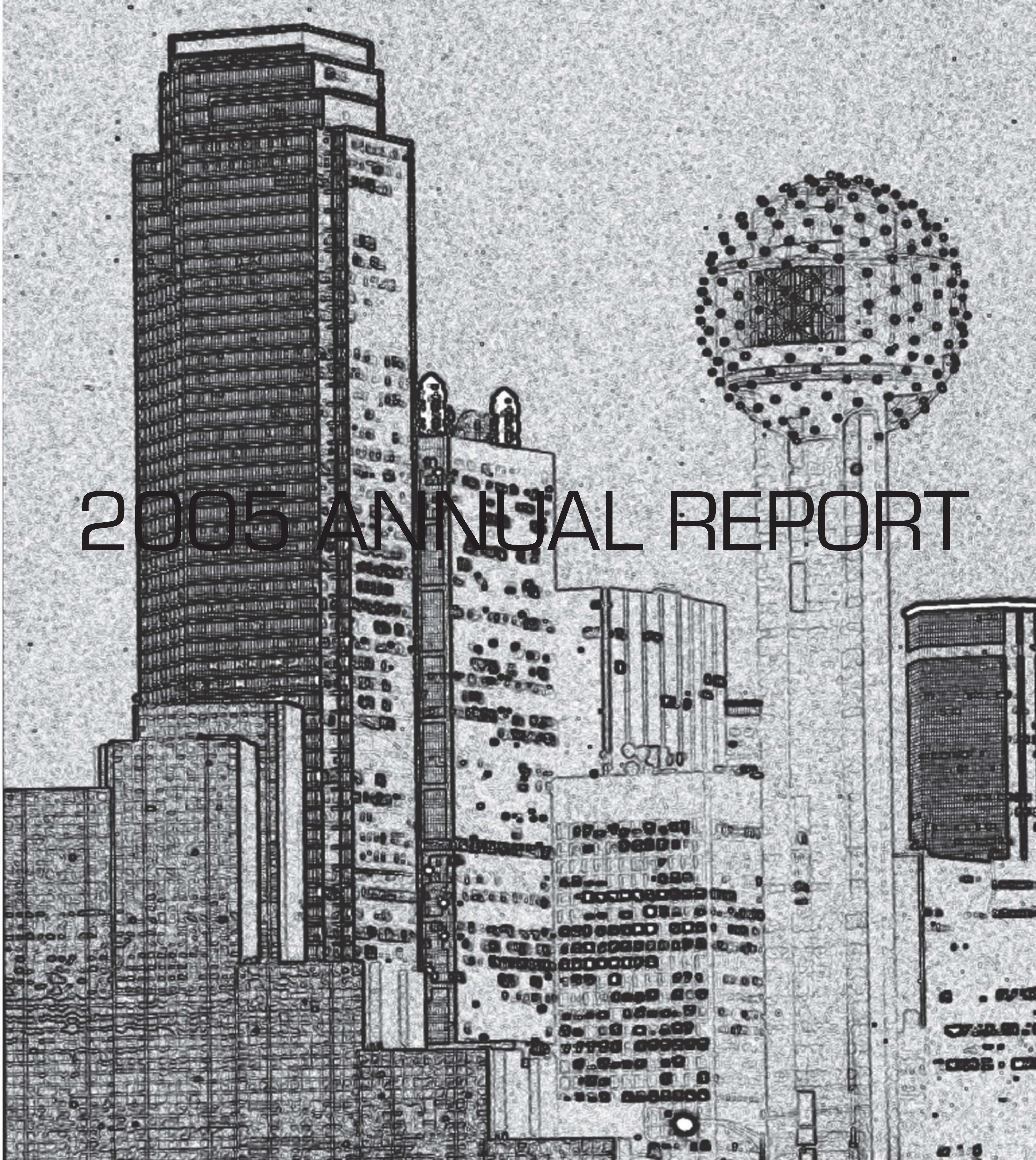


2005 ANNUAL REPORT

DALLAS
POLICE & FIRE
PENSION SYSTEM

2005 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, including DROP = 4,648

Benefit Recipients = 3,121

Terminated Vested = 141

Total Participants = 7,910

Service Retirements Added

Police = 69

Fire = 46

Total = 105

Disability Retirements Added

Police = 3

Fire = 1

Total = 4

Fund Assets at Market Value = $2,735,733,857

Benefits Paid = $111,330,798

Member Contributions (Net of Refunds) = $17,748,241

City Contributions = $87,373,312

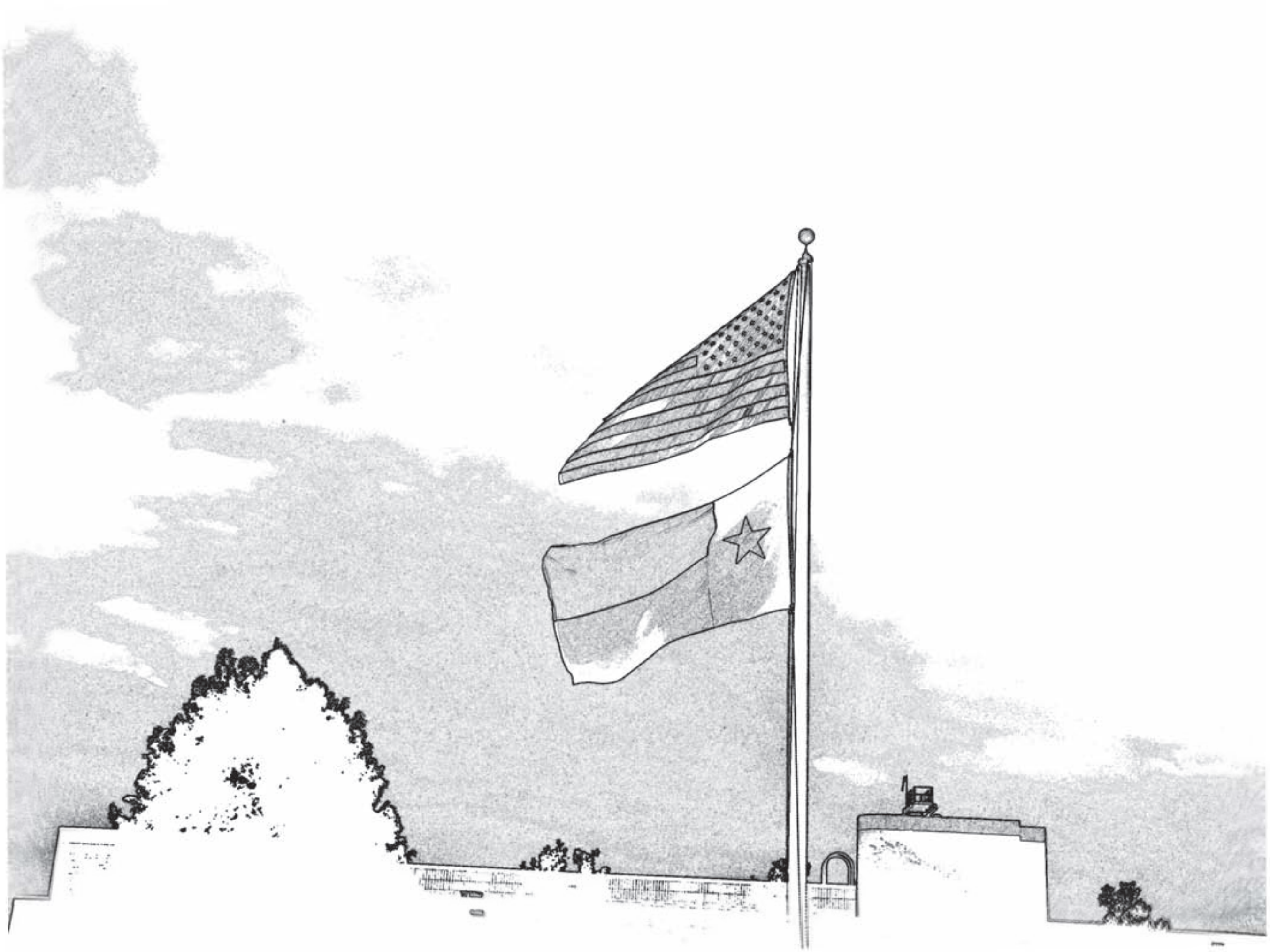
Comprehensive Annual Financial Report
of the
Dallas Police and Fire Pension System

and

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

for the Year Ending December 31, 2005

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

Richard L. Tettamant,
Administrator

Brian F. Blake,
Assistant Administrator

Donald C. Rohan,
Assistant Administrator

DALLAS POLICE & FIRE PENSION SYSTEM

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, 2005 (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 an overview of the System, highlighting the System's history, 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 supplemental 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. Both current and historical data are presented.
- The Supplemental Police and Fire Pension Plan of the City of Dallas Section contains the 2005 Actuarial Valuation and 2005 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 were prepared in accordance with 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.

2301 N. Akard Street - Suite 200 - Dallas, Texas 75201
Phone 214.638.3863 - Fax 214.638.6403

During the year ending December 31, 2005, both the Pension System and the Supplemental Plan remained broadly diversified with investments in equities, fixed income, and real estate. For the third straight year, the System experienced a double digit investment return. The total rate of return on investments for the year was 10.3% for the System. The Supplemental Fund's total rate of return on investments for the year was 4.66%. The System's investment performance ranks in the top 1% of all public funds with more than $1 billion over one and three years.

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 remain under attack in many jurisdictions around the country, the System's outstanding investment returns and the diligence of the Board in monitoring the System's funding status help assure this System's 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 System's assets. We believe that a strong Pension System benefits the City and its taxpayers, as well as the Members of the System. We will continue to do our best, "**Serving those who protect the Dallas community.**"

Respectfully submitted,

Gerald Brown
Chairman of the Board of Trustees

Richard L. Tettamant
Administrator

2301 N. Akard Street - Suite 200 - Dallas, Texas 75201
Phone 214.638.3863 - Fax 214.638.6403

2005 YEAR IN REVIEW

HISTORY OF THE SYSTEM

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 employer each contributed 1% of pay. The "Old Plan," as we now know it, was created in response to funding pressures in 1935 under Section 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 contributing Members of the Old Plan or Plan A in the System.

The Legislature created Plan B, the current plan for most Members, in March 1, 1973. In 2005, the System celebrated its 89th 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).

In an election held in April 2005, Gerald Brown, Active Firefighter Trustee, and Richard Wachsman, Pensioner Firefighter Trustee were re-elected to the Board. Steve Umlor, Active Police Officer Trustee and John Mays, Pensioner Police Officer Trustee, were unopposed and deemed re-elected to the Board. The term of office for each is June 1, 2005 through May 31, 2009

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 Institutional Investment Management
Ashmore Investment Management Limited
Bank of Ireland Asset Management
Brandywine Investment Management
CDK Realty Advisors
Clay Finlay, Inc
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
INTECH
INVESCO Real Estate
Kennedy Associates Real Estate Counsel
LandBaron Investments
L&B Realty Advisors , LLP
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
Pharos Capital Group
RREEF
State Street Global Advisors
TCW
T. Rowe Price Associates

Actuary

Buck 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

Godwin Pappas Langley Ronquillo

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 positions 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.

