493,804	2,183,059
Contributions	100,646	94,610
Investment and Other Income	317,192	528,198
Benefit Payments	103,394	96,246
Refund of Contributions	801	584
Administrative Expenses and Professional Fees	2,898	3,165

FINANCIAL HIGHLIGHTS

- The System's net assets increased by \$310.7 million in 2004 to \$2.49 billion. Net assets were \$2.18 billion in 2003.
- The rate of return on System investments was 14.77% for the year, compared to an expected return (actuarial assumed investment rate of return) of 8.5%. The rate of return for 2003 was 31.41%.
- Liabilities totaled \$227.7 million as of December 31, 2004, compared to \$297.8 million as of December 31, 2003.
- The System received employee contributions of \$17.4 million in 2004 and \$16.3 million in 2003. The System received employer contributions from the City of Dallas in the amounts of \$83.3 million and \$78.3 million in 2004 and 2003, respectively. The increase in contributions resulted primarily from a general pay increase to Active Members.
- The System paid \$103.4 million in service retirement, disability retirement and survivor benefits during 2004, compared to \$96.2 million in 2003, an increase of 7.5%. The System refunded contributions to former Members of approximately \$801 thousand and \$584 thousand in 2004 and 2003, respectively. No changes to benefit provisions were implemented.
- The cost of administering the benefit programs of the System, including administrative costs and professional fees, was \$2.9 million in 2004 compared to \$3.2 million in 2003.

The System presents its financial statements solely on the accounts of the System. The accrual basis of accounting is used by the System, whereby revenues are recognized when they are earned and collection is reasonably assured, and expenses are recognized when the liability has been incurred. Investments are reported at fair value.

FUNDING PROGRESS

The System contracted with Buck Consultants, Inc. (formerly Mellon Consultants, Inc.), to conduct an actuarial valuation to determine the actuarial position of the System as of January 1, 2005. The Actuarial Valuation Report indicated that the overall funding of the System remains sound and the current contribution rates are sufficient to keep the System actuarially sound. In preparing the valuation, the actuary uses a smoothing process over a rolling five-year period of investment data to remove year-to-year volatility in asset returns. For the 2005 valuation, the actuarial value of assets was reset to equal the market value of assets as of January 1, 2005.

The Actuarial Valuation Report shows that the market value of assets has increased \$301.9 million during the year to \$2.49 billion as of January 1, 2005. During the same period, the actuarial value of the assets (AVA) increased \$199.3 million to a total of \$2.48 billion as of January 1, 2005, compared to \$2.29 billion as of January 1, 2004.

The ratio of a plan's AVA to the actuarial accrued liability (AAL), expressed as a percentage, is an indicator of the plan's funding status. Generally, the larger the percentage, the stronger the financial health of the plan. The System's AAL ratio improved from 79.1% as of January 1, 2004 compared to 80.8% as of January 1, 2005.

DALLAS POLICE AND FIRE PENSION SYSTEM

Statements of Plan Net Assets
December 31, 2004 and 2003

Another measure of funding status is funding period. This is the length of time in years needed to amortize the current unfunded actuarial accrued liability (UAAL) based on the current contribution rate. The number of years to fully fund the System decreased 9 years during 2004 to 29 years as of January 1, 2005, from 38 years to fund as of January 1, 2004, further demonstrating the improvement in the System's funding status.

When a plan's total liabilities exceed the assets available to pay benefits on an actuarial basis, the plan is said to have an unfunded actuarial accrued liability (UAAL). As of January 1, 2005, the System's UAAL was \$589.1 million, a decrease of \$14.1 million from a UAAL of \$603.2 million as of January 1, 2004. The employer contribution rate needed to pay the normal cost and fund the UAAL over a 40-year period is 25.86% as of January 1, 2005 compared to a rate of 27.25% as of January 1, 2004. The current employer contribution rate of 27.5% covers the normal cost and the amortization of the UAAL over 29 years. In the prior year, the employer contribution rate of 27.5% covered the normal cost and amortization of the UAAL over 38 years. In 2004 and 2003, the employee contributed 8.5% of allowable compensation pay.

CONTACTING THE SYSTEM'S FINANCIAL MANAGEMENT

This Financial Section is designed to provide our members and other users with a general overview of the System's financial activities. If you have questions about this report or need additional financial information, contact the Administrator of the Dallas Police and Fire Pension System at 2301 N. Akard Road, Suite 200, Dallas, TX 75201.

<u>Assets</u>	<u>2004</u>	<u>2003</u>
Investments, at fair value (notes 2, 3 and 5):		
Cash and short term investments	\$ 297,908,163	247,048,369
United States government securities	20,234,022	41,166,198
Foreign government securities	193,837,110	105,416,195
Commingled index funds	373,501,808	439,886,379
Domestic equities	501,582,329	396,156,097
International equities	598,469,171	525,669,274
Corporate securities	315,608,250	274,835,237
Investments, at appraised value - real estate	<u>383,872,834</u>	<u>323,708,945</u>
Total investments	<u>2,685,013,687</u>	<u>2,353,886,694</u>
Receivables:		
Accrued interest and dividends	10,896,980	9,756,084
Employer contributions	997,588	3,132,354
Member contributions	206,778	647,403
Forward currency contracts (note 6)	763,258	87,915,469
Securities sold	<u>23,590,273</u>	<u>25,474,316</u>
Total receivables	<u>36,454,877</u>	<u>126,925,626</u>
Total assets	<u>2,721,468,564</u>	<u>2,480,812,320</u>
<u>Liabilities and Net Assets</u>		
Bank overdraft	9,230,122	1,350,480
Obligation under reverse repurchase agreements (note 7)	7,060,000	
Payable for securities purchased	41,984,780	25,016,458
Administrative and professional fees payable	3,690,480	2,447,146
Forward currency contracts (note 6)	771,437	87,319,657
Securities lending collateral (note 3)	<u>164,927,817</u>	<u>181,619,710</u>
Total liabilities	<u>227,664,636</u>	<u>297,753,451</u>
Net assets held in trust for pension benefits (a schedule of funding progress is included on page 20)	<u>\$ 2,493,803,928</u>	<u>2,183,058,869</u>

See accompanying notes to basic financial statements.

DALLAS POLICE AND FIRE PENSION SYSTEM

Statements of Changes in Plan Net Assets
Years Ended December 31, 2004 and 2003

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements
December 31, 2004 and 2003

1. Description of Plan and Summary of Significant Accounting Policies

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 (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. All active police officers and firefighters (as defined above) employed by the City are required to participate. As of December 31, 2004 and 2003, the System's membership consisted of:

	<u>2004</u>	<u>2003</u>
Nonactive member:		
Pensioners and qualified survivors currently receiving benefits and terminated employees entitled to benefits but not yet receiving them:		
Firefighters	1,338	1,313
Police officers	1,696	1,634
Terminated vested members not yet receiving benefits	<u>156</u>	<u>152</u>
Total nonactive members	<u>3,190</u>	<u>3,099</u>
Current employees:		
Vested:		
Firefighters	1,388	1,382
Police officers	<u>2,325</u>	<u>2,334</u>
Total vested current employees	<u>3,713</u>	<u>3,716</u>
Nonvested:		
Firefighters	291	291
Police officers	<u>593</u>	<u>599</u>
Total nonvested current employees	<u>884</u>	<u>890</u>
Total current employees	<u>4,597</u>	<u>4,606</u>

	<u>2004</u>	<u>2003</u>
Additions to plan net assets:		
Investment income:		
Interest	\$ 27,774,638	27,948,620
Dividends	20,533,867	17,788,267
Real estate income	13,543,892	14,380,265
Net appreciation in fair value of investments	265,912,580	477,539,489
Securities lending income (note 3)	2,390,924	2,186,241
Less investment expenses:		
Securities lending borrower rebates (note 3)	(1,649,503)	(1,447,562)
Custody fees	(341,194)	(322,156)
Investment services	<u>(11,557,450)</u>	<u>(10,247,843)</u>
Net investment income	<u>316,607,754</u>	<u>527,825,321</u>
Contributions (note 4):		
Employer	83,290,516	78,323,358
Employee	<u>17,355,730</u>	<u>16,286,746</u>
Total contributions	100,646,246	94,610,104
Other income	<u>584,424</u>	<u>373,177</u>
Total net additions to plan net assets	<u>417,838,424</u>	<u>622,808,602</u>
Deductions from plan net assets		
Benefit payments	103,393,633	96,246,040
Refunds of contributions	801,314	583,704
Administrative expenses and professional fees	<u>2,898,418</u>	<u>3,164,521</u>
Total deductions from plan net assets	<u>107,093,365</u>	<u>99,994,265</u>
Net increase in plan net assets	310,745,059	522,814,337
Plan net assets held in trust for pension benefits:		
Beginning of year	<u>2,183,058,869</u>	<u>1,660,244,532</u>
End of year	<u>\$ 2,493,803,928</u>	<u>2,183,058,869</u>

See accompanying notes to basic financial statements.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

Pension benefits

Group A members of the Combined Pension Plan may elect to receive one of two benefit structures:

- Members with 20 years or more of pension service are entitled to normal monthly pension benefits beginning at age 50 equal to 50% of the 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 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 prerequisite may elect to take early retirement at age 45 with reduced pension benefits.
- 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 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 monthly pension benefits beginning at age 50 equal to 3% of the member's average Computation Pay determined over the highest 36 consecutive months of Computation Pay, multiplied by the number of years of pension service, up to a maximum of 32 years. 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.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

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 (excluding the benefit supplement amount).
- 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.
- 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 \$358,726,070 and \$291,375,346 for December 31, 2004 and 2003, 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 and \$1,200 monthly for Qualified Surviving Spouse, if there are no Qualified Surviving Children receiving benefits. The minimum benefit is \$1,100 monthly for Qualified Surviving Children and Qualified Surviving Spouse if qualified surviving children are receiving benefits.

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 document.

The contribution schedules contained in the Plan document 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 is not eligible for a future benefit or 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 who is not eligible for a future benefit 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 from employment.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

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.

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 and each are elected by pensioners from their respective departments.

Basis of presentation

The accompanying basic financial statements are presented in accordance with generally accepted accounting principles established by the Governmental Accounting Standards Board (GASB), which designates accounting principles and financial reporting standards applicable to State and local governmental units. The accompanying basic financial statements include solely the accounts of the System, which include all programs, activities and functions relating to the accumulation and investment of the net assets and related income necessary to provide the service, disability and death benefits required under the terms of the governing statutes and amendments thereto.

Recent accounting pronouncement

The GASB has issued Statement No. 40, *Deposit and Investment Risk Disclosures*, which amends GASB Statement No. 3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements*. GASB Statement No. 40 requires disclosure information related to common risks inherent in deposit and investment transactions. The statement is effective for financial statements for periods beginning after June 15, 2004 and accordingly, will be implemented by the System in fiscal year 2005.

Basis of accounting

The basis of accounting is the method by which revenues and expenses are recognized in the accounts and reported in the basic financial statements. The accrual basis of accounting is used by the System. Under the accrual basis of accounting, revenues, which include contributions and investment income, are recognized when they are earned and collection is reasonably assured, and expenses are recognized when the liability is incurred. Member and Employer contributions are recognized as revenue in the period in which the compensation is earned. In addition, the System records contributions according to System requirements and State statute. Benefits paid to members and contribution refunds are recognized when due and payable in accordance with the terms of the System. Accrued income, when deemed uncollectible, is charged to operations.

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.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

Reporting entity

The System is a component unit of the City and its basic financial statements and required supplemental information are included in the City's Comprehensive Annual Financial Report.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

The System considers only demand deposits as cash. Cash equivalent securities, which are composed of all highly liquid investments with a maturity of three months or less when purchased, are considered to be cash equivalents.

Investment valuation and income recognition

Statutes of the State of Texas authorize the System to invest surplus funds in the manner provided by the Government Code, Title 8, Subtitle A, Subchapter C. This subchapter provides for the investment of surplus assets in any investment or investments that are deemed "prudent" by the Board. The investment policy of the Board does not restrict the types of investments authorized to be made on behalf of the System. 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 reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Short-term investments are government and corporate bonds with a maturity of less than one year and are valued based on current market rates. The fair value of limited partnerships, real estate trusts, and real estate loans is based on independent appraisals and recent financial results. Investments that do not have an established market are reported at their estimated fair values.

Unrealized gains and losses are presented as net appreciation in fair value of investments on the statement of changes in plan net assets along with gains and losses realized on sales of investments. Purchases and sales of investments and forward foreign exchange contracts are recorded on the trade date. Gains or losses on forward foreign exchange contracts are recognized when the contract is complete.

Dividend income is recorded on the ex-dividend date. Interest and income from other investments are recorded as earned.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

Benefits

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

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, 2004 and 2003 were converted to the System's functional currency (United States dollars) at the foreign exchange rates quoted at December 31, 2004 and 2003. 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.

Administrative expenses

The cost of administering the System is paid by the System from current earnings pursuant to an annual fiscal budget adjusted by the Board.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

2. **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.

	Fair Value at December 31,	
	2004	2003
Investments - Category I (Held by System's agent in System's name)		
Cash and short-term investments	\$ 132,980,346	65,428,659
Commingled index funds	373,501,808	439,886,379
Domestic corporate fixed-income - not on securities loan	249,679,877	197,079,881
International fixed income - not on securities loan	185,556,959	101,451,869
U.S. government and agency securities - not on securities loan	16,111,911	38,346,548
Domestic equities - not on securities loan	448,229,280	334,216,123
International equities - not on securities loan	559,688,607	489,488,686
<u>Investments - not categorized</u>		
Investments held by broker-dealers under securities loans with cash collateral:		
U.S. government and agency securities	4,122,111	2,819,650
Domestic corporate fixed-income	56,477,581	77,755,356
Domestic equities	53,353,049	61,939,974
International equities	38,780,564	36,180,588
International fixed income	8,280,151	3,964,326
Total investments held by broker-dealer under securities loans with cash collateral	161,013,456	182,659,894
Investment under reverse repurchase agreements	9,450,792	
Securities lending short-term collateral investment pool	164,927,817	181,619,710
Real estate	383,872,834	323,708,945
Total investments	\$ 2,685,013,687	2,353,886,694

Continued

3. Securities Lending

The Board has authorized the System to enter into an agreement 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 2004 and 2003, JP Morgan lent, on behalf of the System, securities held by JP Morgan as the System's custodians, and received United States dollar cash and United States Government securities as collateral. 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 2004 and 2003 on the amount of the loans that 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 borrower, JP Morgan. JP Morgan maintains a Banker's Blanket Bond in the amount of \$75 million and has insurance coverage in the amount of \$50 million for any losses which could result from borrower's defaults.

During 2004 and 2003, 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 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, 2004 and 2003, the System had no credit risk exposure to borrowers. The market value of securities on loan and collateral held for the System were \$161,013,456 and \$164,927,817 at December 31, 2004, and \$182,659,894 and \$188,596,427 at December 31, 2003.

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, 2004 and 2003.

Continue

4. Contributions Required and Contributions MadeFunding policy

Contribution rates are established to remain level over time as a percentage of members' salaries. The contribution rate has been determined to provide for normal cost plus the level percentage of members' salaries required to amortize the unfunded actuarial accrued liability (or surplus) over 29.

The required contribution rate of the City, pursuant to an actuarial study effective January 1, 2005, consists of 15.73% of covered members' salaries to pay normal costs, increased by 10.13% of covered members' salaries to amortize its funding deficit over 29 years, increased by 1.64% of covered members' salaries for an additional amortization requirement resulting in a net contribution rate of 27.5%. The City is required to contribute at a rate that has been actuarially determined and adopted by the Board.

In 2004 and 2003, combined police officers, firefighters and City contributions represent approximately 35.75% and 35.67%, respectively of each year's covered payroll. State law requires that the System fund the plan benefits based on an approved actuarial study. The actuary must certify that the contribution commitment by police officers, firefighters and the City provides an adequate financing arrangement. During 2004 and 2003, contributions were made in accordance with the adopted plans of benefits approved by the System's actuary.

Historical trend information

Historical trend information is provided as supplemental information on pages 20 through 22. This information is intended to demonstrate progress the System has made in accumulating sufficient assets to pay benefits when due and the related actuarial assumptions used in determining the actuarially determined amounts.

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

5. Investments

Portions of the System's investments are classified as security investments. A security is a transferable financial instrument that evidences ownership or creditorship. Investments in commingled funds, limited partnerships, real estate trusts, and loans and mortgages are investments that are evidenced by contracts rather than securities.

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 JP Morgan Chase and under such agreements JP Morgan Chase assumes responsibility for the safekeeping of certain investments, handling of transactions based on the instructions of investment managers, and accounting for the investment transactions.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

Investments that individually represent 5% or more of the net assets available for benefits and the total of investments that individually represent less than 5% of the net assets available for benefits at December 31 are as follows:

	2004		2003	
	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	1,622,502	358,491,872	1,627,777	324,311,752
International equity - Clay Finlay Inc. EAFE			9,216,943	132,187,404
Securities lending:				
Global Securities Lending JP Morgan		164,927,817		181,619,710
International equity:				
Bank of Ireland			18,873,857	244,621,638
Fidelity Management Trust Co.			14,994,529	156,063,016
Domestic equities funds:				
Oak Associates			4,800,000	125,313,814
Alliance Capital			3,689,010	123,831,932
Corporate securities funds:				
International Fixed Income - Loomis Sayles			187,057,459	<u>186,062,467</u>
Total investments greater than 5% of net assets		523,419,689		1,474,011,733
Investments less than 5% of net assets:				
At quoted market value		1,777,721,164		556,166,016
At appraised value		<u>383,872,834</u>		<u>323,708,945</u>
Total investments		<u>2,685,013,687</u>		<u>2,353,886,694</u>

6. Forward Contracts

During fiscal years 2004 and 2003, the System entered into forward foreign exchange contracts. A currency forward is a contractual agreement between two parties to pay or receive specific amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. Forward commitments are not standardized and carry credit risk due to the possible nonperformance by one of the counterparties. The maximum potential loss is the aggregate face value in U.S. dollars at the time the contract was opened; however, the likelihood of such loss is remote. Forwards are usually traded over-the-counter. These transactions are entered into in order to hedge risks from exposure to foreign currency rate fluctuation and to facilitate trade settlement of foreign security transactions. Forwards carry market risk resulting from adverse fluctuations in foreign exchange rates. Recognition of realized gain or loss depends on whether the currency exchange rate has moved favorable or unfavorable to the contract holder upon termination of the contract. Prior to termination of the contract, the System records the unrealized currency translation gain or loss based on the applicable forward exchange rates. Such matching existed at year end.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

During 2004 and 2003, the System recognized net realized gains (losses) on foreign currency forward contracts of \$(1,199,639) and \$(1,476,077), respectively. At December 31, 2004 and 2003, the System had net unrealized appreciation (depreciation) on forward contracts reflected in the accompanying basic financial statements of approximately \$(8,179) and \$595,812, respectively.

7. Obligation Under Reverse Repurchase Agreements

State statutes permit the System to enter into reverse repurchase agreements. The credit exposure at year end related to these agreements was \$2,390,792. All sales of investments under reverse repurchase agreements are for fixed terms. In investing the proceeds of reverse repurchase agreements, the System policy is for the term to maturity of the investment to be the same as the term of the reverse repurchase agreements. Such matching existed at year end.

8. 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.

9. 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, \$546,426 and \$577,172 were reimbursed to the City by the System during the years ended December 31, 2004 and 2003, respectively.

Investment related expenses for the years ended December 31, 2004 and 2003, also include approximately \$10,685,754 and \$9,853,845, respectively, in asset management fees.

10. Commitments and Contingencies

As described in note 1, certain members of the System are entitled to refunds of their accumulated contributions on termination of employment with the City, prior to being eligible for pension benefits. As of December 31, 2004 and 2003, aggregate contributions from active members of the System with less than five years of service were approximately \$7,056,275 and 6,725,730, respectively,

The System had outstanding investment commitments to various limited partnerships and international investment advisors of approximately \$101 million at December 31, 2004.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

11. Deferred Compensation Plans

The System offers its employees a deferred compensation plan (the DCP) created in accordance with Internal Revenue Code Section 457. The DCP, available to all employees of the System, permits employees to defer a portion of their salary until future years. Distributions from the DCP are not available to employees until termination, retirement, death or unforeseeable emergency. The DCP has a third party administrator, CitiStreet Associates LLC (CitiStreet), and the cost of administration and funding are borne by the DCP participants. Amounts deferred are held in trust by CitiStreet and since, the System had no fiduciary responsibility for the DCP, these amounts are not reflected in the accompanying financial statements in accordance with GASB Statement No. 32.

The System also offers its employees a money purchase pension plan (MPP) created in accordance with Internal Revenue code Section 401. The plan is available to employees of the System that are not considered an employee of the City. Participation in the plan is with the performance of one hour of service and termination from the plan is upon employment termination. Employees are allowed to make after tax contributions, not to exceed IRS Code limitations. System contributions equal a percentage of the employee's compensation that is equal to the contributed amount the City of Dallas makes on behalf of the System participant. During 2004 and 2003, the System contributed \$179,713 and \$107,152, respectively. The MPP has a third party administrator, CitiStreet Associates LLC (CitiStreet), and the cost of administration and funding are borne by the MPP participants. Amounts deferred are held in trust by CitiStreet and since, the System had no fiduciary responsibility for the MPP, these amounts are not reflected in the accompanying financial statements in accordance with GASB Statement No. 32.

12. Risk and Uncertainties

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

The System contribution rates and the actuarial information included in the schedule of contributions, page 21, and schedule of funding progress, page 20, are based on certain assumptions pertaining to interest rates, inflation rates and participant demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term could be material to the basic financial statements.

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 or Plan's basic financial statements as of December 31, 2004 and 2003.

DALLAS POLICE AND FIRE PENSION SYSTEM

Schedule of Funding Progress (Unaudited)
(dollars in millions)

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

REQUIRED SUPPLEMENTAL INFORMATION

Schedule of Funding Progress						
Actuarial covered valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) entry age (b)	AAL (UAAL) (b-a)	Unfunded Funded ratio (a/b)	payroll (c)	UAAL as a percentage Covered of payroll ((b-a)/c)
1/1/1997	1,137	1,630	493	69.7%	178	277.0%
1/1/1998	1,307	1,782	475	73.3	193	246.1
1/1/1999	1,503	1,958	455	76.8	205	222.0
1/1/2000	1,772	2,094	322	84.6	213	151.2
1/1/2001	2,005	2,328	323	86.1	224	144.2
1/1/2002	2,158	2,554	396	84.5	251	157.8
1/1/2003	1,992	2,738	746	72.8	270	276.3
1/1/2004	2,286	2,889	603	79.1	265	227.5
1/1/2005	2,485	3,074	589	80.8	282	208.9

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.

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

See accompanying note to required supplemental schedules.
See accompanying independent auditors' report.

DALLAS POLICE AND FIRE PENSION SYSTEM

Schedule 2

DALLAS POLICE AND FIRE PENSION SYSTEM

Schedule of Employer Contributions (Unaudited)
(dollars in thousands)

Note to Required Supplemental Schedules (Unaudited)

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

Schedule of Contributions		
Year ended December 31,	Annual required contribution	Percentage contributed
1997	\$ 57,039	100%
1998	60,843	100%
1999	63,441	100%
2000	66,691	100%
2001	75,592	100%
2002	77,085	100%
2003	78,323	100%
2004	83,291	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.

Contributions were made in accordance with actuarially determined contribution requirements as adopted by the Board of Trustees.

See accompanying note to required supplemental schedules.
See accompanying independent auditors' report.

The information presented in the required supplemental schedules was determined as part of the actuarial valuations at the dates indicated. The significant assumptions underlying the actuarial calculations at January 1, 2005 and 2004 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 cost method
* Includes inflation rate of 4% and net of all expenses	
Post retirement benefit increases:	
Group A (former Plan A) and Group B members	4% of original pension annually
Group A (former Old Plan) members	4% compounded annually
Asset valuation	5-year smoothing
Amortization method	Open level percent of payroll
Remaining amortization period	29 years in 2005 and 38 years in 2004
DROP account returns	9% per annum
Post retirement mortality	1994 Group Annuity Mortality Table

The actuarial information presented was determined by the actuarial firm Buck Consultants, Inc. (formerly Mellon Consultants, Inc.) for 2004 and 2003 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 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.

Actuarial calculations were made by the consulting actuary Buck Consultants, Inc. as of January 1, 2005 and 2004, and are not materially different from what they would have been had they been calculated on December 31, 2004 and 2003, respectively. The above assumptions are used by the System's actuaries 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 document.

See accompanying independent auditors' report.

Investment Section

Strategic Investment Policy

The Strategic Investment Policy of the Dallas Police and Fire Pension System (“the System”) provides the framework for management of the System’s assets. It has been designed to allow sufficient flexibility in the management process to capture investment opportunities as they may occur, yet provide reasonable parameters to ensure prudence and care in the execution of the investment program.

It is essential that the value added by the System’s investment management be appropriate not only to meet inflationary effects, but also to provide additional returns above inflation to meet the investment goals of the System. Meeting the System’s investment goals finances an optimal package of retirement benefits for Dallas police officers and firefighters and maximizes the utilization of the members’ contributions and the tax dollars of the citizens of Dallas.

STATEMENT OF INVESTMENT GOALS

The general investment goals of the System are broad in nature to encompass the purpose of the System and its investments. They articulate the philosophy by which the Board will manage the System’s assets within the applicable regulatory constraints.

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

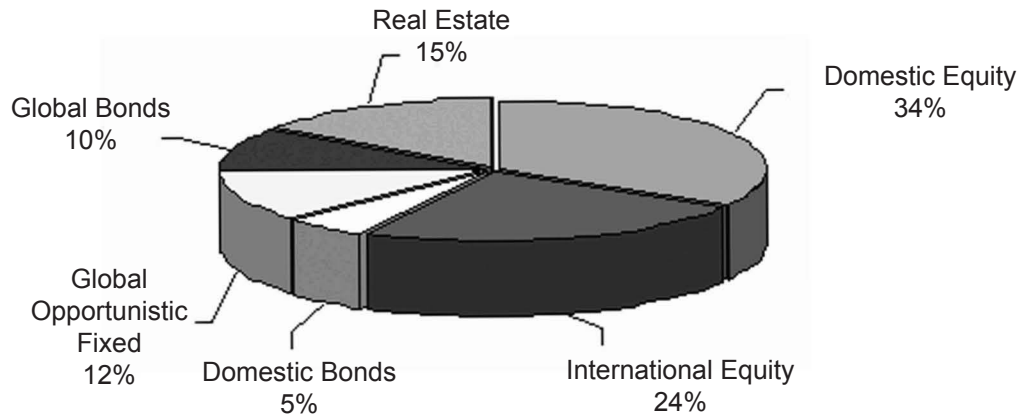
STRATEGIC ASSET ALLOCATION POLICY

In order to achieve maximum returns, the policy of the Board of Trustees (“the Board”) is to diversify between various investment types as deemed suitable.

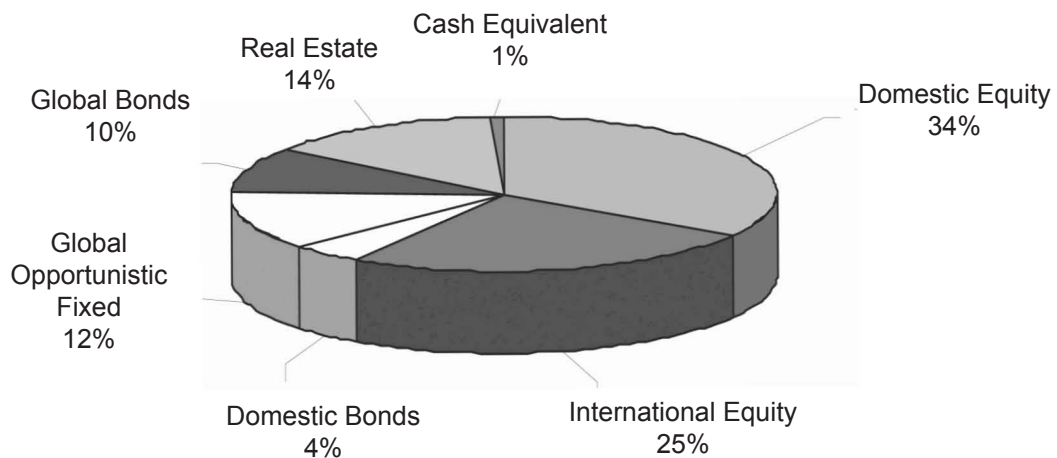
The Board has adopted an asset allocation policy with three primary asset groups, Equity (Domestic and International), Fixed Income (Global High Quality, High Yield and Global Opportunistic) and

Real Estate, as well as cash and cash equivalents, as shown in the charts below:

Asset Allocation Model



Asset Allocation as of December 31, 2004



An asset allocation review is conducted monthly. This comparison is developed from the month end asset valuation obtained from the System’s custodian. If this comparison reveals that an account is outside the designated range, as specified in the Investment Implementation Policy, the Board may direct the Administrator to effect a reallocation of assets by month end to achieve target.