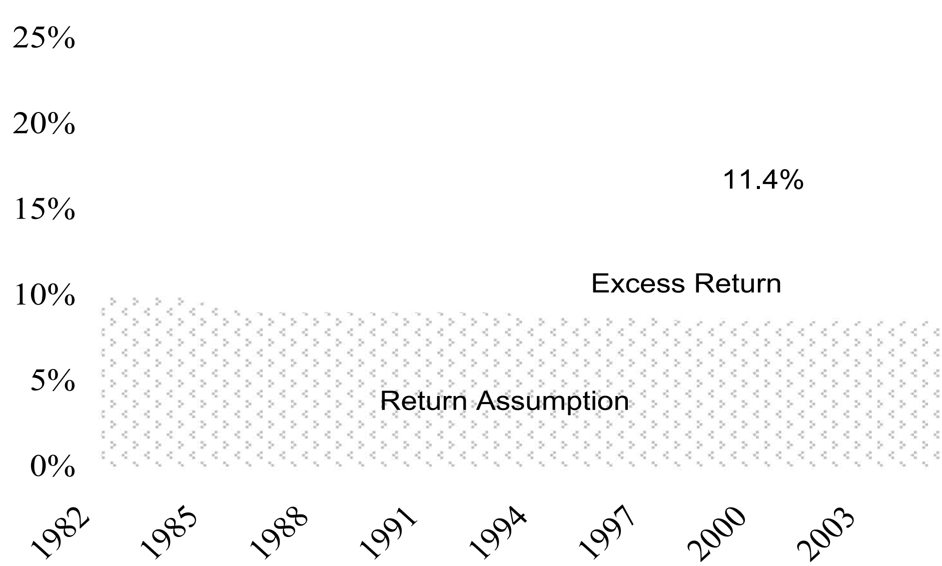
The costs of administering the System consisting of operating administrative expenses and capitalized items are paid by the System from current earnings pursuant to an annual fiscal budget adopted by the Board.

INVESTMENT HIGHLIGHTS

The System had a very successful year in 2005. For the third straight year, the System earned a double digit investment return, returning 10.3% on investments, and continues to perform among the top public pension funds in the country. Through diversification and prudent investment management, System assets, at market value, increased by $241.9 million, reaching $2.74 billion.

New England Pension Consultants (NEPC), the System's new investment consultant, ranked the System in the top 1% of all public funds using the Independent Consultants Cooperative Universe (ICC) data base for one year and three years investment results, top 12% over five years, and top 4% over seven years. As of December 31, 2005, the ICC public fund data base consisted of 185 public funds that were valued at $524 billion dollars.

Annualized Cumulative Investment Return



The above chart demonstrates that the System's long-term investment performance -- 11.4% since 1982 -- has exceeded the expected rate of return.

Additions to Plan Net Assets

During 2005, the System received more than $105.1 million in employee and employer contributions. The System also earned investment return, net of fees, of $66.2 million, other income of $0.3 million, and net appreciation on plan assets of $185.7 million. Net additions to Plan Net Assets totaled $357.3 million.

Deductions from Plan Net Assets

The System paid out over $111 million in 2005 in service and disability retirement benefits and survivor benefits, including Deferred Retirement Option Program (DROP) disbursements. The System also refunded about $1.1 million to terminated Members. System administrative expenses totaled $3.0 million. Total deductions from plan net assets was $115.4. The total change in plan net assets was $241.9 million.

CHANGES TO PLAN NET ASSETS

Additions to Plan Net Assets (000)	
Contributions	$ 105,122
Investment and Other Income (Loss)	252,204
Total Net Additions to Plan Net Assets	$ 357,326
Deductions from Plan Net Assets (000)	
Benefit Payments	$ 111,331
Refund of Contributions	1,070
Administrative Expenses and Professional Fees	2,995
Total Deductions from Plan Net Assets	$ 115,396
Net Increase in Plan Net Assets	$ 241,930

MAJOR INITIATIVES

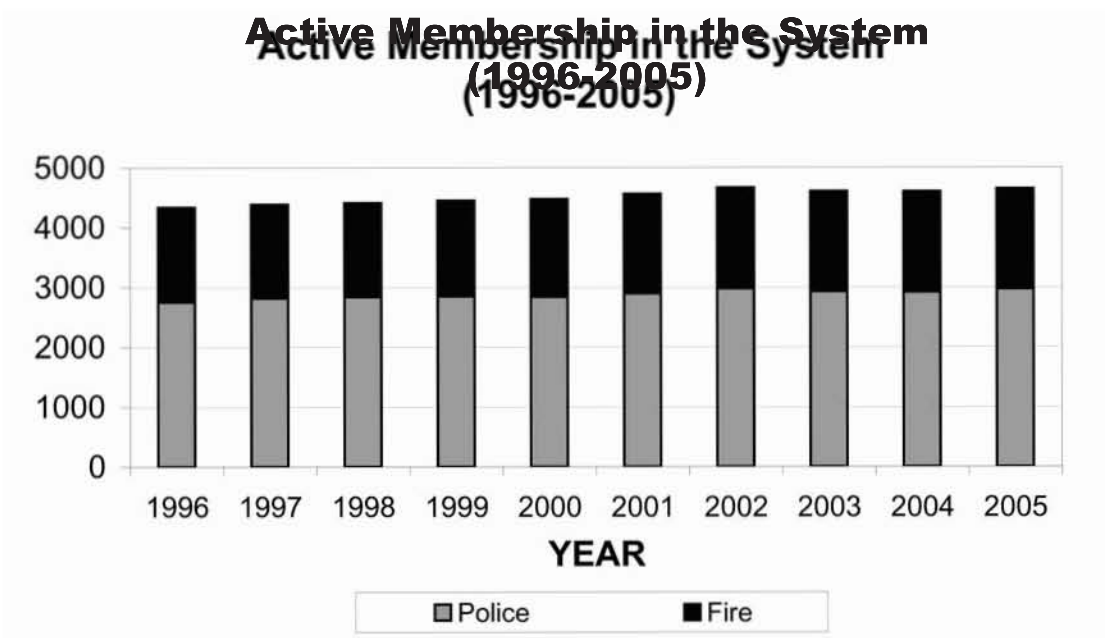
In 2005, the System continued to maintain a comprehensive business continuity plan (BCP) for the continuation of services in the occurrence of a business disruptive event. The System established a "cold site" from which to carry out essential operations in the event of business disruption and conducted a successful test of the plan.

The Board established the William G. Baldree Employee of the Year Award named in recognition of the long and outstanding service performed for the System by William G. (Jerry) Baldree. Jerry, who had worked for 15 years as the System's accountant and auditor, died in April 2005 after a long illness. The Board presents the award each year for outstanding employee achievement to the staff member who has made a significant contribution to the System through exceptional job performance and/or service.

The System initiated several new investment ventures in 2005. The Board hired INTECH and T. Rowe Price as enhanced index managers for the domestic equity portfolio, moving about $350 million from an S & P index fund. The System also funded a $50 million emerging market debt mandate in January 2005, completed funding for a $107 million small-cap core mandate, and expanded the real estate loan program using the System's bonds as collateral to $58 million. Phase II of the loan program was expanded using a new bank credit facility through Bank of America. The bank credit facility is $100 million in size.

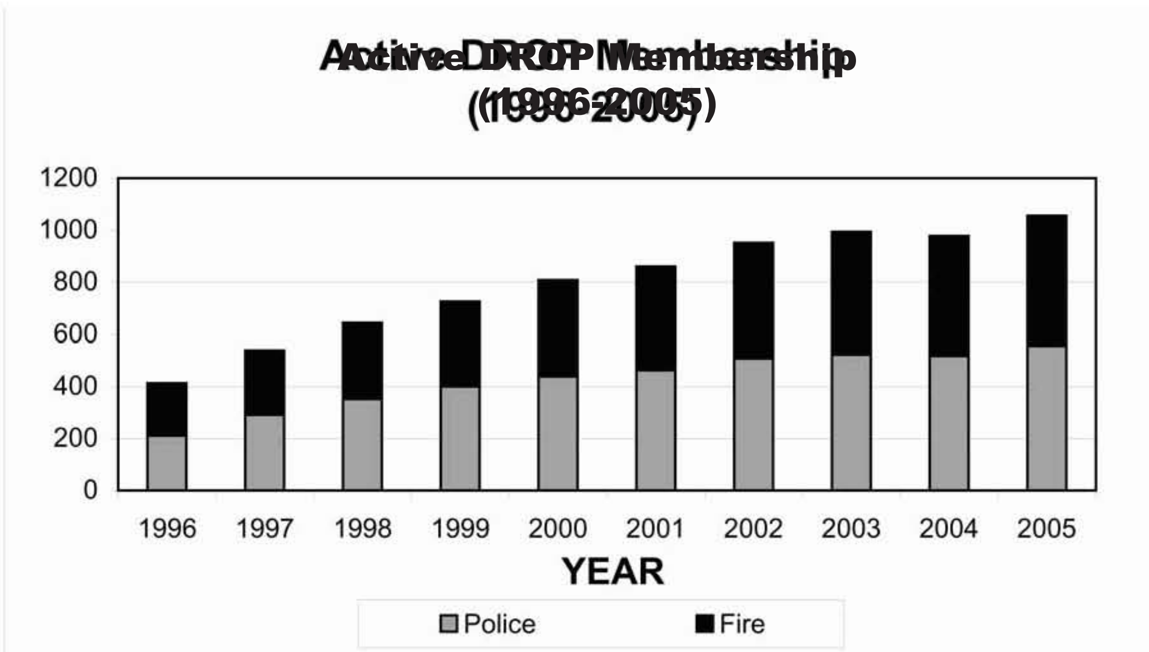
PLAN MEMBERSHIP

The System provides comprehensive retirement, disability and survivor benefits for the City's 7,769 Police Officers, Firefighters, Pensioners, and their beneficiaries. As of December 31, 2005, 2,972 Police Officers and 1,676 Firefighters were Members of the Pension System. The total of 4,648 Active Members reflects an increase of 51from last year's total of 4,597 (2,918 Police Officers and 1,679 Firefighters). The average Police Officer is 41.24 years of age with 15.92 years of pension service. The average Firefighter is 43.45 years of age and has 17.48 years of pension service with the City of Dallas.



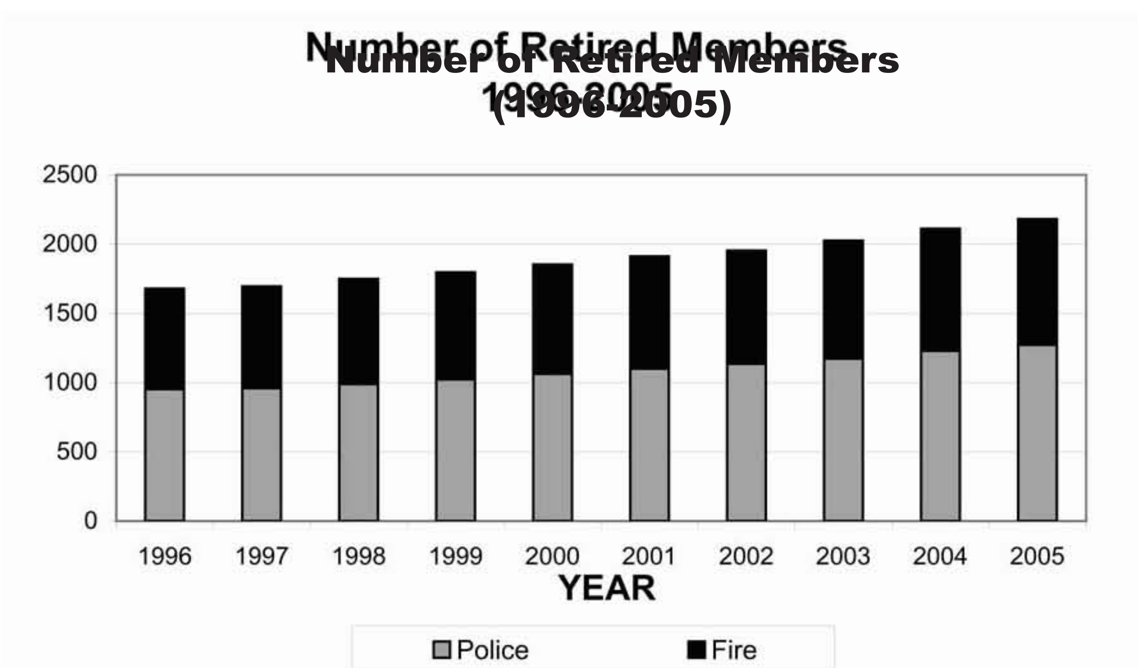
Total Active Membership has remained stable over the last ten years, increasing by 274 Members from 4,374 to 4,648 Members.