GENERAL INVESTMENT MANAGER GUIDELINES

Investment management for the System is provided by external investment managers. Each investment manager operates under a set of guidelines specific to the strategic role its portfolio is to fulfill in the overall investment structure. Individual managers are evaluated according to benchmarks that reflect the objectives and characteristics of the strategic role their managed portfolio is to fulfill.

INVESTMENT HIGHLIGHTS

The System's market value increased by \$310.7 million in 2004, resulting in a year-end total asset valuation of \$2.49 billion. The System had an excellent year returning 14.77% for the year 2004. This return exceeded the actuarial interest rate of 8.50% that the System expects to earn over an extended period. For a more detailed comparison, see "Rates of Return by Asset Class" below.

Rates of Return by Asset Class			
Investment Category	Rate of Return	Benchmark Comparison	
Domestic Equities	12.47%	10.87%	S&P 500 Index
International Equities	17.28%	20.24%	EAFE Index
Domestic Fixed Income	10.10%	10.95%	Citigroup Comp. High Yield
Global Fixed Income	8.33%	9.27%	Lehman Global Aggregate
Global Opportunistic Fixed	16.50%	10.96%	Custom Bond Index
Real Estate	20.21%	14.52%	NCREIF Property Index
Cash & Equivalents	3.13%	1.32%	91-Day Treasury Bill
Total Portfolio	14.77%	8.50%	Actuarial Assumption

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

The System's use of multiple investment strategies, asset diversification, and asset rebalancing, has served the System well over many market cycles, resulting in a continued ranking among the best performing public pension plans in the nation. The System's performance ranked in the top 4 percentile and top 1 percentile respectively for the one year and two years ending 2004 in the Callan Associates, Inc. (CAI) Public Fund Sponsor Database. The 10-year performance ranking places the System in the top ten percent of public funds tracked in the CAI Public Fund Sponsor Database. Wilshire Associates, the System's general investment consultant compiled similar results showing the fund's performance is in the top 6 percentile ranking over the last 10 years in the Wilshire database. The "Annualized Cumulative Investment Return" graph in the Introductory Section shows that the System's annualized return since 1982 is 11.46%.

Equity Portfolio

Large value capitalization stocks outperformed large capitalization growth stocks for the fifth year in a row. The Wilshire Large Value Index returned 15.68% versus the Wilshire Large Growth Index that returned 6.66%. The value style also carried through to small capitalization stocks as evidenced by the Wilshire Small Cap Value Index returning 20.59% versus the Wilshire Small Cap Growth Index returning 16.20%. International stocks returned 21.35 % as tracked by the Morgan Stanley Capital International (MSCI) All Country World Index excluding the United States (ACWI ex U.S.). Domestic stocks returned 10.87% according to the S&P 500 Index.

The System's domestic equity portfolio, comprising approximately 33.8% of the total fund, returned 12.47% in 2004 versus the S&P 500 Index return of 10.87% in 2004. The fund's domestic equity composite has returned an impressive ten year annualized performance of 14.79% in comparison to the ten year annualized performance of 12.07% of the Standard & Poor's 500 stock index.

The Huff Alternative Fund, investing in private companies, was the outstanding domestic equity investment manager for the System in 2004 with a total return of 46.75%. The best performing domestic public security investment manager was The Mitchell Group, an investment manager specializing in energy companies, returning 35.91%. AllianceBernstein, a domestic value manager, returned 17.75% for the year.

International Equity Portfolio

International equity performance, as measured by the Morgan Stanley Capital International Europe Australasia Far East (MSCI EAFE) index, returned 20.24% for the year ending 2004. Contributing to the international equity performance was the strengthening of the Euro, Yen, and Pound currencies versus the Dollar.

The System's international equity portfolio is approximately 24.3% of the total assets of the fund and returned 17.28% for this category in 2004. Fidelity Management Trust Company, one of the System's international equity managers, performed above the MSCI EAFE Index by returning 21.13% for the year 2004. Fidelity's annualized performance is 14.33% since March of 2002.

Fixed Income Portfolio

Fixed income holdings account for approximately 26.3% of the total investment portfolio for the System. The System's fixed income investments are divided into three categories: Domestic High Yield, Global Quality, and Global Opportunistic.

Domestic high yield bonds as evidenced by the Citigroup High Yield Index returned 10.95%, outperforming domestic high-grade bonds that returned 4.11%, as tracked by the Lehman Aggregate Index. U.S. government inflation protected bonds (TIPS) returned 8.40%, as benchmarked by the Lehman U.S. Treasury Inflation Protected Securities (TIPS) Index.

The High Yield composite and the Global Quality composite returned ten year annualized performance numbers of 9.83% and 7.80% respectively for the period. The Global Opportunistic composite started in 1998 does not have 10 year numbers; however, the Global Opportunistic portfolio compiled a 9.67% five year annualized return for the period ending 2004.

The Domestic High Yield portfolio represents approximately 4.50 % of total System assets and is managed by W.R. Huff Asset Management. W.R. Huff returned 10.10% in the high yield category for in 2004. Huff's long-term performance in this category has produced an impressive 13.21% annualized return to the System since December of 1990.

The Global Quality fixed income portfolio represents approximately 9.50% of the total fund. The Global Quality portfolio is managed by Mondrian Investment Partners, formerly known as Delaware International, and Brandywine Asset Management. Brandywine began managing bonds for the System late in December and will report full year performance numbers next year. The Global Quality fixed income category returned 8.33% for the year ending 2004. Mondrian Investment Partners, a London based investment advisor, had an outstanding year returning 12.16% for the System.

The Global Opportunistic portfolio allows managers to seek higher yielding opportunities in international and domestic markets using a broad spectrum of investment grade and non-investment securities. The Global Opportunistic portfolio represents approximately 12.30% of the total fund and returned 16.50% for the 2004. Highland Capital's investments in distressed debt yielded an extraordinary return of 63.62% for the System in 2004. Loomis Sayles investment in Global Opportunistic fixed income yielded a 14.14% return for the year and has historically returned exceptional numbers as evidenced by the 12.44% annualized returned for the System since September of 1998.

Real Estate Portfolio

The System's real estate portfolio comprised approximately 14.60% of the total fund and returned 20.21% for the year 2004. The real estate portfolio has returned 11.97%, 11.19%, and 11.61% for the three years, five years, and ten years, respectively, for the period ending 2004.

The private real estate category had an impressive year as returns hit 18.82% on approximately 69% of the total real estate portfolio. The private real estate portfolio produced 11.56%, 11.00%, and 12.26%, returns for the three year, five year, and ten year, periods, respectively, for the year ending 2004. INVESCO led the private category, returning 40.84% for the year. GMAC Institutional Advisors, the System's newest real estate manager in the private category, only having been a System advisor since September 2004, returned 25.39% for the fourth quarter.

The public securities portion of the Real Estate Portfolio consisted of REITs (Real Estate Investment Trust) comprising approximately 13.20% of the System's real estate assets. RREEF, the REIT advisor for the System, returned 35.02% for the year ending 2004. RREEF produced 25.23% and 24.40% annualized return for the three-year and five-year periods ending 2004.

The timber portion of the Real Estate Portfolio is managed by Forest Investment Associates and represents approximately 7.70% of the real estate assets. Forest Investment Associates returned 15.87% for the year 2004. The Hancock Agricultural Investment Group manage the System's investments in farmlands located in the United States and Australia. Hancock returned 17.68% for the year and 11.06% annualized for the last three 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 1.90% to 3.30% for the year 2004.

Actuarial Section

DALLAS POLICE AND FIRE PENSION SYSTEM
ACTUARIAL VALUATION
AS OF JANUARY 1, 2005

May 31, 2005

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, 2005

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, 2005.

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, 2005, the employer contribution rate needed in order to pay the normal cost and fund the Unfunded Actuarial Accrued Liability over 40 years is 25.86%. This amount is slightly less than the 27.25% employer contribution calculated as of January 1, 2004. The current contribution rate covers the normal cost and the amortization of the Unfunded Actuarial Accrued Liability (UAAL) over 29 years.

Mr. Richard Tettamant
May 31, 2005
Page 2

Benefit Provisions

The actuarial valuation reflects the benefit and contribution provisions set forth in the System's statutes. 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.

Assumptions and Methods

The actuarial assumptions and methods used in the valuation are presented in Schedule C. There were changes in actuarial assumptions since the last actuarial valuation. These changes were made to better reflect recent experience and our expectations about future experience. These changes include:

1. Assuming active members currently eligible for DROP and who have not joined will not join DROP, and
2. Changing the withdrawal and retirement rates.

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, 2005 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 and Consulting Actuary

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Enclosures

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Summary of Principal Results

Comments on the Valuation

	January 1, 2005	January 1, 2004
Membership		
Active	4,597	4,606
Terminated with deferred benefits	156	152
Retired members and beneficiaries	3,034	2,947
Compensation		
Total	\$ 281,569,096	\$ 265,226,676
Average	\$ 61,251	\$ 57,583
Assets		
Market value	\$ 2,484,994,949	\$ 2,183,058,868
Actuarial value	\$ 2,484,994,949	\$ 2,285,744,890
Valuation Results		
Unfunded actuarial accrued liability	\$ 589,053,564	\$ 603,180,958
Funding period	29	38
40-year funding cost (City)	25.86%	27.25%
Margin	1.64%	0.25%
GASB No. 25		
Actuarial accrued liability (AAL)	\$ 3,074,048,513	\$ 2,888,925,848
Assets (actuarial)	\$ 2,484,994,949	\$ 2,285,744,890
GASB ratio	80.8%	79.1%
Unfunded AAL	\$ 589,053,564	\$ 603,180,958

Overview

The current contribution rates are sufficient to keep the System actuarially sound, 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 overall funding of the Plan remains sound. The funding period decreased to 29 years from 38 years. This decrease was primarily due to resetting the actuarial value of assets to be the market value of assets at January 1, 2005 and a change to the retirement and withdrawal rates offset by a loss on the actuarial value of assets.

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 25.86% compared with the City's actual contribution rate of 27.50% and with the 40-year funding cost in 2004 of 27.25%. Section 3 shows a reconciliation of the changes between the 2004 and 2005 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 29 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 2004 and 2005.

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. There were changes in actuarial assumptions since the last actuarial valuation. These changes were made to better reflect recent experience and our expectations about future experience. These changes include:

1. Assuming active members currently eligible for DROP and who have not joined will not join DROP, and
2. Changing the withdrawal and retirement rates.

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 25.86% will be required for the City to avoid showing an accrued pension liability on its financial statements for the fiscal year beginning in 2005 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 not 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 2004 and 2005 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. For the 2005 valuation, the actuarial value of assets was reset to the market value of assets and the five-year phase in of gains and losses will begin with the asset gains and losses that occur after December 31, 2004. The estimated rate of return for 2004 is 14.00% for the market value of assets.

Membership Statistics

Data on active members and on retired members was supplied by the Administrator. Growth among active members was relatively flat and growth of the total payroll for active members was moderate during the last year. The active membership decreased from 4,606 members as of January 1, 2004 to 4,597 members as of January 1, 2005. The total active payroll increased from \$265,226,676 to \$281,569,096 over the same period, a 6.2% increase. Schedule A shows a summary of the membership data.

Experience

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

Actuarial Cost, Margin and Funding Period

**Actuarial Cost, Margin and Funding Period
(continued)**

	<u>January 1, 2005</u>	<u>January 1, 2004</u>
1. Covered Payroll		
a. Active members excluding DROP	\$ 206,722,304	\$ 193,154,969
b. DROP members	\$ <u>74,846,792</u>	\$ <u>72,071,707</u>
c. Total	\$ 281,569,096	\$ 265,226,676
2. Actuarial value of future pay		
a. Active members excluding DROP	\$ 1,458,889,300	\$ 1,366,799,000
b. DROP members	\$ <u>1,079,666,600</u>	\$ <u>931,192,700</u>
c. Total	\$ 2,538,555,900	\$ 2,297,991,700
3. Current contribution rates		
a. City	27.50%	27.50%
b. Member	<u>8.50%</u>	<u>8.50%</u>
c. Total	36.00%	36.00%
4. Actuarial present value of future benefits	\$ 3,659,649,234	\$ 3,430,493,676
5. Actuarial present value of future normal costs		
a. Total	\$ 585,600,721	\$ 541,567,828
b. Member (3b x 2a)	\$ 124,005,591	\$ 116,177,915
c. City (5a - 5b)	\$ 461,595,130	\$ 425,389,913
6. Actuarial accrued liability (4 - 5a)	\$ 3,074,048,513	\$ 2,888,925,848
7. Actuarial value of assets	\$ 2,484,994,949	\$ 2,285,744,890
8. Unfunded actuarial accrued liability (UAAL) (6 - 7)	\$ 589,053,564	\$ 603,180,958
9. Normal cost		
a. Normal cost percentage (5a ÷ 2c)	23.07%	23.57%
b. Total normal cost (1c x 9a)	\$ 64,957,990	\$ 62,513,928
c. Member normal cost (1a x 3b)	\$ 17,571,396	\$ 16,418,172
d. City normal cost (9b - 9c)	\$ 47,386,594	\$ 46,095,756
e. City normal rate (9d ÷ [1c x 1.07])	15.73%	16.24%

	<u>January 1, 2005</u>	<u>January 1, 2004</u>
10. 40-year funding cost*		
a. City normal cost rate	15.73%	16.24%
b. Amortization rate	<u>10.13%</u>	<u>11.01%</u>
c. Total	25.86%	27.25%
11. Margin over/(under) 40-year cost* (3a - 10c)	1.64%	0.25%
12. Funding period to amortize UAAL	29	38

* 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 29 years.

Analysis of Change in UAAL

1. UAAL as of January 1, 2004	\$ 603,180,958
2. Changes due to:	
a. Expected increase (negative amortization)	\$ 17,271,627
b. Actual contributions greater than expected	(6,447,992)
c. Liability experience	(9,594,749)
d. Asset experience	94,349,639
e. Assumption change	(6,695,016)
f. Asset method change	<u>(103,010,903)</u>
g. Total changes	\$ (14,127,394)
3. UAAL as of January 1, 2005	\$ 589,053,564

Analysis of Change in Funding Cost

1. 40-year funding cost* as of January 1, 2004	27.25%
2. Changes due to:	
a. Actual contributions greater than expected	(0.11)
b. Liability experience	(0.50)
c. Asset experience	1.49
d. Assumption change	(0.50)
e. Asset method change	<u>(1.77)</u>
f. Total	(1.39)
3. 40-year funding cost* as of January 1, 2005	25.86%

* 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 29 years.

Analysis of Change Funding Period

1. Funding period as of January 1, 2004	38
2. Changes due to:	
a. Passage of time	(1)
b. Actual contributions greater than expected	(1)
c. Liability experience	(3)
d. Assumption change	(3)
e. Asset method change	(15)
f. Asset experience	<u>14</u>
g. Total	(9)
3. Funding period as of January 1, 2005	29

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

	Actuarial Value of Assets	Actuarial Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
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%
January 1, 2004	2,286	2,889	603	79.1%	265	227.5%
January 1, 2005	2,485	3,074	589	80.8%	282	208.9%

**GASB #25 Schedule of Employer Contributions
for Year Ending December 31, 2004**

<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
27.50% of Pay	100.0%

Summary of Accumulated Benefits
(FASB #35)

Accumulated Benefits at January 1, 2005

Vested benefits of participants and beneficiaries currently receiving payments	\$ 1,331,143,563
Other vested benefits	1,413,978,655
Nonvested benefits	<u>140,552,226</u>
Total benefits	\$ 2,885,674,444

FASB #35 Reconciliation

Accumulated benefits at January 1, 2004	\$ 2,773,638,507
Benefits accumulated	\$ 36,322,348
Interest	231,421,290
Benefits paid	(104,194,947)
Assumption change	(51,512,754)
Plan amendments	<u>0</u>
Total Change	<u>112,035,937</u>
Accumulated benefits at January 1, 2005	\$ 2,885,674,444

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Reconciliation of Fund Assets

	<u>Year Ending</u> <u>December 31, 2004</u>
1. Value of fund at beginning of year	\$ 2,183,058,869
2. Contributions	
a. City	83,290,516
b. Member	<u>17,355,730</u>
c. Total	\$ 100,646,246
3. Benefit payments	(103,393,633)
4. Refunds	(801,314)
5. Earnings	318,017,152
6. Expenses	(12,532,371)
7. Value of assets at end of year	\$ 2,484,994,949
8. Estimated rate of return	14.00%

Calculation of Actuarial Value of Assets

1. Market value of assets as of January 1, 2005 \$2,484,994,949

Membership Data

	January 1, 2005	January 1, 2004
1. Active members (excluding DROP)		
a. Police and Fire		
1. Number	3,619	3,612
2. Covered payroll	\$ 206,722,304	\$ 193,154,969
3. Average annual pay	\$ 57,121	\$ 53,476
4. Average age	38.42	38.18
5. Average service (years)	12.25	12.11
b. Police		
1. Number	2,400	2,410
2. Covered payroll	\$ 136,678,036	\$ 128,741,808
3. Average annual pay	\$ 56,949	\$ 53,420
4. Average age	38.20	37.91
5. Average service (years)	12.01	11.78
c. Fire		
1. Number	1,219	1,202
2. Covered payroll	\$ 70,044,268	\$ 64,413,161
3. Average annual pay	\$ 57,460	\$ 53,588
4. Average age	38.85	38.72
5. Average service (years)	12.72	12.76

Membership Data
(continued)

	January 1, 2005	January 1, 2004
2. Active members (DROP only)		
a. Police and Fire		
1. Number	978	994
2. Covered payroll	\$ 74,846,792	\$ 72,071,707
3. Average annual pay	\$ 76,530	\$ 72,507
4. Average age	54.30	53.91
5. Average total service (years)	28.29	28.05
6. Average time in DROP (years)	4.17	3.80
7. DROP account balance	\$ 200,704,549	\$ 175,552,289
b. Police		
1. Number	518	523
2. Covered payroll	\$ 39,612,098	\$ 37,992,443
3. Average annual pay	\$ 76,471	\$ 72,643
4. Average age	54.22	53.92
5. Average total service (years)	27.74	27.61
6. Average time in DROP (years)	4.00	3.76
7. DROP account balance	\$ 98,218,447	\$ 88,322,408
c. Fire		
1. Number	460	471
2. Covered payroll	\$ 35,234,694	\$ 34,079,264
3. Average annual pay	\$ 76,597	\$ 72,355
4. Average age	54.40	53.90
5. Average service (years)	28.90	28.54
6. Average time in DROP (years)	4.35	3.85
7. DROP account balance	\$ 102,486,102	\$ 87,229,881

Membership Data
(continued)

	January 1, 2005	January 1, 2004
3. Active members (including DROP)		
a. Police and Fire		
1. Number	4,597	4,606
2. Covered payroll	\$ 281,569,096	\$ 265,226,676
3. Average annual pay	\$ 61,251	\$ 57,583
4. Average age	41.80	41.57
5. Average service (years)	15.66	15.55
6. DROP account balance	\$ 200,704,549	\$ 175,552,289
b. Police		
1. Number	2,918	2,933
2. Covered payroll	\$ 176,290,134	\$ 166,734,251
3. Average annual pay	\$ 60,415	\$ 56,848
4. Average age	41.04	40.76
5. Average service (years)	14.80	14.60
6. DROP account balance	\$ 98,218,447	\$ 88,322,408
c. Fire		
1. Number	1,679	1,673
2. Covered payroll	\$ 105,278,962	\$ 98,492,425
3. Average annual pay	\$ 62,703	\$ 58,872
4. Average age	43.11	42.99
5. Average service (years)	17.15	17.20
6. DROP account balance	\$ 102,486,102	\$ 87,229,881

Membership Data
(continued)

	January 1, 2005	January 1, 2004
4. Inactive members		
a. Retired members	2,316	2,236
b. Beneficiaries	718	711
c. Number entitled to deferred benefits	<u>156</u>	<u>152</u>
d. Total number of inactive members	3,190	3,099
e. Total annual benefit	\$ 102,384,942	\$ 95,376,901
f. Average annual benefit	\$ 32,096	\$ 30,777

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**Summary of Benefit Provisions
As of January 1, 2005
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% 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 for 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 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 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, 2005)**

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	47.0	23.0	48.30	26.30	.51	.28	.35	.70
25	47.0	23.0	48.30	26.30	.66	.29	.37	.75
30	35.0	18.0	36.20	23.70	.80	.35	.42	.84
35	25.0	18.0	27.80	21.40	.85	.48	.48	.96
40	25.0	18.0	28.20	20.90	1.07	.71	.57	1.15
45	25.0	18.0	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: The percentage of population assumed to retire at various ages is as follows:

Age	Rate	Age	Rate	Age	Rate
38	2%	48	2%	58	20%
39	2	49	2	59	20
40	2	50	4	60	20
41	2	51	3	61	20
42	2	52	3	62	20
43	2	53	3	63	20
44	2	54	3	64	20
45	2	55	25	65	100
46	2	56	20		
47	2	57	20		

Rates are applied when a 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.

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. Any active members who satisfy this criteria and have not entered DROP are assumed to never join DROP.

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 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.

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 will be phased in beginning January 1, 2005. Asset gains or losses prior to January 1, 2005, are fully reflected in the calculation of the Actuarial Value of Assets. The Actuarial Value of Assets at January 1, 2005 is equal to the market value of assets on that date. In no event is the actuarial value of assets less than 80% nor more than 120% of the market value of assets.

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, 2005 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, 2004 through December 31, 2004 shows that during this period there have been about 52% more terminations than expected.			
January 1, 2004 through December 31, 2004			
	<u>Actual</u>	<u>Expected</u>	<u>Actual/Expected</u>
Termination Prior to Retirement	117	77	152%

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, 2000 through December 31, 2004 shows that during this period there have been about 31% 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, 2000 through December 31, 2004			
	<u>Actual</u>	<u>Expected</u>	<u>Actual/Expected</u>
Disability Retirements	9	13	69%

Retirement (Leaving Active Service)

This assumption was changed as of January 1, 2005 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, 2004 through December 31, 2004 shows that during this period there have been about 1% less retirements than expected.

January 1, 2004 through December 31, 2004

	<u>Actual</u>	<u>Expected</u>	<u>Actual/Expected</u>
Retirement	123	124	99%

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, 2004 shows that during this period there have been about 2% more deaths than expected. Since the difference in assumed deaths and actual deaths is small we do not feel that any change in this assumption is necessary at this time.

January 1, 2000 through December 31, 2004

	<u>Actual</u>	<u>Expected</u>	<u>Actual/Expected</u>
Death	422	413	102%

Age at DROP

This assumption has not changed since the implementation of DROP in 1993. The actual age at DROP is the same as the assumed age of 50. We do not feel any change in assumption is necessary at this time since there is no difference in the assumed age at DROP and the actual age at DROP.

January 1, 1996 through December 31, 2004

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

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, 2004 has been 4.03%. 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, 1945 through December 31, 2004

	<u>Actual</u>	<u>Expected</u>	<u>Actual/Expected</u>
Inflation	4.03%	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. Based on our expectations of future promotional and merit salary increases and the assumed rate of inflation, we feel that the current salary increase rates are reasonable. A summary of the actual valuation earnings to the expected valuation earnings over the period January 1, 2000 through December 31, 2004 follows.

January 1, 2000 through December 31, 2004

	<u>Actual</u>	<u>Expected</u>	<u>Actual/Expected</u>
Valuation Compensation	\$1,250,895,240	\$1,226,188,644	102%

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, 2004 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)
1/1/2003	through	12/31/2003	31.65
1/1/2004	through	12/31/2004	13.96
10/1/1988	through	12/31/2004	10.40%

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 11.70%. Last year's DROP interest rate was 9.25%. Therefore, the annual DROP interest rate for October 1, 2005 is 9.50%.

TABLE 1
THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(excluding DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2005

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	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	
Under 25	47	39,648	38	40,903	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	28	39,615	177	43,656	68	48,220	1	41,913	0	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	29	39,612	155	44,035	206	50,537	48	56,891	0	0	0	0	0	0	0	0	0	0	0	0	0
35 to 39	9	39,619	67	44,403	96	51,476	279	58,470	100	63,036	0	0	0	0	0	0	0	0	0	0	0
40 to 44	9	39,642	19	45,754	39	53,158	145	59,069	250	66,695	109	71,259	0	0	0	0	0	0	0	0	0
45 to 49	2	39,606	8	44,372	7	52,993	29	58,652	110	66,361	184	71,546	78	72,058	0	0	0	0	0	0	0
50 to 54	1	155,934	3	60,072	3	57,364	9	59,932	20	68,167	7	67,150	12	68,489	0	0	0	0	0	0	0
55 to 59	0	0	1	43,058	0	0	2	60,355	2	65,501	1	62,632	1	65,544	0	0	0	0	0	0	0
60 to 64	0	0	0	0	0	0	0	0	1	75,634	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
70 & up	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, 2005

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	9	41,893	6	40,347	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	41	40,669	94	43,481	40	48,439	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	11	41,532	79	43,407	122	50,573	23	57,115	0	0	0	0	0	0	0	0	0	0	0	0	0
35 to 39	5	39,648	28	43,686	51	50,928	62	57,804	42	64,746	0	0	0	0	0	0	0	0	0	0	0
40 to 44	7	45,077	9	45,420	15	52,300	53	58,781	153	67,066	63	70,481	0	0	0	0	0	0	0	0	0
45 to 49	0	0	1	39,802	3	51,854	19	57,994	75	66,580	114	69,395	65	70,055	0	0	0	0	0	0	0
50 to 54	0	0	1	141,170	0	0	5	61,519	7	63,425	5	68,054	7	71,320	2	47,659	0	0	0	0	0
55 to 59	0	0	0	0	0	0	0	0	1	63,265	0	0	1	69,549	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
65 to 69	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

TABLE 1

THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(excluding DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2005

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	56	40,009	44	40,827	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	69	40,241	271	43,595	108	48,301	1	41,913	0	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	40	40,140	234	43,823	328	50,550	71	56,964	0	0	0	0	0	0	0	0	0	0	0	0	0
35 to 39	14	39,629	95	44,191	147	51,286	341	58,349	142	63,542	0	0	0	0	0	0	0	0	0	0	0
40 to 44	16	42,020	28	45,647	54	52,920	198	58,992	403	66,836	172	70,974	0	0	0	0	0	0	0	0	0
45 to 49	2	39,606	9	43,864	10	52,651	48	58,391	185	66,450	298	70,723	143	71,148	0	0	0	0	0	0	0
50 to 54	1	155,934	4	80,347	3	57,364	14	60,499	27	66,937	12	67,526	19	69,532	2	47,659	0	0	0	0	0
55 to 59	0	0	1	43,058	0	0	2	60,355	3	64,756	1	62,632	2	67,547	0	0	0	0	0	0	0
60 to 64	0	0	0	0	0	0	0	0	1	75,634	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
70 & up	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, 2005

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	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	
Under 25	47	39,648	38	40,903	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	28	39,615	177	43,656	68	48,220	1	41,913	0	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	29	39,612	155	44,035	206	50,537	48	56,891	0	0	0	0	0	0	0	0	0	0	0	0	0
35 to 39	9	39,619	67	44,403	96	51,476	279	58,470	100	63,036	0	0	0	0	0	0	0	0	0	0	0
40 to 44	9	39,642	19	45,754	39	53,158	145	59,069	250	66,695	110	71,389	0	0	0	0	0	0	0	0	0
45 to 49	2	39,606	8	44,372	7	52,993	30	58,779	110	66,361	201	72,204	86	72,158	0	0	0	0	0	0	0
50 to 54	1	155,934	3	60,072	3	57,364	15	65,617	44	70,126	62	76,468	131	77,438	95	76,168	0	0	0	0	0
55 to 59	0	0	1	43,058	0	0	3	63,830	14	72,097	22	76,095	40	77,085	71	76,613	22	73,930	0	0	0
60 to 64	0	0	0	0	0	0	1	77,354	5	68,345	1	71,048	6	70,321	5	74,706	3	73,771	2	78,871	0
65 to 69	0	0	0	0	0	0	0	0	1	75,636	0	0	0	0	2	74,365	0	0	1	76,350	0
70 & up	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, 2005