The number of Active DROP participants in active service reached 1,056 during 2005, an increase of 78 from the prior year. The average DROP participant in Active Service is 54.34 years of age with 28.80 years of pension service. The average age at which members enter DROP is 50.0 years of age.



Active DROP Membership increased by 643 Participants over the last ten years from 413 to 1,056 Participants.

The System paid $111.3 million in pension benefit payments recipients in 2005. At the end of the year, benefit payments were being made to 2,181 service Pensioners, 199 disability Pensioners, and 741 beneficiaries.



The total number of Members on Service Retirement increased steadily over the last ten years from 1,679 in 1996 to 2,181 as of December 31, 2005.

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

PLAN AMENDMENTS

Active Members voted in November on the following 7 proposed amendments to the Plan:

1. Permit the Board to create medical expense accounts to allow Members to save money while working so that the Members could use the saved funds to help pay medical expenses after retiring.

2. Permit Pensioners to elect a 100% joint and survivor pension.

3. Permit Members, Pensioners or Survivors to designate a beneficiary to receive any lump sum payment that is payable due to the Member's, Pensioner's or Survivor's death.

4. Permit any Pensioner to elect a survivor benefit for a minor child who is not a Qualified Survivor because the child was born or adopted after the Pensioner left Active Service.

5. Authorize the Board to adopt a policy designed to enhance Pensioner and beneficiary flexibility in deferral to and distributions from DROP.

6. Eliminate the 4% annual adjustment to Base Pension for new members hired after December 31, 2006 and authorize the Board to grant ad hoc increases to affected Members.

7. Extend to Police Officer Members the same presumptions regarding disabilities caused by job-related heart and lung diseases, as mandated by state law for firefighters.

Each of the proposed amendments was approved by the membership.

LEGISLATION

During 2005, the System continued to work with other state public retirement systems and organizations to support legislation to address issues important to our retirees. In particular, the System supported provisions in proposed pension reform legislation in the Congress to eliminate the 10% early withdrawal penalty tax on DROP distributions and to provide a $5,000 tax credit toward health care expenses for retirees.

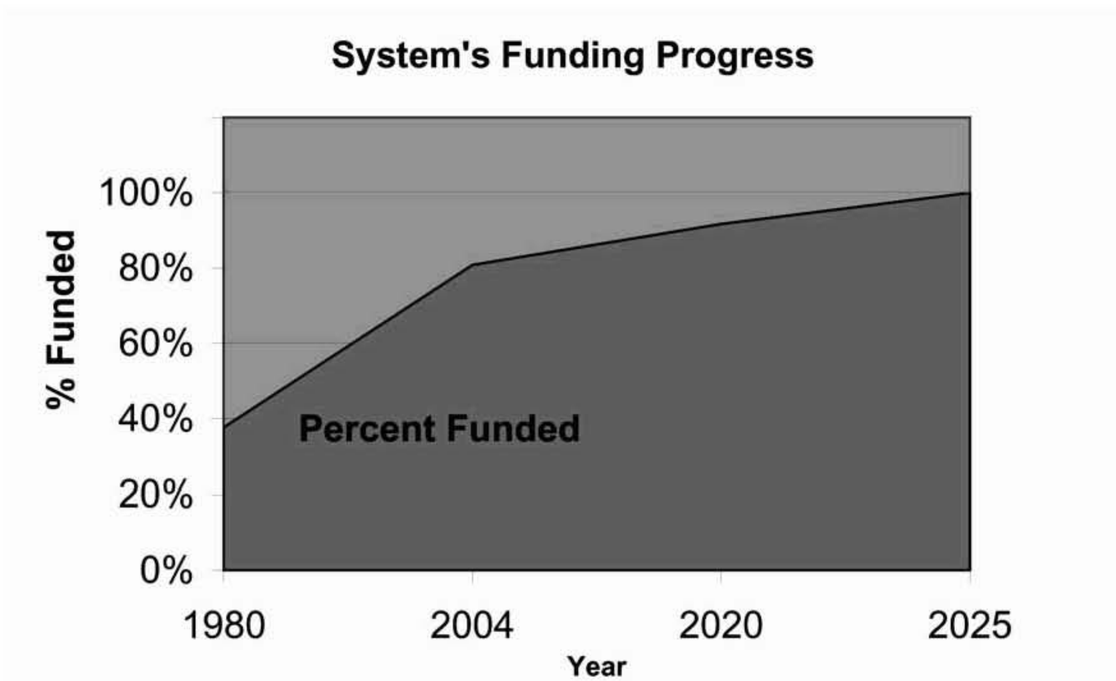
The System supported other legislation that would make Social Security solvent for future generations. Along with other public pension plans, the System also continued to oppose federal legislation that would require mandatory or universal Social Security coverage. The Board believes that federal legislation 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'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 20 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.

Membership and Benefits
2005 Program Highlights

Benefit Statements Distributed

5,456 Annual Benefit and DROP Statements

Counseling Sessions

835 Members

Deferred Retirement Option Plan (DROP)

78 New Active Members in DROP

1,056 Total Active Members in DROP

170 Retired Members in Deferred DROP

597 Retired Members with DROP accounts

24 Deceased or Spouses with DROP accounts

1,847 Active and Retiree DROP Accounts

New Recruit Education Meetings

8 Meetings with 212 new Members

Pre-Retirement Education Program (PREP)

7 Meetings

291 Attendees

Financial Planning Program

3 Meetings

216 Attendees

Pensioner Financial Planning

2 Meetings

140 Attendees

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

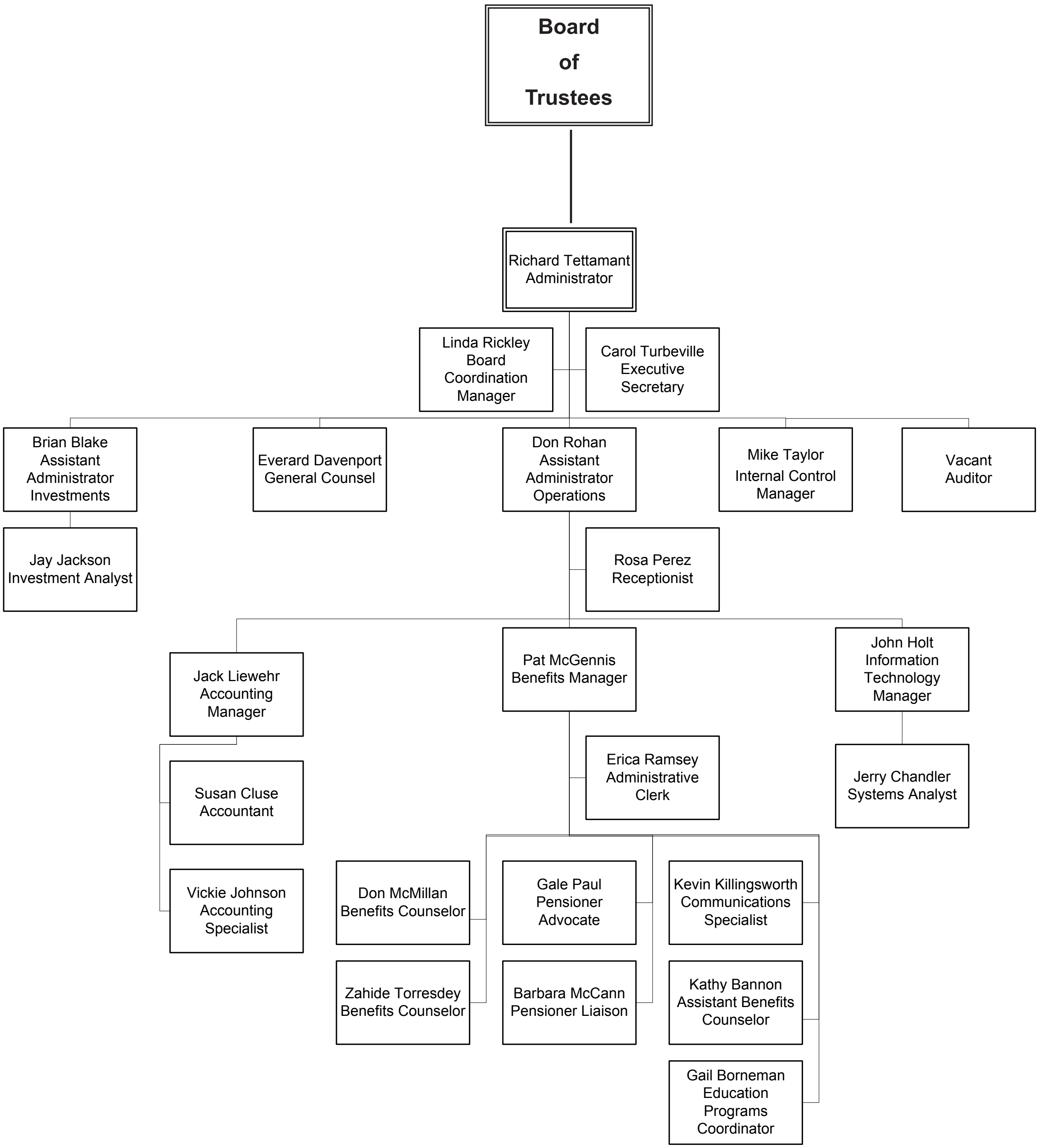
Richard Wachsman
Fire Pensioner Trustee

Donald Hill
Mayor Pro Tem
City Councilmember

Maxine Thornton-Reese
City Councilmember

2005 Organizational Chart

(as of 12/31/2005)



2005 Administrative Staff

Richard Tettamant
Administrator

Brian Blake
Asst. Administrator
Investments

Don Rohan
Asst. Administrator
Operations

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
Educations Programs
Coordinator

Jerry Chandler
Systems Analyst

Susan Cluse
Accountant

Jay Jackson
Investment Analyst

Vickie Johnson
Accounting
Specialist

Kevin Killingsworth
Communications
Specialist

Barbara McCann
Pensioner Liaison

Don McMillan
Benefits Counselor

Gale Paul
Pensioner Advocate

Rosa Perez
Receptionist

Erica Ramsey
Administrative Clerk

Zahide Torresdey
Benefits Counselor

Carol Turbeville
Executive Secretary

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:
    - the benefit supplement increased and
    - 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 (DROP) 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 Member contributions being paid on pre-tax basis
- Completion of DROP 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 Website
- 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
  - Permitted purchase of Pension Service on a pretax basis through payroll deductions or rollover
  - Permitted Members to purchase Pension Service in whole year increments
  - Permitted Member disabled while on military leave of absence to receive a non-service disability pension
  - Added 100% joint and survivor annuity option
  - Increased minimum benefit increased to $2,200 per month
  - Changed calculation of DROP interest rate to average of System's 10-year investment return as calculated by the System's actuary
  - Provided for special election 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
- Creation 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 totaled $2.2 billion (12-31-03)

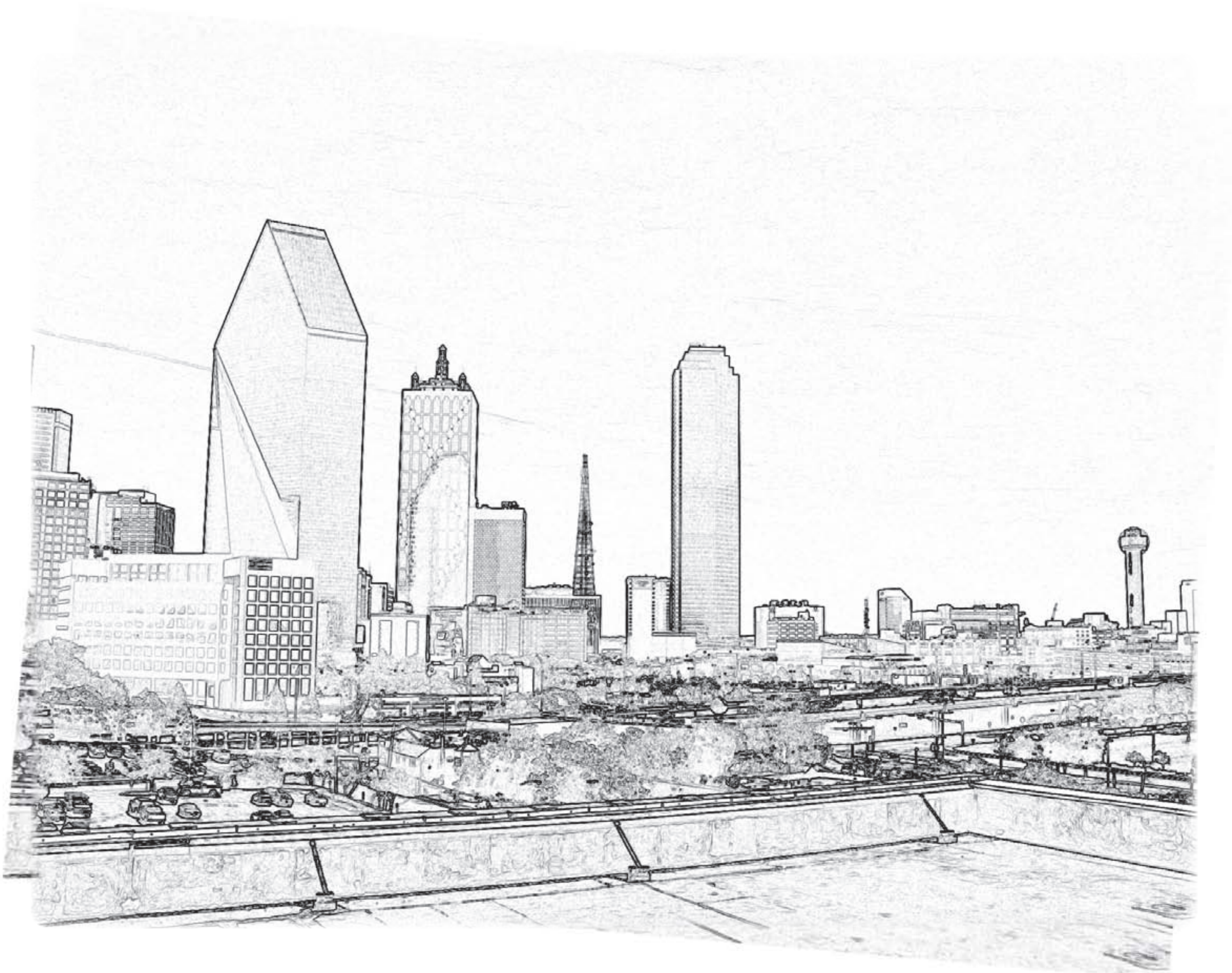
2004

- Established loan program to enhance real estate investment return
- Moved Pensioner Financial Planning education program to offsite
- Established a Business Continuity cold site
- System assets totaled $2.49 million (12-31-04)

2005

- Re-election of four Trustees
- Plan amendment election held November 2005
  - Permitted Members to contribute to a health savings account to pay medical expenses after retirement
  - Permitted Pensioners to elect a 100% joint and survivor pension
  - Permitted designation of beneficiary to receive any lump sum payment payable due to death
  - Permitted Pensioner to elect a survivor benefit for a child born or adopted after the Pensioner left Active Service
  - Enabled the Board to adopt a policy to enhance flexibility in deferral to and distributions from DROP
  - Eliminated the annual adjustment for new members hired after December 31, 2006 and authorize the Board to grant ad hoc increases to affected Members
  - Extended to Police Officer Members the same presumptions regarding disabilities caused by job-related heart and lung diseases, as mandated by state law for firefighters
- System assets totaled $2.74 million (12-31-05)


SCOTT



Financial Section

DALLAS POLICE AND FIRE PENSION SYSTEM

Financial Statements
and
Required Supplemental Information

December 31, 2005 and 2004

(With Independent Auditors' Report Thereon)

DALLAS POLICE AND FIRE PENSION SYSTEM

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Mir • Fox & Rodriguez, P.C.
Certified Public Accountants

Member of the American Institute of Certified Public Accountants

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, 2005 and 2004, 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial status of the System as of December 31, 2005 and 2004, 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 it.

Mir Fox & Rodriguez

August 7, 2006

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

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 years ended December 31, 2005 and 2004. 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 supplementary information.

FINANCIAL STATEMENTS

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

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

CONDENSED FINANCIAL INFORMATION
(in thousands)

	2005	2004	2003
Assets	$ 3,281,804	2,712,238	2,480,812
Liabilities	546,070	218,435	297,753
Plan Net Assets Available for Benefits	2,735,734	2,493,804	2,183,059
Contributions	105,122	100,646	94,610
Investment and Other Income	252,204	317,192	528,198
Benefit Payments	111,331	103,394	96,246
Withdrawal Payments and Refunds of Contributions	1,070	801	584
Administrative Expenses and Professional Fees	2,995	2,898	3,165

Continued

FINANCIAL HIGHLIGHTS

- The System's plan net assets increased by $241.9 million in 2005 and by $310.1 million in 2004. Plan net assets were $2.74 billion in 2005 and $2.49 billion in 2004. The increase reflects the income from employee and employer contributions and earnings on investments that exceeded benefit payments and administrative expenses.
- The rate of return on System investments during 2005 was 10.3%, net of fees, compared to a rate of return of 14.77% for 2004. The actuarial expected rate of return for both years was 8.5%.
- Liabilities totaled $546.1 million as of December 31, 2005 compared to $218.4 million as of December 31, 2004.
- The System received employee contributions of $17.7 million in 2005 and $17.4 million in 2004 and received employer contributions from the City of Dallas in the amounts of $87.4 million and $83.3 million in 2005 and 2004, respectively. The employee contributions are 8.5% of computation pay (base pay rate plus education and longevity pays). The employer contributions represent 27.5% of total salary and wages for covered employees.
- The System paid $111.3 million in service retirement, disability retirement and survivor benefits and DROP disbursements during the year, compared to payments of $103.4 million benefits in 2004. The System refunded approximately $1.07 million and $801 thousand in contributions to former members in 2005 and 2004, respectively. No changes to benefit provisions were implemented. The increase in benefit payments resulted both from an increase in the number of benefit recipients and annual adjustment increases to base benefits of 4%.
- The cost of administering the benefit programs of the System, including administrative costs and professional fees was nearly the same at $2.9 million in 2005 compared to $2.9 million in 2004.

FUNDING PROGRESS

The System contracted with Buck Consultants to conduct an actuarial valuation to determine the actuarial position of the System as of January 1, 2006. 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.

- The Actuarial Valuation Report shows that the market value of assets increased $261 million during the year to $2.75 billion as of January 1, 2006. The market value of assets as of January 1, 2005 was $2.49 billion. During the same period, the actuarial value of the assets (AVA) increased $215.1 million to a total of $2.70 billion as of January 1, 2006. For the January 1, 2005 valuation, the AVA was set equal to the market value of assets.
- As of January 1, 2006, the actuarial value of liabilities (AAL) increased by $208.2 million to $3.28 billion.
- The ratio of a plan's AVA to 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 to 82.3% as of January 1, 2006. The ratio as of January 1, 2005 was 80.8%.

Continued

- 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, 2006, the System's UAAL was $582.1 million, a decrease of $7 million from a UAAL of $589.1 million as of January 1, 2005.
- 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. As of January 1, 2006, the employer contribution rate of 27.5% covers the normal cost and the amortization of the UAAL over 20 years, compared to 29 years to fund as of the January 1, 2005 valuation. This decrease of 9 years in the number of years to fully fund the System further demonstrates the improvement in the System's funding status.

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.

DALLAS POLICE AND FIRE PENSION SYSTEM

Statements of Plan Net Assets
December 31, 2005 and 2004

Assets	2005	2004
Investments, at fair value (notes 2, 3 and 4):		
Cash and short term investments	$ 272,737,505	288,678,041
United States government securities	21,086,315	20,234,022
United States government sponsored enterprises	34,239,013	8,700,000
Foreign government securities	247,540,762	193,837,110
Commingled funds	89,005,318	373,501,808
Domestic equities	831,471,786	501,582,329
International equities	660,850,977	598,469,171
Corporate securities	373,824,612	306,908,250
Investments, at appraised value - real estate equity funds	546,201,086	383,872,834
Total investments	3,076,957,374	2,675,783,565
Receivables:		
Accrued interest and dividends	12,335,285	10,896,980
Employer contributions (note 5)	1,025,927	997,588
Member contributions	203,027	206,778
Forward currency contracts (note 6)	77,540,182	763,258
Securities sold	113,742,075	23,590,273
Total recievables	204,846,496	36,454,877
Total assets	3,281,803,870	2,712,238,442
Liabilities and Net Assets		
Repurchase loan agreement (note 7)	51,778,137	7,060,000
Payable for securities purchased	106,224,192	41,984,780
Administrative and professional fees payable	14,606,635	3,690,480
Forward currency contracts (note 6)	79,254,983	771,437
Securities lending collateral (note 4)	207,815,275	164,927,817
Line of credit (note 8)	86,390,791	
Total liabilities	546,070,013	218,434,514
Net assets held in trust for pension benefits (a schedule of funding progress is included on page 24)	$ 2,735,733,857	2,493,803,928

See accompanying notes to basic financial statements.