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	9	41,893	6	40,347	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	41	40,669	94	43,481	40	48,439	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	11	41,532	79	43,407	122	50,573	23	57,115	0	0	0	0	0	0	0	0	0	0	0	0	0
35 to 39	5	39,648	28	43,686	51	50,928	62	57,804	42	64,746	0	0	0	0	0	0	0	0	0	0	0
40 to 44	7	45,077	9	45,420	15	52,300	53	58,781	153	67,066	64	70,375	0	0	0	0	0	0	0	0	0
45 to 49	0	0	1	39,802	3	51,854	19	57,994	76	66,479	122	69,856	74	70,759	0	0	0	0	0	0	0
50 to 54	0	0	1	141,170	1	72,103	10	67,129	17	74,596	55	77,170	117	75,628	93	75,313	2	62,684	0	0	0
55 to 59	0	0	0	0	0	0	0	0	3	62,002	5	79,293	50	74,626	72	77,061	13	76,228	0	0	0
60 to 64	0	0	0	0	0	0	0	0	1	65,603	0	0	1	63,933	14	81,415	6	86,315	6	86,270	0
65 to 69	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2	79,630	1
70 & up	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, 2005

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	56	40,009	44	40,827	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	69	40,241	271	43,595	108	48,301	1	41,913	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	40	40,140	234	43,823	328	50,550	71	56,964	0	0	0	0	0	0	0	0	0	0	0	0
35 to 39	14	39,629	95	44,191	147	51,286	341	58,349	142	63,542	0	0	0	0	0	0	0	0	0	0
40 to 44	16	42,020	28	45,647	54	52,920	198	58,992	403	66,836	174	71,016	0	0	0	0	0	0	0	0
45 to 49	2	39,606	9	43,864	10	52,651	49	58,474	186	66,410	323	71,317	160	71,511	0	0	0	0	0	0
50 to 54	1	155,934	4	80,347	4	61,049	25	66,222	61	71,372	117	76,798	248	76,584	188	75,745	2	62,684	0	0
55 to 59	0	0	1	43,058	0	0	3	63,830	17	70,315	27	76,687	90	75,719	143	76,838	35	74,783	0	0
60 to 64	0	0	0	0	0	0	1	77,354	6	67,888	1	71,048	7	69,409	19	79,650	9	82,134	8	84,420
65 to 69	0	0	0	0	0	0	0	0	1	75,636	0	0	0	0	2	74,365	2	79,630	2	81,248
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

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TABLE 3

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS
BY AGE AS OF JANUARY 1, 2005

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
43	1	\$ 26,004	\$ 26,004
44	2	30,674	15,337
45	7	191,872	27,410
46	5	131,131	26,226
47	5	145,652	29,130
48	2	33,295	16,648
49	8	184,405	23,051
50	14	504,115	36,008
51	14	361,982	25,856
52	16	577,927	36,120
53	30	1,200,876	40,029
54	27	968,764	35,880
55	48	1,915,585	39,908
56	73	2,814,373	38,553
57	106	4,227,975	39,887
58	117	4,896,284	41,849
59	91	3,502,941	38,494
60	77	2,970,278	38,575
61	91	3,805,274	41,816
62	105	4,268,734	40,655
63	75	3,137,717	41,836
64	104	4,116,555	39,582
65	87	3,639,637	41,835
66	89	3,893,131	43,743
67	75	3,258,480	43,446
68	63	2,505,555	39,771
69	70	2,716,944	38,813
70	70	2,584,941	36,928
71	69	2,435,772	35,301
72	64	2,512,206	39,253
73	69	2,282,939	33,086
74	63	2,179,807	34,600
75	62	2,043,760	32,964
76	53	1,772,088	33,436

TABLE 3
THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS
BY AGE AS OF JANUARY 1, 2005
CONTINUED

POLICE AND FIRE			
AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
77	48	\$ 1,701,371	\$ 35,445
78	33	1,154,870	34,996
79	32	1,018,899	31,841
80	36	1,236,094	34,336
81	24	815,068	33,961
82	13	403,343	31,026
83	12	377,323	31,444
84	19	629,746	33,145
85	17	547,029	32,178
86	6	202,683	33,781
87	9	285,775	31,753
88	4	135,488	33,872
89	2	64,582	32,291
91	1	28,884	28,884
92	1	31,191	31,191
93	1	32,328	32,328
94	1	27,300	27,300
97	1	32,278	32,278
TOTAL	2,112	\$ 80,561,925	\$ 38,145
POLICE	1,230	\$ 44,597,638	\$ 36,258
FIRE	882	\$ 35,964,287	\$ 40,776

TABLE 4
THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF DISABLED MEMBERS
BY AGE AS OF JANUARY 1, 2005

POLICE AND FIRE			
AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
37	1	\$ 26,400	\$ 26,400
38	1	26,595	26,595
40	2	56,560	28,280
41	4	119,253	29,813
42	2	51,726	25,863
43	2	46,078	23,039
44	3	81,333	27,111
45	2	66,021	33,011
47	3	84,700	28,233
48	4	113,618	28,405
49	3	79,557	26,519
50	5	146,020	29,204
51	2	58,234	29,117
52	1	30,286	30,286
53	6	202,608	33,768
54	6	193,252	32,209
55	6	244,530	40,755
56	6	182,904	30,484
57	7	243,576	34,797
58	4	99,591	24,898
59	2	41,890	20,945
60	6	189,758	31,626
61	2	70,531	35,266
62	4	175,122	43,781
63	3	91,724	30,575
64	7	266,469	38,067
65	12	503,991	41,999
66	7	283,765	40,538
67	7	253,365	36,195
68	7	213,841	30,549
69	5	199,151	39,830
70	5	187,885	37,577
71	4	128,657	32,164
72	4	140,968	35,242

TABLE 4

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF DISABLED MEMBERS
BY AGE AS OF JANUARY 1, 2005
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
73	5	\$ 173,512	\$ 34,702
74	5	208,866	41,773
75	7	228,868	32,695
76	4	135,978	33,995
77	4	128,817	32,204
78	6	192,905	32,151
79	6	192,536	32,089
80	5	169,802	33,960
81	3	91,882	30,627
82	5	149,484	29,897
83	3	86,878	28,959
84	2	64,408	32,204
85	1	32,081	32,081
87	2	62,954	31,477
92	1	32,229	32,229
TOTAL	204	\$ 6,851,159	\$ 33,584
POLICE	72	\$ 2,159,286	\$ 29,990
FIRE	132	\$ 4,691,873	\$ 35,544

TABLE 5

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF BENEFICIARIES
BY AGE AS OF JANUARY 1, 2005

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
4	2	\$ 12,603	\$ 6,301
5	3	21,483	7,161
6	1	5,027	5,027
7	2	8,283	4,141
8	4	19,930	4,982
10	3	22,968	7,656
11	2	21,427	10,713
12	3	15,984	5,328
13	3	25,083	8,361
14	2	29,796	14,898
15	6	95,677	15,946
16	3	39,421	13,140
17	7	81,299	11,614
18	2	10,382	5,191
19	4	41,791	10,448
21	1	3,300	3,300
31	2	28,761	14,381
33	2	33,503	16,752
34	1	13,990	13,990
35	2	29,315	14,658
36	1	13,906	13,906
37	1	13,200	13,200
38	2	27,600	13,800
39	1	14,400	14,400
40	2	32,497	16,249
42	1	33,589	33,589
43	2	36,383	18,192
44	3	43,520	14,507
45	4	86,045	21,511
46	3	46,752	15,584
47	4	67,852	16,963
48	3	45,389	15,130
49	4	64,295	16,074
50	6	102,278	17,046
51	8	131,724	16,466

TABLE 5
THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF BENEFICIARIES
BY AGE AS OF JANUARY 1, 2005
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
52	3	\$ 50,256	\$ 16,752
53	6	121,207	20,201
54	8	158,041	19,755
55	6	116,151	19,359
56	14	256,925	18,352
57	10	228,854	22,885
58	15	275,645	18,376
59	13	272,383	20,953
60	6	93,964	15,661
61	14	290,356	20,740
62	8	182,681	22,835
63	12	235,294	19,608
64	9	153,729	17,081
65	23	520,037	22,610
66	19	418,576	22,030
67	16	420,780	26,299
68	14	318,532	22,752
69	19	351,981	18,525
70	16	260,998	16,312
71	18	299,617	16,645
72	22	360,068	16,367
73	17	345,271	20,310
74	26	437,601	16,831
75	21	335,625	15,982
76	30	589,187	19,640
77	23	385,192	16,747
78	25	439,892	17,596
79	15	269,286	17,952
80	29	477,318	16,459
81	22	392,020	17,819
82	18	329,421	18,301
83	22	385,445	17,520
84	10	163,216	16,322
85	16	271,002	16,938
86	16	260,708	16,294
87	8	127,926	15,991

TABLE 5
THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF BENEFICIARIES
BY AGE AS OF JANUARY 1, 2005
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
88	10	\$ 160,250	\$ 16,025
89	9	186,068	20,674
90	9	147,542	16,394
91	4	66,264	16,566
92	3	48,426	16,142
93	4	66,000	16,500
94	4	65,007	16,252
95	1	16,545	16,545
96	3	48,486	16,162
97	1	15,300	15,300
104	1	16,593	16,593
TOTAL	718	\$ 12,751,118	\$ 17,759
POLICE	394	\$ 6,755,972	\$ 17,147
FIRE	324	\$ 5,995,146	\$ 18,504

TABLE 6

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS,
DISABLED MEMBERS AND BENEFICIARIES
BY AGE AS OF JANUARY 1, 2005

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
4	2	\$ 12,603	\$ 6,301
5	3	21,483	7,161
6	1	5,027	5,027
7	2	8,283	4,141
8	4	19,930	4,982
10	3	22,968	7,656
11	2	21,427	10,713
12	3	15,984	5,328
13	3	25,083	8,361
14	2	29,796	14,898
15	6	95,677	15,946
16	3	39,421	13,140
17	7	81,299	11,614
18	2	10,382	5,191
19	4	41,791	10,448
21	1	3,300	3,300
31	2	28,761	14,381
33	2	33,503	16,752
34	1	13,990	13,990
35	2	29,315	14,658
36	1	13,906	13,906
37	2	39,600	19,800
38	3	54,195	18,065
39	1	14,400	14,400
40	4	89,057	22,264
41	4	119,253	29,813
42	3	85,315	28,438
43	5	108,465	21,693
44	8	155,527	19,441
45	13	343,938	26,457
46	8	177,883	22,235
47	12	298,204	24,850
48	9	192,302	21,367
49	15	328,257	21,884

TABLE 6

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS,
DISABLED MEMBERS AND BENEFICIARIES
BY AGE AS OF JANUARY 1, 2005
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
50	25	\$ 752,413	\$ 30,097
51	24	551,940	22,998
52	20	658,469	32,923
53	42	1,524,691	36,302
54	41	1,320,057	32,197
55	60	2,276,266	37,938
56	93	3,254,202	34,991
57	123	4,700,405	38,215
58	136	5,271,520	38,761
59	106	3,817,214	36,011
60	89	3,254,000	36,562
61	107	4,166,161	38,936
62	117	4,626,537	39,543
63	90	3,464,735	38,497
64	120	4,536,753	37,806
65	122	4,663,665	38,227
66	115	4,595,472	39,961
67	98	3,932,625	40,129
68	84	3,037,928	36,166
69	94	3,268,076	34,767
70	91	3,033,824	33,339
71	91	2,864,046	31,473
72	90	3,013,242	33,480
73	91	2,801,722	30,788
74	94	2,826,274	30,067
75	90	2,608,253	28,981
76	87	2,497,253	28,704
77	75	2,215,380	29,538
78	64	1,787,667	27,932
79	53	1,480,721	27,938
80	70	1,883,214	26,903
81	49	1,298,970	26,510
82	36	882,248	24,507
83	37	849,646	22,963
84	31	857,370	27,657

TABLE 6

THE NUMBER AND ANNUAL RETIREMENT ALLOWANCE OF RETIRED MEMBERS, DISABLED MEMBERS AND BENEFICIARIES BY AGE AS OF JANUARY 1, 2005
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
85	34	\$ 850,112	\$ 25,003
86	22	463,391	21,063
87	19	476,655	25,087
88	14	295,738	21,124
89	11	250,650	22,786
90	9	147,542	16,394
91	5	95,148	19,030
92	5	111,846	22,369
93	5	98,328	19,666
94	5	92,307	18,461
95	1	16,545	16,545
96	3	48,486	16,162
97	2	47,578	23,789
104	1	16,593	16,593
TOTAL	3,034	\$ 100,164,202	\$ 33,014
POLICE	1,696	\$ 53,512,896	\$ 31,552
FIRE	1,338	\$ 46,651,306	\$ 34,866

TABLE 7

THE NUMBER AND FUTURE ANNUAL ALLOWANCE OF TERMINATED MEMBERS ENTITLED TO A FUTURE BENEFIT BY AGE AS OF JANUARY 1, 2005

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
28	1	\$ 7,384	\$ 7,384
30	3	18,969	6,323
31	2	12,436	6,218
32	1	7,173	7,173
33	5	48,682	9,736
34	6	53,537	8,923
35	10	93,220	9,322
36	6	70,116	11,686
37	7	100,820	14,403
38	7	69,529	9,933
39	12	150,821	12,568
40	8	135,382	16,923
41	12	168,696	14,058
42	16	286,766	17,923
43	9	113,746	12,638
44	10	175,324	17,532
45	9	193,217	21,469
46	5	71,209	14,242
47	6	75,662	12,610
48	8	88,124	11,016
49	6	144,939	24,157
50	5	93,550	18,710
51	1	21,164	21,164
57	1	20,229	20,229
TOTAL	156	\$ 2,220,695	\$ 14,235
POLICE	123	\$ 1,751,680	\$ 14,241
FIRE	33	\$ 469,015	\$ 14,213