DALLAS POLICE AND FIRE PENSION SYSTEM

Statements of Changes in Plan Net Assets
Years Ended December 31, 2005 and 2004

	2005	2004
Additions to plan net assets:		
Investment income:		
Interest	$ 32,011,489	27,774,638
Dividends	30,282,985	20,533,867
Real estate income	23,745,204	13,543,892
Net appreciation in fair value of investments	185,660,666	265,912,580
Securities lending income	2,601,233	2,390,924
Less investment expenses:		
Securities lending borrower rebates	(1,544,051)	(1,649,503)
Custody fees	(479,286)	(341,194)
Investment services	(20,418,398)	(11,557,450)
Net investment income	251,859,842	316,607,754
Contributions:		
Employer	87,373,312	83,290,516
Employee	17,748,241	17,355,730
Total contributions	105,121,553	100,646,246
Other income	344,399	584,424
Total net additions to plan net assets	357,325,794	417,838,424
Deductions from plan net assets:		
Benefit payments	111,330,798	103,393,633
Withdrawal payments and refunds of contributions	1,069,858	801,314
Administrative expenses and professional fees	2,995,209	2,898,418
Total deductions from plan net assets	115,395,865	107,093,365
Net increase in plan net assets	241,929,929	310,745,059
Plan net assets held in trust for pension benefits:		
Beginning of year	2,493,803,928	2,183,058,869
End of year	$ 2,735,733,857	2,493,803,928

See accompanying notes to basic financial statements.

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements
December 31, 2005 and 2004

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, 2005 and 2004, the System's membership consisted of:

	2005	2004
Nonactive member:		
Pensioners and qualified survivors currently receiving benefits and terminated employees entitled to benefits but not yet receiving them:		
Firefighters	1,369	1,338
Police officers	1,752	1,696
Terminated vested members not yet receiving benefits	141	156
Total nonactive members	3,262	3,190
Current employees:		
Vested:		
Firefighters	1,405	1,388
Police officers	2,346	2,325
Total vested current employees	3,751	3,713
Nonvested:		
Firefighters	271	291
Police officers	626	593
Total nonvested current employees	897	884
Total current employees	4,648	4,597

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

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 $428,990,153 and $358,726,070 for December 31, 2005 and 2004, 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 member 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.

Adoption of new 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 beginning after June 15, 2004 and accordingly, has been implemented by the System in fiscal year 2005.

Recent accounting pronouncement

The GASB has issued Statement No. 44, *Economic Condition Reporting,* which amends National Council on Governmental Accounting Statement No. 1, *Governmental Accounting and Financials Reporting Principles* that guide the preparation of the statistical section. GASB Statement No. 44 requires disclosure information related to statistical data to assess the economic condition of a government. The statement is effective for financial statements for periods beginning after June 15, 2005 and accordingly, will be implemented by the System in fiscal year 2006.

Reclassifications

Certain amounts in 2004 have been reclassified to conform to current year presentation.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

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.

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.

Continued

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.

Benefits

Benefits and refunds of contributions are recorded in these basic financial statements when they are paid to participants.

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, 2005 and 2004 were converted to the System's functional currency (United States dollars) at the foreign exchange rates quoted at December 31, 2005 and 2004. These foreign exchange gains and losses are included in net appreciation in fair value of investments in the accompanying statements of changes in plan 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 Cash Equivalents**

For cash deposits and cash equivalents, custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned to it. The System's deposits are held by the Custodian, JP Morgan. As of December 31, 2005 and 2004, the System had bank balances of $1,046,554 and $0, respectively, that are in demand deposit accounts subject to coverage by Federal deposit insurance, but not collateralized. The System does not have a deposit policy for custodial credit risk; however, the System's credit risk exposure is mitigated by the financial strength of the banking institution in which the deposits are held.

3. **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 fair values of the System's investments at December 31, 2005 and 2004 are presented by type, as follows:

	2005	2004
Cash and short term investments	$ 272,737,505	288,678,041
United States government securities	21,086,315	20,234,022
U.S. government sponsored enterprises	34,239,013	8,700,000
Foreign government securities	247,540,762	193,837,110
Commingled funds	89,005,318	373,501,808
Domestic equities	831,471,786	501,582,329
International equities	660,850,977	598,469,171
Corporate securities	373,824,612	306,908,250
Investments, at appraised value - real estate equity funds	546,201,086	383,872,834
Total investments	$ 3,076,957,374	2,675,783,565

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

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:

	2005		2004	
	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
Securities lending - Global Securities Lending JP Morgan		207,815,275		164,927,817
Total investments greater than 5% of net assets		207,815,275		523,419,689
Investments less than 5% of net assets:				
At quoted market value		2,322,941,014		1,768,491,042
At appraised value		546,201,085		383,872,834
Total investments		3,076,957,374		2,675,783,565

Custodial credit risk

For an investment, custodial credit is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the System, and are held by either the counterparty or the counterparty's trust department or agent but not in the System's name. At December 31, 2005, the System's security investments that were not subject to custodial credit risk were the investments in fixed income and equity investments.

Concentration of credit risk

The allocation of assets among various asset classes are set by the Board with the objective of optimizing the investment return of the System within framework of acceptable risk and diversification. For major asset classes (e.g., domestic equities, international equities, fixed income, alternative investments, and real estate), the System will further diversify by employing investment managers who implement the strategies selected by the Board.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

Significant guidelines are as follows:

Public market investments

1. Specific guidelines are developed cooperatively by the System's investment staff, legal counsel, and investment manager and shall be incorporated into the Investment Management Services Contract executed by the Chair of the Board, System Administrator, General Counsel, and the investment manager.
2. In case of conflict between the specific manager guidelines and the general guidelines, the specific guidelines, as approved by the Board, shall supersede. The general guidelines are as follows:
    a. Manager investment philosophy, style, and strategy shall remain consistent and shall not change without the Board's approval. The manager shall have discretion to manage the portfolio consistent with the style presented to the Board at the time of selection and further subject to the restrictions established by the policy herein.
    b. The following transactions are prohibited: short sales, selling on margin, put and call options, and the use of derivatives for speculation unless authorized by the Board.
    c. Transactions that involve a broker acting as a principal, where such broker is also affiliated with the manager who is making the transaction are prohibited, unless specifically approved by the Board.
    d. Transactions shall be executed at competitive costs, or within the parameters established for directed brokerage transactions by the Board.
    e. Managers shall maintain cash levels consistent with their style as presented to the Board at the time of selection. Any deviation shall be allowed only after notifying the System Administrator and Assistant Administrator of Investments and should be related to unusual market conditions. The cash level held by each manager will be addressed in the Investment Management Services Contract.
3. The Board with the assistance from the System staff shall monitor each investment manager's performance and adherence to style, strategy, and manager specific guidelines. It is the Board's discretion to take corrective action by replacing an investment manager if they deem it appropriate at any time.

Alternative and real estate investments

1. The investment specific guidelines for each manager will be incorporated in a Limited Partnership Agreement, Limited Liability Company Agreement, or other binding agreement as is appropriate for the investment. The Board, System Administrator, General Counsel, and the investment manager execute this document.
2. In case of conflict between the specific manager guidelines and the general guidelines, the specific guidelines, as approved by the Board, shall supersede. The general guidelines are as follows:

Continued

a. Manager investment philosophy, style, and strategy shall remain consistent and shall not change without the Board's approval. The manager shall have discretion to manage the portfolio consistent with the style presented to the Board at the time of selection and further subject to the restrictions established by the policy herein.
b. The Chair of the Board may execute amendments and consents if the resulting changes or allowances are provided for in the governing documents as previously accepted by the Board. Otherwise, such changes are to be approved by the Board. The Board will be notified on a quarterly basis of all executed amendments.

3. The Board with assistance from the System staff shall monitor each Alternative and Real Estate manager's performance and adherence to strategy and manager specific guidelines. It is the Board's discretion to take corrective action by replacing an investment manager if they deem it feasible and appropriate at any time. Alternative and Real Estate investment manager retention is governed in most cases by Limited Partnership Agreements, Limited Liability Company Agreements, or other binding agreements. In these cases, the Board with assistance from the System staff shall identify available options as allowed by the governing documents and determine the impact and consequences of these options.

Interest rate risk and foreign currency risk

The System invests in fixed income securities including, but not limited to, investments representing instruments with an obligated fixed rate of interest including public and private debentures, mortgages, investments in life insurance general accounts and guaranteed investment contracts, with maturities greater than one year, and options/futures. Instruments may have an investment grade or non-investment grade rating. Purchases and sales, investment selection and implementation of investment strategies are delegated to the discretion of the investment manager, subject to compliance with its management agreement and the System's Investment Policy.

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

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. International securities investment managers are expected to maintain diversified portfolios by sector and by issuer using the System Investment Policy.

At December 31, 2005, the following tables shows the System's investments by type, time-to-maturity, fair value, and foreign currency fluctuation:

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

The following tables provide information as of December 31, 2005, concerning the fair value of investments, interest rate risk, and foreign currency risk:

Type of Investment	Less Than 1 Year	1-5 Years	6-10 Years	More Than 10 Years	Total Fair Value
Fixed Maturity Domestic:					
U.S. Treasury Securities	$ 19,317,194	469,241	906,732	393,148	21,086,315
U.S. Gov't Agency Securities	44,941	32,150,978		2,043,094	34,239,013
Corporate Securities:					
Asset Backed Securities		118,302	2,424,550	6,045,916	8,588,768
Collateralized Mortgage Obligation	19,496		118,407	8,874,817	9,012,720
Corporate Bonds	2,215,665	32,711,370	89,545,534	65,539,778	190,012,347
Comingled Funds				89,005,318	89,005,318
Convertible Bonds	2,123,438	7,711,956	2,454,675	14,161,949	26,452,018
Investment interests				102,713,001	102,713,001
Total fixed maturity domestic	23,720,734	73,161,847	95,449,898	288,777,021	481,109,500
International Government Bonds:					
Australian Dollar		9,688,976	5,244,119		14,933,095
Argentina		2,020,064		317,737	2,337,801
Brazil Real				5,302,193	5,302,193
British Pound Sterling		369,860	5,560,867		5,930,727
Canadian Dollar	12,899,965		8,778,442		21,678,407
EURO Currency	1,451,572	29,287,026	9,453,652	8,831,283	49,023,533
Japanese Yen	6,375,540	20,354,028	9,576,516		36,306,084
Mexican New Peso			6,976,809	801,634	7,778,443
New Zealand Dollar			3,070,590		3,070,590
Poland		9,609,891			9,609,891
Peru				1,378,125	1,378,125
Singapore Dollar		7,742,254			7,742,254
South African Rand	2,387,835				2,387,835
Swedish Krona		3,992,285	11,206,456		15,198,741
Uruguay			1,898,820	1,560,239	3,459,059
Total international government bonds	23,114,912	83,064,384	61,766,271	18,191,211	186,136,778
International Corporate Bonds:					
Australian Dollar	1,060,614		1,077,638		2,138,252
Bermuda			102,715	109,206	211,921
British Pound Sterling	1,376,712	3,091,618	7,114,903	1,105,130	12,688,363
Cayman Islands	2,104,167			2,244,937	4,349,104
Chile				39,819	39,819
Canadian Dollar	1,123,665	744,574	3,185,925	1,766,033	6,820,197
EURO Currency	213,721	861,652	4,315,263	1,354,257	6,744,893
Japanese Yen				99,626	99,626
Mexican New Peso	68,733			15,037	83,770
Philippines				2,120,550	2,120,550
Singapore Dollar		400,363			400,363
Venezuela				1,348,900	1,348,900
Total international corporate bonds	5,947,612	5,098,207	15,796,444	10,203,495	37,045,758
Pooled International Fixed Maturity		1,572,373		59,831,611	61,403,984
Total international fixed maturity	29,062,524	89,734,964	77,562,715	88,226,317	284,586,520
Total fixed maturity	$ 52,783,258	162,896,811	173,012,613	377,003,338	765,696,020