TABLE 8

THE NUMBER, ANNUAL RETIREMENT
ALLOWANCE AND ACCOUNT BALANCE
OF DROP MEMBERS
BY AGE AS OF JANUARY 1, 2005

POLICE AND FIRE
DROP

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT	ACCOUNT BALANCE	AVERAGE ACCOUNT BALANCE
44	2	\$ 49,345	\$ 24,673	\$ 111,699	\$ 55,850
45	3	72,835	24,278	140,132	46,711
47	2	70,240	35,120	59,473	29,737
48	16	684,806	42,800	396,968	24,811
49	23	912,817	39,688	1,478,926	64,301
50	73	3,643,983	49,918	3,289,991	45,068
51	108	5,345,972	49,500	8,777,767	81,276
52	133	6,642,985	49,947	16,785,110	126,204
53	131	6,056,094	46,230	22,551,179	172,146
54	123	5,581,551	45,378	26,092,516	212,134
55	95	4,378,145	46,086	23,848,072	251,032
56	85	3,664,262	43,109	25,050,732	294,714
57	67	2,690,410	40,155	21,512,750	321,086
58	43	1,755,884	40,835	15,010,413	349,079
59	17	752,273	44,251	7,167,984	421,646
60	16	640,746	40,047	7,010,842	438,178
61	21	855,013	40,715	10,159,441	483,783
62	7	282,457	40,351	4,296,357	613,765
63	2	100,240	50,120	1,319,606	659,803
64	4	129,596	32,399	1,514,368	378,592
65	2	74,394	37,197	904,584	452,292
66	1	18,731	18,731	195,949	195,949
67	2	112,115	56,058	1,868,243	934,122
68	2	130,246	65,123	1,161,448	580,724
TOTAL	978	\$ 44,645,140	\$ 45,649	\$ 200,704,550	\$ 205,219
POLICE	518	\$ 23,467,988	\$ 45,305	\$ 98,218,448	\$ 189,611
FIRE	460	\$ 21,177,152	\$ 46,037	\$ 102,486,102	\$ 222,796

Statistics Section

Membership of the System As of January 1, 2005

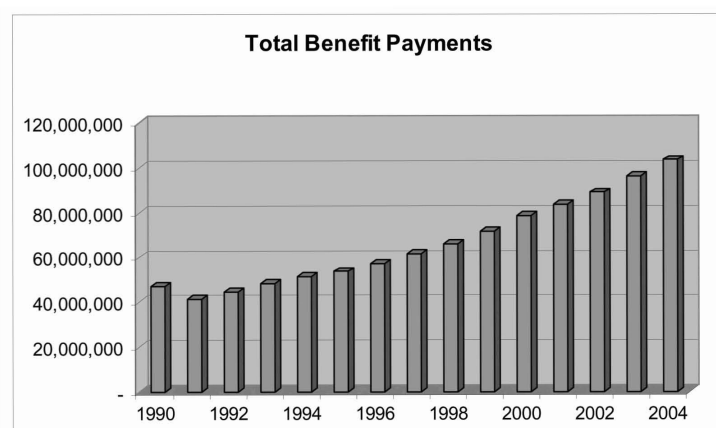
Years of Service	Fire	Police	Total
Fewer than 5	291	593	884
5-9	231	419	650
10-14	162	513	675
15-19	278	483	761
20-24	182	301	483
25-29	73	91	164
30 and over	2	0	2
DROP Members	460	518	978
TOTAL	1,679	2,918	4,597

The "Membership of the System" chart lists Active Members by Department according to years of service. The average service for all Active Members is 15.66 years, 17.15 years of service for Firefighters, and 14.80 for Police Officers. There were 4,597 Active Members as of December 31, 2004.

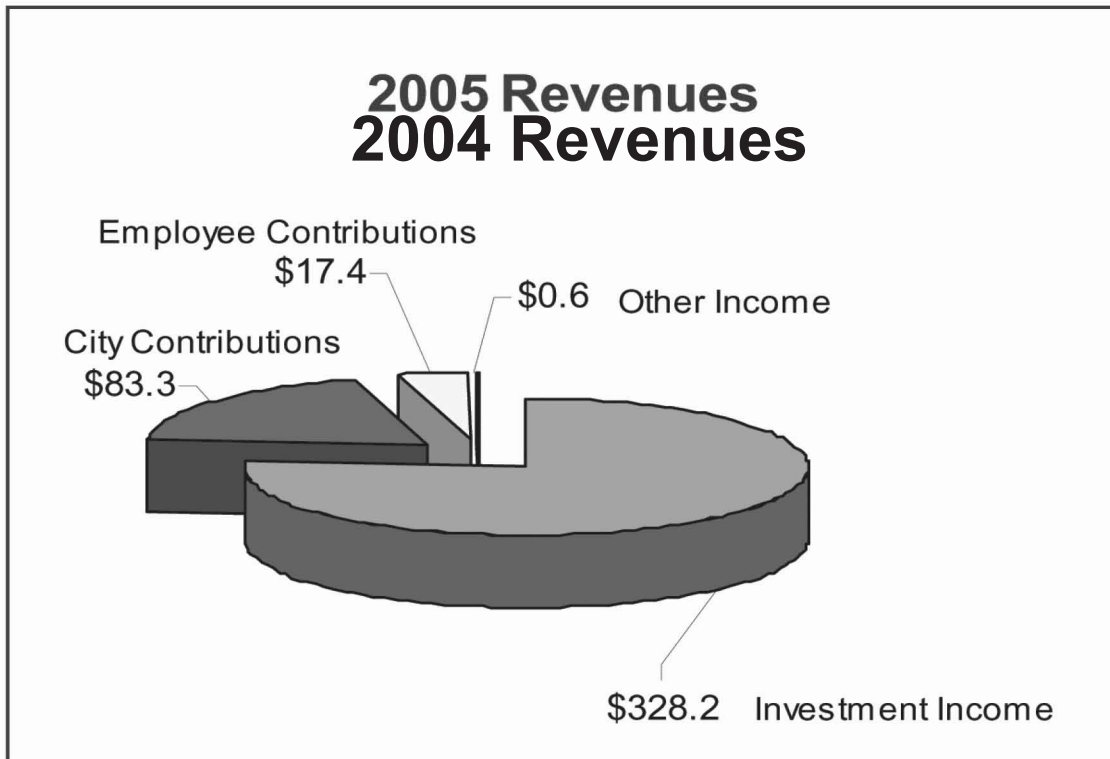
Changes in Benefit Recipients During 2004

	Police	Fire	Total
Service Pensions Granted	72	45	117
Disability Pensions Granted	3	3	6
Pensions Discontinued due to Death	33	28	61
Survivor Pensions Granted	26	21	47
Survivor Pensions Discontinued	6	13	19

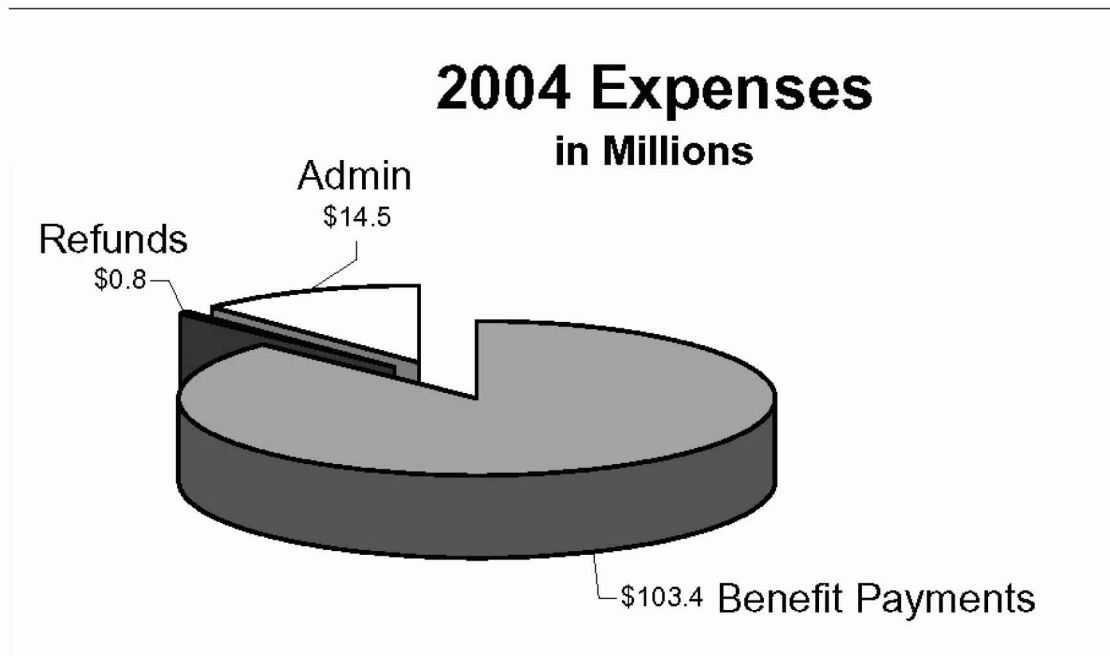
The System experienced a normal number of service and survivor pensions in 2004



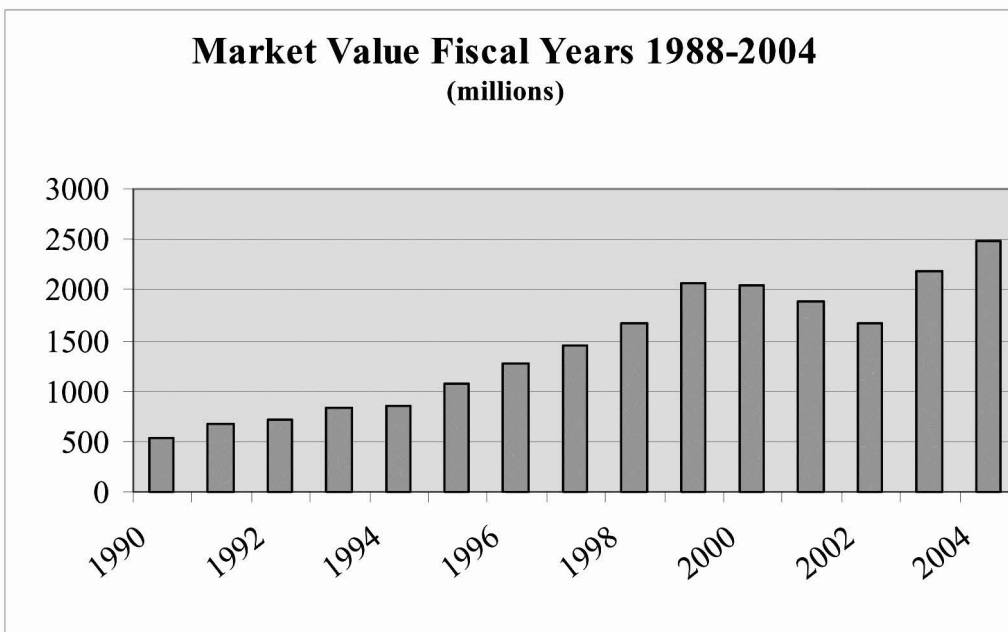
The amount of benefits paid to pensioners and survivors has steadily increased over the years. In 2004, benefit payments totaled \$103.4 million



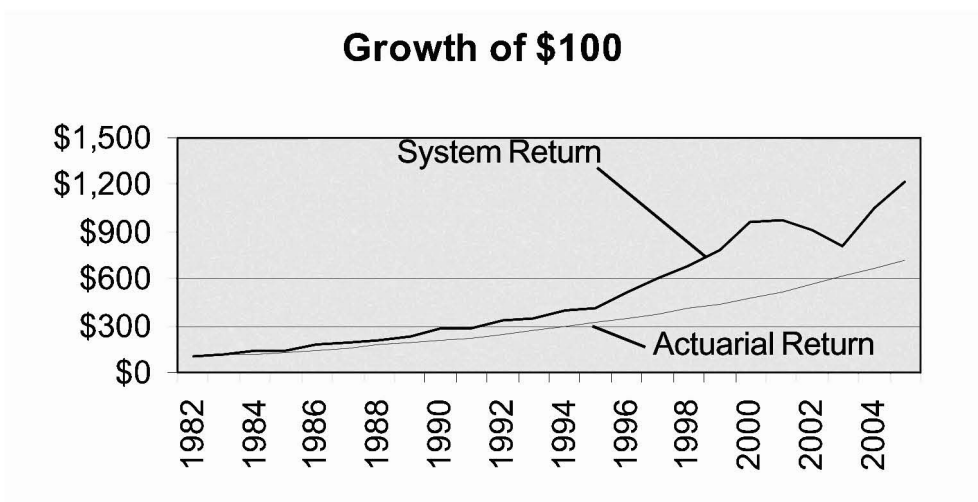
Revenues totaled \$429.4 million in 2004.



Expenses totaled 118.7 million in 2004.



The graph above indicates the long-term growth in market value of the System's assets. The market value of System assets has grown from \$530 million in 1990 to almost \$2.5 billion in 2004.



One hundred dollars invested in the Pension System's portfolio in 1982 is worth \$1,212.06 as of December 31, 2004. If the \$100 had earned the actuarial interest rate, it would be worth \$719.

Assets by Class

(12/31/04 Market Value)

EQUITY

DOMESTIC EQUITIES

AllianceBernstein Inst. Inv. Management	\$139,537,944
Deutsche Asset Management	113,479,892
The Mitchell Group	22,901,563
Oak Associates	135,790,000
SSgA	\$358,491,872
Total Domestic Equity	\$770,201,271

PRIVATE EQUITY

W.R. Huff Asset Management	\$51,680,536
Merit Energy	6,205,809
North Texas Opportunity Fund Capital Partners	5,949,952
Total Private Equity	\$63,836,297

INTERNATIONAL EQUITY

Bank of Ireland Asset Management	\$275,892,580
Clay Finlay	146,865,335
Fidelity Management Trust Company	175,711,256
Total International Equity	\$598,469,171

Total Equity\$1,432,506,739

FIXED INCOME

GLOBAL HIGH QUALITY

Mondrian Investment Partners	\$110,892,539
Brandywine Investment Management	91,967,357
Total Global High Quality	\$202,859,896

GLOBAL OPPORTUNISTIC FIXED INCOME

Highland Capital Management	\$59,531,000
W.R. Huff Asset Management	14,166
Loomis Sayles & Company	202,653,073
Oaktree Capital Management	14,995,769
TCW Asset Management Company	177,756
Total Global Opportunistic Fixed Income	\$277,371,764

DOMESTIC HIGH YIELD

W.R. Huff Asset Management	\$113,245,991
Total Domestic High Yield	\$113,245,991

Total Fixed Income\$593,477,651

Assets by Class (Continued)

(12/31/04 Market Value)

REAL ESTATE

CDK Realty Advisors.....	\$73,242,237
Crow Holdings	7,633,037
Forest Investment Associates	28,077,020
GMAC Institutional Advisors	34,646,789
Hancock Agricultural Investment Group	35,652,480
Hearthstone Advisors	6,568,103
Heitman Capital Management*	-325,930
Lone Star Advisors	34,005,359
INVESCO Realty Advisors.....	10,409,962
Kennedy Associates Real Estate Counsel	47,534,397
L & B Realty Advisors	23,361,918
Oaktree Capital Management.....	11,637,834
Olympus Real Estate Partners	17,097,803
Prudential Investment Corporation	7,515,527
RREEF	46,816,29
Total Real Estate.....	\$383,872,835

* In redemption

Cash	\$11,616,309
Short Term Securities and Interfund Transfers	98,604,157
Total Cash and Cash Equivalents.....	\$110,220,466
TOTAL INVESTMENTS	\$2,520,077,691

Changes in Net Assets Available for Benefits Years 2002-2004
(In Thousands)

	December 2002	December 2003	December 2004
Assets at Cost-- Beginning	\$ 1,905,785	\$1,791,389	\$1,888,218
Contributions			
City	\$77,087	\$78,323	\$83,291
Employee (less refunds)	<u>\$15,422</u>	\$15,703	\$16,554
Interest, Dividends, and	(\$103,479)	\$112,783	\$274,597
Realized Gains (Losses)			
Benefit Payments and	(\$103,424)	(\$109,980)	(\$117,850)
Administrative Fees			
Assets at Cost-- Ending	\$1,791,389	\$1,888,218	\$2,146,734
Assets at Market	\$1,660,244	\$2,183,058	\$2,493,804

Actuarial Summary Information

Actuarial Valuation Results	January 1, 2003 Valuation	January 1, 2004 Valuation	January 1, 2005 Valuation
UAAL ¹	\$745,776,422	\$603,180,958	\$589,053,564
Actuarial Value ²	\$1,992,252,337	\$2,285,744,890	\$2,484,994,949
Market Value ³	\$1,660,210,281	\$2,183,058,868	\$2,484,994,949
Funding Cost Rate ⁴	29.33%	27.25%	25.86%
Margin over/under ⁵	-1.83%	0.25%	1.64%
AAL Ratio ⁶	72.80%	79.10%	80.80%
Years To Fund ⁷	69	38	29

- 1 Unfunded Actuarial Accrued Liability
- 2 Actuarial Value of Assets
- 3 Market Value of Assets
- 4 Employer contribution rate needed to pay normal cost and fund UAAL over 40 years
- 5 City contribution Rate of 27.5% Minus Funding Cost Rate
- 6 Actuarial Accrued Liability (GASB 25)
- 7 Projected Years to Fund Level Funding

The above chart provides a summary of the principle results of actuarial valuation of the System over the last three years, demonstrating the funding progress made by the System over this period.

**Supplemental
Police and Fire
Pension Plan
of the
City of Dallas**

**DALLAS POLICE AND FIRE PENSION SYSTEM
SUPPLEMENTAL PLAN**

ACTUARIAL VALUATION

AS OF JANUARY 1, 2005

May 31, 2005

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, 2005**

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, 2005.

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 2005, the contribution is \$1,200,000.

Funding Progress

As of January 1, 2005, the City's contribution rate needed in order to meet the funding goal is 146.64% of covered payroll. This amount is lower than the 150.71% employer rate calculated as of January 1, 2004. The current contribution rate of 146.64% of covered payroll covers the normal cost and the amortization of the Unfunded Actuarial Accrued Liability (UAAL).

Mr. Richard Tettamant
May 31, 2005
Page 2

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. There were changes in actuarial assumptions since the last actuarial valuation. These changes were made to better reflect recent experience and our expectations about future experience. These changes include:

1. Assuming active members currently eligible for DROP and who have not joined will not join DROP, and
2. Changing the withdrawal and retirement rates.

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, 2005, 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 and Consulting Actuary

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Enclosures

Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2005

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Section 5 - Summary of Asset Information.....	8
Schedule A - Membership Data	9
Schedule B - Summary of Benefits Provisions	10
Schedule C - Summary of Actuarial Methods and Assumptions	16

Summary of Principal Results

Comments on the Valuation

	January 1, 2005	January 1, 2004
Membership		
Active	41	31
Retired and terminated members and beneficiaries	106	104
Compensation		
Total	\$ 818,312	\$ 729,873
Average	\$ 19,959	\$ 23,544
Assets		
Market value	\$ 18,720,154	\$ 16,950,004
Valuation Results		
Unfunded actuarial accrued liability (UAAL)	\$ 5,776,250	\$ 6,374,960
City's normal cost contribution	\$ 155,358	\$ 137,643
Funding Policy contribution	\$ 1,200,000	\$ 1,100,000
GASB No. 25		
Actuarial accrued liability (AAL)	\$ 24,496,404	\$ 23,324,964
Assets	\$ 18,720,154	\$ 16,950,004
GASB ratio	76.4%	72.7%
Unfunded AAL	\$ 5,776,250	\$ 6,374,960

Overview

The current valuation indicates that a total contribution of \$1,200,000 should be contributed during 2005.

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. There were changes in actuarial assumptions since the last actuarial valuation. These changes were made to better reflect recent experience and our expectations about future experience. These changes include:

1. Assuming active members currently eligible for DROP and who have not joined will not join DROP, and
2. Changing the withdrawal and retirement rates.

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 54.85% will be required for the City to avoid showing an accrued pension liability on its financial statements for the fiscal year beginning in 2005, 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 2004 and 2005. The estimated rate of return for 2004 was 9.92%.

Membership Statistics

Data on active members and on retired members was supplied by the Administrator. The number of active members increased over the last year. The active membership increased from 31 members as of January 1, 2004, to 41 members as of January 1, 2005. The payroll increased from January 1, 2004 to January 1, 2005 (\$729,873 for 2004 and \$818,312 for 2005). Schedule A shows a summary of the membership data.

Actuarial Cost

	January 1, 2005	January 1, 2004
1. Covered Payroll	\$ 818,312	\$ 729,873
2. Actuarial present value of future benefits	\$ 25,672,251	\$ 24,339,669
3. Actuarial present value of future normal costs	\$ 1,175,847	\$ 1,014,705
4. Actuarial accrued liability (2 - 3)	\$ 24,496,404	\$ 23,324,964
5. Actuarial value of assets	\$ 18,720,154	\$ 16,950,004
6. Unfunded actuarial accrued liability (UAAL) (4 - 5)	\$ 5,776,250	\$ 6,374,960
7. City's normal cost contribution	\$ 155,358	\$ 137,643
8. Funding Policy contribution	\$ 1,200,000	\$ 1,100,000
9. Total contribution as a percentage of covered payroll (8 ÷ 1)	146.64%	150.71%

Analysis of Change in UAAL

1. UAAL as of January 1, 2004	\$ 6,374,960
2. Changes due to:	
a. Expected decrease	\$ (502,286)
b. Actual contributions greater than expected	0
c. Liability experience	69,758
d. Asset experience	(241,808)
e. Assumption changes	75,626
f. Plan amendment	0
g. Total Changes	\$ (598,710)
3. UAAL as of January 1, 2005	\$ 5,776,250

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, 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%
January 1, 2004	16.950	23.325	6.375	72.7%	0.730	873.3%
January 1, 2005	18.720	24.496	5.776	76.4%	0.818	706.1%

**GASB #25 Schedule of Employer Contributions
 for Year Ending December 31, 2004**

<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
\$1,200,000	100%

Summary of Accumulated Benefits
(FASB #35)

Accumulated Benefits at January 1, 2005

Vested benefits of participants and beneficiaries currently receiving payments	\$ 18,519,712
Other vested benefits	6,035,482
Nonvested benefits	<u>431,609</u>
Total benefits	\$ 24,986,803

FASB #35 Reconciliation

Accumulated benefits at January 1, 2004	\$ 23,706,092
Benefits accumulated	\$ 291,592
Interest	1,971,464
Benefits paid	(1,046,124)
Assumption changes	<u>63,779</u>
Total change	1,252,202
Accumulated benefits at January 1, 2005	\$ 24,986,803

Reconciliation of Fund Assets

	Year Ending December 31, 2004
1. Value of fund at beginning of year	\$ 16,950,004
2. Contributions	
a. City	1,100,000
b. Member	<u>30,145</u>
c. Total	\$ 1,130,145
3. Benefit payments	(1,046,124)
4. Refunds	0
5. Earnings	1,743,013
6. Expenses	(56,884)
7. Value of assets at end of year	18,720,154
8. Estimated rate of return	9.92%

Membership Data

	<u>January 1, 2005</u>	<u>January 1, 2004</u>
1. Active members (excluding DROP)		
a. Number	24	12
b. Compensation	\$ 390,369	\$ 329,862
c. Average compensation	\$ 16,265	\$ 27,489
d. Average age	46.42	46.09
e. Average service (years)	20.67	20.66
2. Active members (DROP only)		
a. Number	17	19
b. Compensation	\$ 427,943	\$ 400,011
c. Average Compensation	\$ 25,173	\$ 21,053
d. Average age	53.76	53.15
e. Average total service	30.47	30.21
f. DROP account balance	\$ 887,841	\$ 685,779
3. Inactive members		
a. Number	106	104
b. Total current annual benefit	\$ 1,343,588	\$ 1,287,001
c. Average current annual benefit	\$ 12,675	\$ 12,375

**Summary of Benefit Provisions
As of January 1, 2005
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 Plan.

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.

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**Statement of Actuarial Methods and Assumptions
 (Effective as of January 1, 2005)**

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	47.0	23.0	48.30	26.30	.51	.28	.35	.70
25	47.0	23.0	48.30	26.30	.66	.29	.37	.75
30	35.0	18.0	36.20	23.70	.80	.35	.42	.84
35	25.0	18.0	27.80	21.40	.85	.48	.48	.96
40	25.0	18.0	28.20	20.90	1.07	.71	.57	1.15
45	25.0	18.0	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:

<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>
38	2%	48	2%	58	20%
39	2	49	2	59	20
40	2	50	4	60	20
41	2	51	3	61	20
42	2	52	3	62	20
43	2	53	3	63	20
44	2	54	3	64	20
45	2	55	25	65	100
46	2	56	20		
47	2	57	20		

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

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. Any active members who satisfy this criteria and have not entered DROP are assumed to never join DROP.

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.

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.

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

**Financial Statements
and
Required Supplemental Information**

December 31, 2004 and 2003
(With Independent Auditors' Report Thereon)

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

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Member of the American Institute of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of plan net assets of the Supplemental Police and Fire Pension Plan of the City of Dallas (the Supplemental Plan) as of December 31, 2004 and 2003, and the related statement of changes in plan net assets for the years then ended. These basic financial statements are the responsibility of the Supplemental Plan's management. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial status of the Supplemental Plan as of December 31, 2004 and 2003, 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 management's discussion and analysis (MD&A), the schedule of employer contributions, and the schedule of funding progress, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This information is the responsibility of the Supplemental Plan's management. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the MD&A and supplementary information. However, we did not audit such information and do not express an opinion on it.

A handwritten signature in cursive script that reads 'Mir & Fox Rodriguez'.

August 1, 2005

One Riverway, Suite 1900
Houston, TX 77056
Off. (713) 622-1120
Fax (713) 961-0625

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

The Management's Discussion and Analysis (MD&A) of the Supplemental Police and Fire Pension Plan of the City of Dallas (the Supplemental Plan) financial position and performance provides an overview of the Supplemental Plan's financial activities for the fiscal year ended December 31, 2004 and 2003. The Supplemental Plan is a defined benefit pension plan.

Certain comparative Information between the current year and the prior year is required to be presented in the MD&A. The analysis should be read in conjunction with the Introductory Section of the annual report, the basic financial statements, notes to the basic financial statements and required supplemental information.

FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Supplemental Plan's financial statements which consist of (1) Basic Financial Statements and (2) Notes to Basic Financial Statements, and (3) Required Supplementary Information.

The Statement of Plan Net Assets presents the Supplemental Plan's assets and liabilities and plan net assets held in trust for the payment of pension benefits. The Statement of Changes in Plan Net Assets summarizes additions to and deductions from Supplemental Plan assets, providing plan net assets held in trust at the end of the year for pension benefits. The difference between assets and liabilities is one measure of the Supplemental Plan's financial position and the change in this measure over time is an indication of whether the Supplemental Plan's financial health is improving or deteriorating.

The Notes to Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the Basic Financial Statements.

The Required Supplemental Information consists of schedules of funding progress and required employer contributions and notes to required supplemental information.

CONDENSED FINANCIAL INFORMATION

	<u>2004</u>	<u>2003</u>
Assets	\$ 18,883,128	16,966,660
Liabilities	162,974	16,656
Net Assets Available for Benefits	18,720,154	16,950,004
Contributions	1,130,145	1,035,251
Investment & Other Income (loss)	1,743,013	2,847,718
Benefit Payments	1,046,124	963,978
Administrative Expenses & Professional Fees	56,884	50,143

FINANCIAL HIGHLIGHTS

The Supplemental Plan's net assets increased by \$1.7 million in 2004 to \$18.7 million. Net assets were \$17 billion in 2003.

The rate of return on Supplemental Plan investments was 10.2% for the year, compared to an expected return (actuarial assumed investment rate of return) of 8.5%. The rate of return for 2003 was 20.45%.

Liabilities totaled \$162,900 as of December 31, 2004, compared to \$16,700 as of December 31, 2003.