Continued

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Fund does not have a formal policy limiting investment credit risk, but rather mandates such limits within the Investment Management Services Contract. The Fund's exposure to investment credit risk in fixed income securities as of December 31, 2005 is as follows:

Type	Moody Rating	Amount	Percentage of Holdings
Corporate securities:			
Asset backed securities			
	Aaa	$1,038,482	0.14%
	Aaae	55,236	0.01%
	B2	275,157	0.04%
	Ba2	758,597	0.10%
	Baa2	129,044	0.02%
	Baa3	1,233,418	0.16%
	NR	3,994	0.00%
	WR	5,094,840	0.67%
Total asset backed securities		8,588,768	1.14%
Convertible bonds			
	B3	2,708,493	0.35%
	Ba2	5,875,330	0.77%
	C	664,538	0.09%
	Ca	445,031	0.06%
	Caa1	3,373,000	0.44%
	Caa2	709,813	0.09%
	Caa3	2,288,638	0.30%
	NR	10,154,675	1.33%
	WR	232,500	0.03%
Total convertible bonds		26,452,018	3.46%
Corporate bonds			
	A1	2,456,943	0.32%
	A2	2,850,719	0.37%
	A2e	126,189	0.02%
	A3	3,760,629	0.49%
	A3e	59,072	0.01%
	Aa1	4,741,178	0.62%
	Aa1e	2,929,968	0.38%
	Aa2	4,142,825	0.54%
	Aa3	3,014,033	0.39%
	Aaa	3,901,712	0.51%
	B1	23,364,474	3.05%
	B2	28,421,808	3.71%
	B3	28,922,357	3.78%
	Ba1	5,822,187	0.76%
	Ba2	21,042,994	2.75%
	Ba3	19,586,125	2.56%
	Baa1	3,929,795	0.51%
	Baa1e	40,118	0.01%
	Baa2	6,334,600	0.83%
	Baa2e	40,158	0.01%
	Baa3	11,907,597	1.56%
	Ca	262,398	0.03%
	Caa1	14,805,275	1.93%
	Caa2	1,195,200	0.16%
	Caa3	1,169,356	0.15%
	NR	11,483,009	1.50%
	WR	20,747,386	2.71%
Total corporate bonds		227,058,105	29.66%
Mortgage bonds			
	A2	29,327	0.00%
	Aa1	26,836	0.00%
	Aa2	24,783	0.00%
	Aa2e	18,112	0.00%
	Aaa	3,208,236	0.42%
	Aaae	49,136	0.01%
	Ba1	50,920	0.01%
	Ba2	535,827	0.07%
	Baa2	19,496	0.00%
	Baa3	401,257	0.05%
	NR	3,264,306	0.43%
	WR	1,384,484	0.18%
Total mortgage bonds		9,012,720	1.17%
Investment fund	NR	102,713,001	13.41%
Total corporate securities		373,824,612	48.84%
Government sponsored enterprises			
	Aaa	34,137,797	4.46%
	P-1	101,216	0.01%
		34,239,013	4.47%
Foreign government securities:			
Government bonds			
	A2	48,100,046	6.28%
	Aa2	1,812,546	0.24%
	Aaa	82,545,297	10.78%
	B3	6,850,800	0.89%
	Ba3	6,680,318	0.87%
	Baa1	10,166,278	1.33%
	NR	78,485,512	10.25%
Total government bond		234,640,797	30.64%
Treasury bill			
	NR	12,899,965	1.68%
Total foreign government		247,540,762	32.32%
Unites States government securities			
Treasury Bill	P-1	17,713,901	2.31%
Treasury Bond	Aaa	636,590	0.08%
Treasury Note	Aaa	2,735,824	0.36%
Total U.S. government securities		21,086,315	2.75%
Commingled	NR	89,005,318	11.62%
Total credit risk debt securities		$ 765,696,020	100.00%

Continued

4. **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 2005 and 2004, 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 2005 and 2004 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 years 2005 and 2004. Moreover, there were no losses during the 2005 and 2004 fiscal years 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 2005 and 2004, 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, 2005 and 2004, the System had no credit risk exposure to borrowers. The market value of securities on loan and collateral held for the System were $201,882,969 and $207,815,275 at December 31, 2005, and $161,013,456 and $164,927,817 at December 31, 2004.

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, 2005 and 2004.

5. **Contributions Required and Contributions Made**

Funding 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 20 years as of January 1, 2006 compared to 29 years as of January 1, 2005.

Continued

The required contribution rate of the City, pursuant to an actuarial study effective January 1, 2006, consists of 15.84% of covered members' salaries to pay normal costs, increased by 7.78% of covered members' salaries to amortize its funding deficit over 20 years, increased by 3.88% 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 2005 and 2004, combined police officers, firefighters and City contributions represent approximately 27.5% and 35.75%, 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 2005 and 2004, 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 24 through 26. 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.

6. **Forward Contracts**

During fiscal years 2005 and 2004, 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.

During 2005 and 2004, the System recognized net realized losses on foreign currency forward contracts of $305,327 and $1,199,639, respectively. At December 31, 2005 and 2004, the System had net unrealized depreciation on forward contracts reflected in the accompanying basic financial statements of approximately $1,714,801 and $8,179, respectively.

Continued

7. **Obligation Under Reverse Repurchase Agreements**

State statutes permit the System to enter into reverse repurchase agreements. The credit exposure at year end 2005 related to these agreements was $2,369,792. 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 2005 and 2004.

8. **Line of Credit**

The System has a credit agreement with a commercial bank which provides for a revolving line of credit bearing interest of 4.7% at December 31, 2005, payable monthly. At December 31, 2005, the System had borrowed approximately $86,391,000 related to the revolving credit line which provides for a maximum borrowing of $100,000,000. The revolving credit line was opened in July 2005, and expires on July 6, 2006. Interest rate is based on LIBOR plus 40 basis points. The System also pays a quarterly fee on the unused portion of the line of credit.

9. **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 System is designed and continues to operate in compliance with the applicable requirements of the Internal Revenue Code.

10. **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, $418,863 and $546,426 were reimbursed to the City by the System during the years ended December 31, 2005 and 2004, respectively.

Investment related expenses for the years ended December 31, 2005 and 2004 also include $13,552,627 and $10,685,754, respectively, in asset management fees.

11. **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, 2005 and 2004, aggregate contributions from active members of the System with less than five years of service were $4,597,367 and $7,056,275, respectively,

The System had outstanding investment commitments to various limited partnerships and international investment advisors of approximately $288 million at December 31, 2005.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

12. **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, ING Retirement Services (ING) and the cost of administration and funding are borne by the DCP participants. Amounts deferred are held in trust by ING and since the System had no fiduciary responsibility for the DCP, these amounts are not reflected in the accompanying basic 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 makes on behalf of a System participant. During 2005 and 2004, the System contributed $139,680 and $179,713, respectively. The MPP has a third party administrator, ING, Inc., and the cost of administration and funding are borne by the MPP participants. Amounts deferred are held in trust by ING 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.

13. **Risks 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 25, and schedule of funding progress, page 24, 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 Plan's basic financial statements as of December 31, 2005 and 2004.

REQUIRED SUPPLEMENTAL INFORMATION

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):

Schedule of Funding Progress

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered 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
1/1/2006	2,700	3,282	582	82.3	295	197.3

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

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 plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the plan is becoming financially stronger or weaker, generally, the greater this percentage, the stronger the plan. 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 plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

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

Schedule 2

DALLAS POLICE AND FIRE PENSION SYSTEM

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

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%
2005	87,373	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.

DALLAS POLICE AND FIRE PENSION SYSTEM

Note to Required Supplemental Schedules (Unaudited)

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, 2006 and 2005 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
** Includes inflation of 4%.

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	20 years in 2006 and 29 years in 2005
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 2005 and 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 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, 2006 and 2005, and are not materially different from what they would have been had they been calculated on December 31, 2005 and 2004, 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.

Investment Section


DALLAS POLICE
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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.

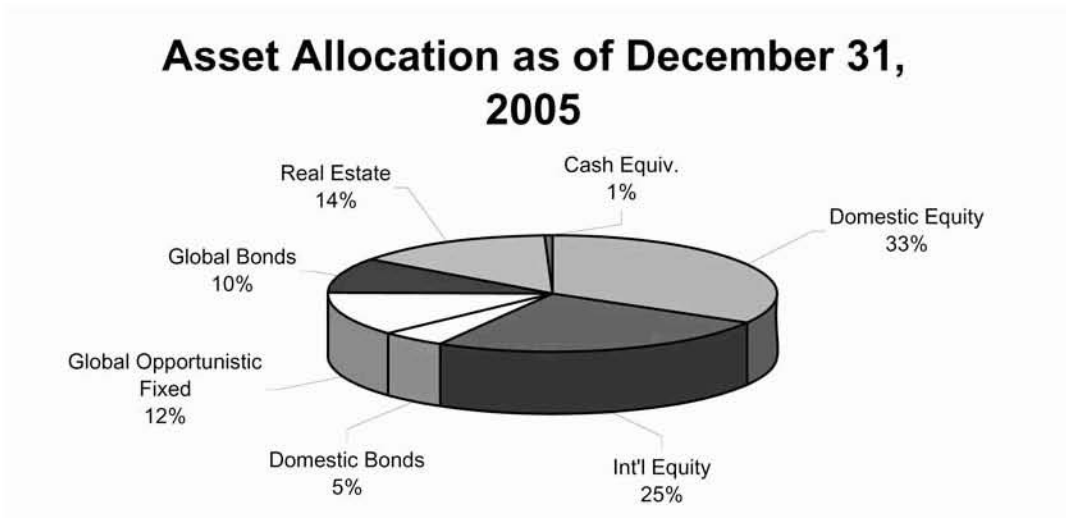
2. The System seeks to produce the highest return on investment that is consistent with levels of liquidity and investment risk that are prudent and reasonable, given prevailing capital market conditions. While the importance of the preservation of capital is recognized, the theory of capital market 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.

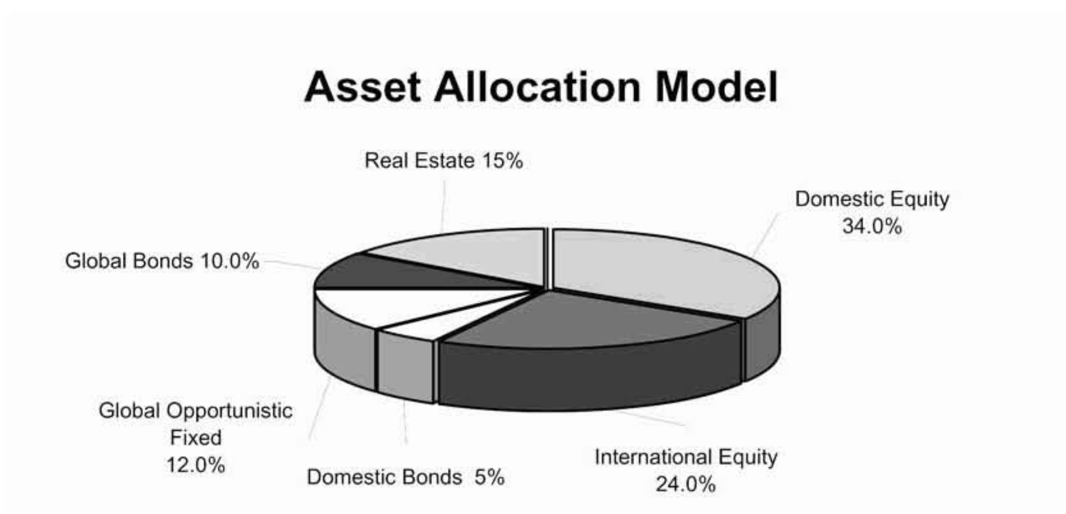
STRATEGIC ASSET ALLOCATION POLICY

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 chart below:



Pension System assets were diversified into the categories shown above as of December 31, 2005.



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 $241.9 million in 2005, resulting in a year-end total asset valuation of $2.74 billion. The System had an excellent year returning 10.3% for the year 2005. 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
December 31, 2005

Investment Category	Rate of Return	Benchmark Comparison	
Domestic Equity	6.13	4.91	S&P 500 Index
International Equity	14.33	13.54	EAFE Index
Global Bonds	-5.11	-4.49	Lehman Global Aggregate
Domestic Bonds	1.82	2.10	Citigroup Comp. High Yield
Global Opportunistic Fixed	9.46	5.14	Custom Bond Index
Real Estate	27.30	20.06	NCREIF Property Index
Cash Equivalent	3.07	3.07	91-Day Treasury Bill
Total Portfolio	10.30	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. New England Pension Consultants (NEPC), the System's new investment consultant, ranked the fund in the top 1% for the one year and three years periods, top 12% over five years, and top 4% over seven years, for public funds using the Independent Consultants Cooperative Universe (ICC) data base. As of December 31, 2005, the ICC public fund data base consisted of 185 public funds that were valued at $524 billion dollars.

The "Annualized Cumulative Investment Return" graph in the Introduction Section shows that the System's annualized return since 1982 is 11.4 %.

Equity Portfolio

Large capitalization value stocks outperformed large capitalization growth stocks as measured by Russell. The Russell 1000 Value Index returned 7.04% versus the Russell 1000 Growth Index which retuned 5.26%. Over the last five years, large value stocks tracked by Russell outperformed growth stocks on an annualized basis by 8.86%. The difference between small capitalization value and small capitalization growth was narrow as evidenced by Russell 2000 Value that returned 4.71% versus the Russell 2000 Growth that returned 4.15%. The S&P 500 Index returned 4.91% for the year.

The System's domestic equity portfolio represents approximately 33.4% of the total investment portfolio. The domestic equity composite for the System returned 6.13% in 2005 outperforming the S&P 500 Index by 1.22%. Over a three year period the System's domestic equity portfolio returned an annualized 17.95% and outperformed the S&P 500 Index by 3.56%.

The Mitchell Group, a Texas based investment manager focusing on the North American energy sector, returned an impressive 47.4% for the year. The energy advisor has also compiled a three year annualized performance number of 37.10% for the System.

The Huff Alternative Fund managed by W.R Huff Asset Management returned 29.0% for the year by investing in private companies. The fund has a three year annualized performance number of 34.20%. AllianceBernstein Institutional Investment Management, managing a deep value strategy for the System, returned 9.50% for the year. AllianceBernstein produced a three year annualized performance of 19.50% in an environment where the S&P 500 Index returned 14.39% over the same period on an annualized basis.

The System added three new equity investment managers during 2005, Eagle Asset Management, INTECH, and T. Rowe Price. Eagle Asset Management invests in small capitalization stocks. INTECH and T. Rowe Price invest in larger capitalization stocks using an enhanced index strategy for the System's core equity investments.

Top Ten Domestic Equity Holdings
(as of 12/31/05)

Rank	Description	Shares	Price	Value	Cost	% of Total
1	CITIGROUP INC	417,800.00	$48.53	$20,275,834.00	$16,407,289.07	0.7607
2	PFIZER INCORPORATED	641,100.00	$23.32	$14,950,452.00	$16,377,829.57	0.5609
3	BANK AMER CORP	285,600.00	$46.15	$13,180,440.00	$12,458,063.88	0.4945
4	GENERAL ELECTRIC COMPANY	361,800.00	$35.05	$12,681,090.00	$12,257,883.99	0.4758
5	EXXON MOBIL CORP COM	221,200.00	$56.17	$12,424,804.00	$12,688,932.19	0.4662
6	TEVA PHARMACEUTICAL INDS LTD	267,800.00	$43.01	$11,518,078.00	$8,909,417.43	0.4321
7	J P MORGAN CHASE & CO COM	268,900.00	$39.69	$10,672,641.00	$9,783,638.02	0.4004
8	COGNIZANT TECH SOLUTIONS CORP	205,000.00	$50.27	$10,305,350.00	$2,315,358.45	0.3866
9	QUALCOMM INC	237,500.00	$43.08	$10,231,500.00	$9,531,093.11	0.3839
10	MEDTRONIC INC.	175,500.00	$57.57	$10,103,535.00	$7,994,226.17	0.3791

International Equity Portfolio

International stocks outperformed domestic stocks for the year as evidenced by the Morgan Stanley International Europe Australasia Far East (MSCI EAFE) Index. MSCI EAFE returned 13.54% for the year in comparison to the S&P 500 Index that returned 4.91% for the year.

Top Ten International Equity Holdings
(as of 12/31/05)

Rank	Description	Shares	Price	Value	Cost
1	TOTAL 'B'	67980	$250.31	$17,016,250.26	$10,560,488.20
2	TOYOTA MOTOR CO	298700	$51.85	$15,487,960.69	$11,012,514.36
3	NOVARTIS AG	234103	$52.39	$12,265,583.23	$10,533,555.27
4	GLAXOSMITHKLINE ORD GBP0.25	481832	$25.22	$12,151,682.59	$11,781,737.22
5	ROCHE HOLDINGS AG	80554	$149.71	$12,059,567.64	$7,624,308.01
6	ENI EUR1 COM	423148	$27.64	$11,695,045.23	$7,299,165.05
7	ROYAL BK SCOT GRP	336414	$30.13	$10,136,083.13	$9,800,910.71
8	VODAFONE GROUP ORD 5P	4669771	$2.15	$10,061,397.14	$9,424,674.71
9	CREDIT SUISSE GRP CHF3	187813	$50.84	$9,548,122.77	$7,932,796.65
10	SAMSUNG ELECTRONIC	14488	$651.93	$9,445,112.53	$6,123,198.34

The System's international equity portfolio represents approximately 24.3% of the total assets of the fund and returned 14.33% as a composite group in 2005. The System's international growth manager, Clay Finlay, returned 17.8% for the year. Fidelity Management Trust Company manages a risk controlled international equity portfolio and that portfolio returned 14.90% for the year. Fidelity's three year annualized performance of 25.20% outperformed the MSCI EAFE Index over the same period by 1.50%.

Fixed Income Portfolio

Domestic high grade bonds as represented by the Lehman Brothers Aggregate Bond Index returned 2.43% for the year. The rise in short term rates affected the short to intermediate part of the government yield curve and accounted for low rates or returns on many U.S. fixed income investments. U.S. government inflation protection bonds, also known as TIPS, returned 2.84% for the 2005.

The System's fixed income investments represent approximately 26.9 % of the total portfolio. The System's fixed income portfolio is divided among three categories; Domestic High Yield, Global Quality, and Global Opportunistic.

Top Ten Fixed Income Holdings
(as of 12/31/05)

Rank	Description	Coupon	Maturity	Shares	Price	Value	Cost	% of Total
1	FEDERAL NATL MTG ASS	4.000	5/1/2007	11,640,000	98.969000	$11,519,992	$11,637,965	0.4322
2	GERMANY (FED REP)	4.000	7/1/2009	9,165,000	122.313830	$11,210,063	$11,934,106	0.4206
3	FEDERAL HOME LOAN BANK	4.000	4/25/2007	10,990,000	98.969000	$10,876,693	$10,986,563	0.4081
4	POLAND GOVT BOND	5.750	6/1/2008	30,510,000	31.550821	$9,626,155	$9,535,523	0.3612
5	JAPAN GOVT 10-YR	0.500	6/1/2013	1,190,000,000	0.803336	$9,559,699	$10,316,578	0.3587
6	JAPAN(GOVT OF)	2.500	6/1/2007	960,000,000	0.876633	$8,415,675	$9,087,940	0.3157
7	MEXICO(UTD MEX ST) BDS		12/1/2012	710,000	983.634647	$6,983,806	$5,803,409	0.2620
8	VERTEX PHARMACEUTICALS INC 925	5.750	2/1/2011	3,470,000	190.750000	$6,619,025	$3,191,025	0.2483
9	CANADA GOVT	6.000	6/1/2011	6,950,000	94.599140	$6,574,640	$6,330,905	0.2467
10	SINGAPORE (GOVT OF) BDS	2.625	10/1/2007	10,920,000	60.082317	$6,560,989	$6,546,141	0.2462

The Domestic High Yield portfolio is approximately 5.0% of the total portfolio for the System. The System's high yield investment manager, W. R. Huff Asset Management, returned 1.95% for the year. The manager's return of 14.41% annualized for the last three years is in line with benchmark, the Citigroup Composite High Yield Index over the same period.

The Global Quality bond portfolio comprises approximately 9.6% of the total fund and retuned a (5.11%) for the year. Over the last three years, the Global Quality bond portfolio returned an annualized 5.93% per year and exceeded the Lehman Global Aggregate by .43% annualized per year. Brandywine Asset Management returned (2.10%) for the year and exceeded the Lehman Global Aggregate benchmark of (4.5%) by 2.40%.

The Global Opportunistic represents approximately 12.3% of the portfolio. The portfolio seeks higher yields in both domestic and international fixed income markets by investing in investment grade and non-investment grade bonds. Loomis Sayles returned 7.5% for the year and exceeded their custom benchmark by 1.40% for the year. Loomis Sayles returned 22.0% annualized for the last three years and returned 11.60% annualized for the last five years. Loomis Sayles exceeded their custom benchmark for the three years annualized and five year annualized by 8.0% and 1.70% respectively. Highland Capital, one of the distressed debt mangers in the Global Opportunistic category, returned 22.8% for the year.

Real Estate Portfolio

The real estate portfolio is approximately 15.4% of the entire market value of the investment portfolio. The return for the real estate portfolio in 2005 was 27.30%. The System's real estate portfolio returned 24.63%, 18.58%, 13.13%, and 13.08% annualized net of fees respectively for one year, three years, five years, and ten years periods.

The private real estate portfolio represents approximately 73.0% of the total real estate portfolio. The private real estate portfolio is extremely diversified by the type and location of the real estate asset owned. The private portfolio consists of retail, industrial, multi-family, office, and undeveloped land. In addition, the location of the private assets cover the United States from Hawaii, Idaho, California, Arizona, Nebraska, Colorado, Georgia, Wisconsin, Kansas, Florida, Massachusetts, and Texas.

The System had outstanding performance in the private real estate portfolio from Prudential Strategic Value Investors returning 54.11% for 2005. In addition, Kennedy Associates Real Estate Counsel returned 37.51% for the year. The private real estate portfolio had an outstanding year returning 24.91% 2005. The performance history for the System's private real estate is impressive having returned annualized numbers of 16.97%, 12.72%, and 13.71% respectively for three years, five years, and ten years ending 2005.