The Supplemental Plan received employee contributions of \$30,145 in 2004 and \$35,300 in 2003. The Supplemental Plan received employer contributions from the City of Dallas in the amounts \$1.1 million and \$1.0 million in 2004 and 2003, respectively.

The Supplemental Plan paid \$1,046,124 in service retirement, disability retirement and survivor benefits during 2004, compared to \$963,978 in 2003, an increase of 8.5%. No refunds of contributions to former Members were made in 2004. No changes to benefit provisions were implemented.

The cost of administering the benefit programs of the Supplemental Plan, including administrative costs and professional fees, was \$56,884 compared to \$50,143 for 2003.

The active membership of the Supplemental Plan increased to 41 members as of the end of 2004, compared to 31 members in 2003.

The Supplemental Plan presents its financial statements solely on the accounts of the Supplemental Plan. The accrual basis of accounting is used by the Supplemental Plan, whereby revenues are recognized when they are earned and collection is reasonably assured, and expenses are recognized when the liability has been incurred. Investments are reported at fair value.

FUNDING PROGRESS

The Supplemental Plan contracted with Buck Consultants, Inc. (Mellon Consultants, Inc.), to conduct an actuarial valuation to determine the actuarial position of the Supplemental Plan as of January 1, 2005.

The ratio of a plan's AVA to the actuarial accrued liability (AAL), expressed as a percentage, is an indicator of the plan's funding status. Generally, the larger the percentage, the stronger the financial health of the plan. The Supplemental Plan's AAL ratio improved to 76.4% in 2004, compared to 72.7% for 2003.

When a plan's total liabilities exceed the assets available to pay benefits on an actuarial basis, the plan is said to have an unfunded actuarial accrued liability (UAAL). As of January 1, 2005, the Supplemental Plan's UAAL was \$5.8 million, a decrease of \$0.8 million from a UAAL of \$6.4 million as of January 1, 2004.

CONTACTING THE SUPPLEMENTAL PLAN'S FINANCIAL MANAGEMENT

This financial section is designed to provide our members and other users with a general overview of the Supplemental Plan's financial activities. If you have questions about this report or need additional financial information, contact the Administrator of the Dallas Police and Fire Pension System at 2301 N. Akard Road, Suite 200, Dallas, TX 75201.

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Statements of Plan Net Assets
December 31, 2004 and 2003

<u>Assets</u>	<u>2004</u>	<u>2003</u>
Investments, at fair value (notes 2 and 3):		
Short-term investments	\$ 153,896	77,471
Bank commingled trust funds	<u>18,729,071</u>	<u>16,887,981</u>
Total investments	18,882,967	16,965,452
Accrued interest, dividends and employee contributions receivable	<u>161</u>	<u>1,208</u>
Total assets	18,883,128	16,966,660
<u>Liabilities and net assets</u>		
Administrative and professional fees payable	<u>162,974</u>	16,656
Net assets held in trust for pension benefits (a schedule of funding progress is presented on page 14)	<u>\$ 18,720,154</u>	<u>16,950,004</u>

See accompanying notes to basic financial statements.

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Statements of Changes in Plan Net Assets
Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Additions to plan net assets:		
Investment income:		
Interest and dividends	\$ 4,914	6,623
Net appreciation in fair value of investments	<u>1,738,099</u>	<u>2,841,095</u>
Total net investment income	1,743,013	2,847,718
Contributions:		
Employer	1,100,000	1,000,000
Member	<u>30,145</u>	<u>35,251</u>
Total contributions	1,130,145	1,035,251
Total net additions to plan net assets	<u>2,873,158</u>	<u>3,882,969</u>
Deductions from plan net assets:		
Benefit payments	1,046,124	963,978
Administrative and professional fees	<u>56,884</u>	<u>50,143</u>
Total deductions from plan net assets	1,103,008	1,014,121
Net increase in plan net assets	1,770,150	2,868,848
Plan net assets held in trust for pension benefits:		
Beginning of year	16,950,004	14,081,156
End of year	<u>\$ 18,720,154</u>	<u>16,950,004</u>

See accompanying notes to basic financial statements.

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements
December 31, 2004 and 2003

1. Description of the Plan and Summary of Significant Accounting Policies

General

The Supplemental Police and Fire Pension Plan of the City of Dallas (the Supplemental 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 Supplemental Plan is to provide additional retirement benefits (as discussed below) to those members of the Supplemental Plan (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 Supplemental Plan was established and derives its authority from a non-codified City ordinance. As of December 31, 2004 and 2003, the Supplemental Plan membership consisted of:

	<u>2004</u>	<u>2003</u>
Non-active members		
Pensioners and qualified survivors currently receiving benefits:		
Firefighters	44	44
Police officers	<u>62</u>	<u>60</u>
Total non-active members	<u>106</u>	<u>104</u>
Current employees - vested:		
Firefighters	18	15
Police officers	<u>23</u>	<u>16</u>
Total members	<u>41</u>	<u>31</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 basic financial statements related to DROP members are \$2,956,417 and \$2,231,609 for December 31, 2004 and 2003, respectively.

Continued

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

Pension benefits

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

Contributions

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

Members electing to participate in the Supplemental Plan must contribute 8.5% of the excess of their compensation for the rank held over the compensation of the Civil Service rank held as a result of competitive examinations.

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.

Termination

Although the Supplemental Plan has not expressed any intent to do so, in the event the Supplemental 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.

Supplemental Plan administration

The Supplemental Plan 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 and each are elected by pensioners from their respective departments.

Continued

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

Basis of presentation

The accompanying basic financial statements are presented in accordance with generally accepted accounting principles established by the Governmental Accounting Standards Board (GASB), which designates accounting principles and financial reporting standards applicable to State and local governmental units. The accompanying basic financial statements include solely the accounts of the Supplemental Plan, which include all programs, activities and functions relating to the accumulation and investment of the net assets and related income necessary to provide the service, disability and death benefits required under the terms of the governing statutes and amendments thereto.

Recent accounting pronouncement

The GASB has issued Statement No. 40, *Deposit and Investment Risk Disclosures*, which amends GASB Statement No. 3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements*. GASB Statement No. 40 requires disclosure information related to common risks inherent in deposit and investment transactions. The statement is effective for financial statements for periods beginning after June 15, 2004 and accordingly, will be implemented by the Supplemental Plan in fiscal year 2005.

Basis of accounting

The basis of accounting is the method by which revenues and expenses are recognized in the accounts and reported in the basic financial statements. The accrual basis of accounting is used by the Supplemental Plan. Under the accrual basis of accounting, revenues, which include contributions and investment income, are recognized when they are earned and collection is reasonably assured, and expenses are recognized when the liability is incurred. Member and Employer contributions are recognized as revenue in the period in which the compensation is earned. In addition, the Supplemental Plan records contributions according to Supplemental Plan requirements and State statute. Benefits paid to Members and contribution refunds are recognized when due and payable in accordance with the terms of the Supplemental Plan. Accrued income, when deemed uncollectible, is charged to operations.

Accordingly, interest earned but not received and dividends declared but not received as of the Supplemental Plan's fiscal year-end are recorded as accrued interest and dividends receivable, respectively. In addition, unsettled investment purchases and sales are accrued.

Reporting entity

The Supplemental Plan is a component unit of the City and its basic financial statements and required supplemental information are included in the City's Comprehensive Annual Financial Report.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Continued

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

Cash and cash equivalents

The Supplemental Plan considers only demand deposits as cash. Cash equivalent securities, which are composed of all highly liquid investments with a maturity of three months or less when purchased, are considered to be cash equivalents.

Investments valuation and income recognition

Statutes of the State of Texas authorize the Supplemental Plan to invest surplus funds in the manner provided by the Government Code, Title 8, Subtitle A, Subchapter C. This subchapter provides for the investment of surplus assets in any investment or investments that are deemed "prudent" by the Board. The investment policy of the Board does not restrict the types of investments authorized to be made on behalf of the Supplemental Plan. The investment policy is based upon an asset allocation study that considers the current and expected condition of the Supplemental Plan, the expected long-term capital market outlook and the Supplemental Plan's risk tolerance.

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Short-term investments are government and corporate bonds with a maturity of less than one year valued at quoted market rates. The fair value of limited partnerships and real estate is based on independent appraisals and recent financial results. Investments that do not have an established market are reported at their estimated fair values.

Unrealized gains and losses are presented as net appreciation in fair value of investments on the statement of changes in plan net assets along with gains and losses realized on sales of investments. Purchases and sales of investments and forward foreign exchange contracts are recorded on the trade date. Gains or losses on forward foreign exchange contracts are recognized when the contract is complete.

Dividend income is recorded on the ex-dividend date. Interest and income from other investments are recorded as earned.

Benefits

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

Administrative expenses

The cost of administering the Supplemental Plan is paid by the Supplemental Plan from current earnings pursuant to an annual fiscal budget adjusted by the Board.

Continued

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

2. **Cash and Investments**

The following shows investments reported at fair value at December 31:

	<u>2004</u>	<u>2003</u>
Short-term investment fund	\$ 153,896	77,471
Commingled index funds	<u>18,729,071</u>	<u>16,887,981</u>
Total	<u>\$ 18,882,967</u>	<u>16,965,452</u>

Amounts invested in the above funds are categorized in accordance with GASB No. 3, as category 1 for custodial credit risk, which are insured or registered or for which the investments are held by the Supplemental Plan or its agent in the Supplemental Plan's name.

3. **Investments**

The Board has contracted with investment managers to manage the investment portfolio of the Supplemental Plan, subject to the policies and guidelines established by the Board. The Board has custody agreement with JP Morgan Chase Bank (JP Morgan). Under the agreement JP Morgan assumes responsibility for the safekeeping of certain investments, handling of transactions based on the instructions of investment managers and accounting for the investment transactions.

The Supplemental Plan's investments at December 31, 2004 and 2003 consisted of the following:

	<u>2004</u>		<u>2003</u>	
	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	34,740	\$ 7,675,713	33,963	\$ 6,766,600
Commingled Bond Index Trust Fund State Street Global Advisors	303,567	7,154,461	293,410	6,609,064
Commingled EAFE Provisional Index Trust Fund State Street Global Advisors	78,144	3,898,897	84,801	3,512,317
State Street Short-term Investment Fund (not greater than 5%)	153,896	<u>153,896</u>	77,471	<u>77,471</u>
Total investments		<u>\$18,882,967</u>		<u>\$16,965,452</u>

Continued

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

For the years ended December 31, 2004 and 2003, the Supplemental Plan's investments, including investments bought, sold, as well as held during the year, appreciated in value as follows:

	<u>2004</u>	<u>2003</u>
Investments, at quoted market value:		
S&P 500 Index Commingled Equity Trust Fund	\$ 748,909	1,551,587
Commingled Bond Index Trust Fund	305,397	236,817
Commingled EAFE Provisional Index Trust Fund	<u>683,793</u>	<u>1,052,691</u>
	<u>\$ 1,738,099</u>	<u>2,841,095</u>

4. **Federal Income Tax Status**

A favorable determination that the Supplemental Plan 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 Supplemental Plan is designed and continues to operate in compliance with the applicable requirements of the Internal Revenue Code.

5. **Administrative Expenses**

The Supplemental Plan's document authorizes the Board to pay administrative costs from the Supplemental Plan, provided that the Supplemental Plan's actuary has determined that the Supplemental Plan has sufficient income to pay such costs. Of the Supplemental Plan's total administrative costs, \$56,884 and \$50,143 was reimbursed to the System by the Supplemental Plan during the years ended December 31, 2004 and 2003, respectively.

6. **Commitments and Contingencies**

As described in note 1, certain members of the Supplemental Plan are entitled to refunds of their accumulated contributions on termination of employment with the City, prior to being eligible for pension benefits. As of December 31, 2004 and 2003, the aggregate contributions from participants of the Supplemental Plan with less than five years of service were approximately \$55,135 and \$38,855, respectively.

7. **Risk and Uncertainties**

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

The Supplemental Plan contribution rates and the actuarial information included in the schedule of employer contributions, page 15, and schedule of funding progress, page 14, are based on certain assumptions pertaining to interest rates, inflation rates and participant demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term could be material to the basic financial statements.

Continued

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

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 Supplemental Plan, because pensions are generally a percentage of the pay of the police officers and firefighters.

The Supplemental Plan has intervened in the above lawsuits to protect the Supplemental Plan's right to members and City contributions which the Supplemental Plan 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 or the Supplemental Plan's basic financial statements as of December 31, 2004 and 2003.

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Schedule of Funding Progress
(Unaudited)
(000's)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
1/1/1998	\$ 12,685	\$ 15,278	\$ 2,593	83 %	\$ 852	304 %
1/1/1999	15,506	17,106	1,600	91	851	188
1/1/2000	17,628	18,146	518	97	934	56
1/1/2001	16,626	19,566	2,940	85	655	449
1/1/2002	15,496	21,214	5,718	73	737	776
1/1/2003	14,081	22,398	8,317	63	858	970
1/1/2004	16,950	23,325	6,375	73	730	873
1/1/2005	18,720	24,496	5,776	76	818	706

Required Supplemental Information

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

The actuarial information presented is determined by the actuarial firm of Mellon Consultants, Inc. (formerly known as Buck Consultants) for 2004 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 Supplemental Plan will continue. Were the Supplemental Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

Actuarial calculations were made by the consulting actuary as of January 1, 2005 and 2004 and are not materially different from what they would have been had they been calculated on December 31, 2004 and 2003, respectively. The following assumptions are used by the Supplemental Plan's actuaries to determine the Supplemental Plan's obligations only, and are not used to calculate the actual Supplemental Plan benefits. The Supplemental Plan benefits are fully described in the Supplemental Plan's document.

See accompanying independent auditors' report.

See accompanying note to required supplemental information.

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Schedule of Employer Contributions
(Unaudited)

<u>Year Ended December 31,</u>	<u>Annual required contribution</u>	<u>Percentage contributed</u>
1999	\$ 800,000	100 %
2000	700,000	100 %
2001	800,000	100 %
2002	900,000	100 %
2003	1,000,000	100 %
2004	1,100,000	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 actual 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.

See accompanying independent auditors' report.

See accompanying note to required supplemental information.

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Note to Required Supplemental information
(Unaudited)

The information in the accompanying schedules of required supplemental information were determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation date of January 1, 2005 is 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
Post retirement 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%