The public real estate portfolio consists of investments in Real Estate Investment Trusts (REITs) and totals approximately 9.0% of the System's real estate assets. The REIT portfolio managed by RREEF returned 11.38% for the year 2005. The three year annualized return is 27.64% and the five year annualized return is 20.53%.

The domestic timber portfolio is managed by Forest Investment Associates and the year end investments represented approximately 7.6% of the real estate assets. The advisor returned 18.16% for the year. Longer term performance for the timber portfolio is 11.97%, 6.45%, and 8.83% for the three year, fives year, and ten year period ending 2005.

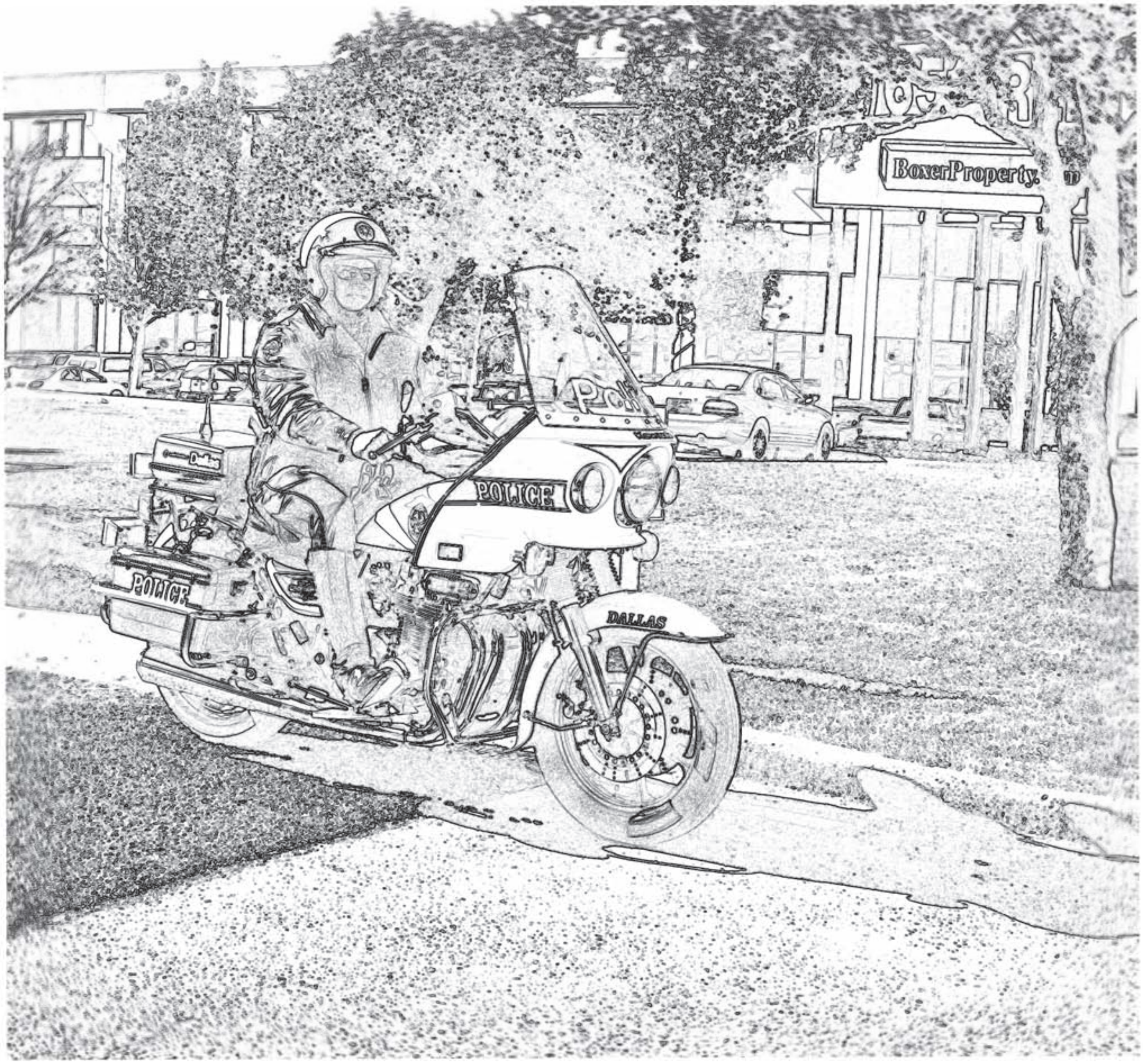
The agricultural portfolio's market value is approximately of 10.2% of the real estate portfolio and is managed by the Hancock Agricultural Group. At year end the agricultural investments were diversified by type and location with approximately 84% located in the United States and approximately 16% in Australia.

The crops include apples, cranberries, almonds, pistachios, walnuts, macadamia nuts, and wine grapes.

The 2005 return for the agricultural investments is 42.30%. Hancock has produced annualized returns of 26.38% and 11.26% for the three year and five year period ending 2005.

INFLATION

Inflation as measured by the Consumer Price Index for all Urban Consumers (CPI-U) increased 3.40% for the year 2005 according to the U.S. Department of Labor.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Actuarial Section

DALLAS POLICE AND FIRE PENSION SYSTEM
ACTUARIAL VALUATION
AS OF JANUARY 1, 2006

DALLAS POLICE AND FIRE PENSION SYSTEM

ACTUARIAL VALUATION

AS OF JANUARY 1, 2006

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May 19, 2006

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, 2006

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, 2006.

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, 2006, the employer contribution rate needed in order to pay the normal cost and fund the Unfunded Actuarial Accrued Liability over 30 years is 23.62%. This amount is less than the 25.86% 40-year employer contribution rate calculated as of January 1, 2005. The current contribution rate covers the normal cost and the amortization of the Unfunded Actuarial Accrued Liability (UAAL) over 20 years.

14911 Quorum Drive, Suite 200 • Dallas, TX 75254-7534
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Mr. Richard Tettamant
May 19, 2006
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, except that the removal of the Automatic Adjustment for new Members after December 31, 2006 was reflected.

Assumptions and Methods

The actuarial assumptions and methods used in the valuation are presented in Schedule C. There were no changes in actuarial assumptions since the last actuarial valuation.

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, 2006 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,

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

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Enclosures

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Summary of Principal Results

	January 1, 2006		January 1, 2005	
Membership				
Active		4,648		4,597
Terminated with deferred benefits		141		156
Retired members and beneficiaries		3,121		3,034
Compensation				
Total	$	294,986,390	$	281,569,096
Average	$	63,465	$	61,251
Assets				
Market value	$	2,745,954,071	$	2,484,994,949
Actuarial value	$	2,700,136,105	$	2,484,994,949
Valuation Results				
Unfunded actuarial accrued liability	$	582,084,793	$	589,053,564
Funding period		20		29
GASB No. 25				
Actuarial accrued liability (AAL)	$	3,282,220,898	$	3,074,048,513
Assets (actuarial)	$	2,700,136,105	$	2,484,994,949
GASB ratio		82.3%		80.8%
Unfunded AAL	$	582,084,793	$	589,053,564

Comments on the Valuation

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 20 years from 29 years. This decrease was primarily due to a gain on the actuarial value of assets and the amendment to eliminate the Automatic Adjustment for new Members after December 31, 2006.

Section 3 shows in more detail the changes to the 30-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 30-year funding cost. This is the City contribution rate required to pay the normal cost and to amortize the UAAL over a 30-year period. This rate is currently 23.62% compared with the City's actual contribution rate of 27.50% and with the 40-year funding cost in 2005 of 25.86%. Section 3 shows a reconciliation of the changes between the 2005 and 2006 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 20 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 2005 and 2006.

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, except that the removal of the Automatic Adjustment for members hired on or after January 1, 2007 was reflected.

Actuarial Assumptions and Methods

The actuarial assumptions and methods used in the valuation are presented in Schedule C. There were no changes in actuarial assumptions since the last actuarial valuation.

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, employers must determine a pension expense based on a 40-year amortization of the UAAL for fiscal years beginning after June 15, 1996. 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 23.62% will be required for the City to avoid showing an accrued pension liability on its financial statements for the fiscal year beginning in 2006 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 2005 and 2006 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 a five-year phase in of gains and losses will

begin with the asset gains and losses that occur after December 31, 2005. For the 2006 valuation, 20% of the asset gain for 2005 is reflected in the actuarial value of assets. The estimated rate of return for 2005 is 10.81% for the market value of assets, and 8.96% for the actuarial 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 increased from 4,597 members as of January 1, 2005 to 4,648 members as of January 1, 2006. The total active payroll increased from $281,569,096 to $294,986,390 over the same period, a 4.8% 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

	January 1, 2006	January 1, 2005
1. Covered Payroll		
a. Active members excluding DROP	$ 212,052,320	$ 206,722,304
b. DROP members	$ 82,934,070	$ 74,846,792
c. Total	$ 294,986,390	$ 281,569,096
2. Actuarial value of future pay		
a. Active members excluding DROP	$ 1,490,851,870	$ 1,458,889,300
b. DROP members	$ 1,134,387,500	$ 1,079,666,600
c. Total	$ 2,625,239,370	$ 2,538,555,900
3. Current contribution rates		
a. City	27.50%	27.50%
b. Member	8.50%	8.50%
c. Total	36.00%	36.00%
4. Actuarial present value of future benefits	$ 3,887,670,934	$ 3,659,649,234
5. Actuarial present value of future normal costs		
a. Total	$ 605,450,036	$ 585,600,721
b. Member (3b x 2a)	$ 126,722,409	$ 124,005,591
c. City (5a - 5b)	$ 478,727,627	$ 461,595,130
6. Actuarial accrued liability (4 - 5a)	$ 3,282,220,898	$ 3,074,048,513
7. Actuarial value of assets	$ 2,700,136,105	$ 2,484,994,949
8. Unfunded actuarial accrued liability (UAAL) (6 - 7)	$ 582,084,793	$ 589,053,564
9. Normal cost		
a. Normal cost percentage (5a ÷ 2c)	23.06%	23.07%
b. Total normal cost (1c x 9a)	$ 68,023,862	$ 64,957,990
c. Member normal cost (1a x 3b)	$ 18,024,447	$ 17,571,396
d. City normal cost (9b - 9c)	$ 49,999,415	$ 47,386,594
e. City normal rate (9d ÷ [1c x 1.07])	15.84%	15.73%

Actuarial Cost, Margin and Funding Period

(continued)

	January 1, 2006	January 1, 2005
10. 30/40-year funding cost*		
a. City normal cost rate**	15.84%	15.73%
b. Amortization rate	7.78%	10.13%
c. Total	23.62%	25.86%
11. Margin over/(under) 30/40-year cost* (3a - 10c)	3.88%	1.64%
12. Funding period to amortize UAAL	20	29

* 30-year funding cost (40-year funding cost for fiscal years beginning before 2006) is necessary for accounting purposes only. The actual funding period is calculated each year based on level contributions and is currently 20 years.

** The city normal cost rate shown is for current active employees only. This rate will decrease over time as more active members become subject to the plan amendment that eliminates the Automatic Adjustment.

Analysis of Change in UAAL

1. UAAL as of January 1, 2005	$	589,053,564
2. Changes due to:		
a. Expected increase (negative amortization)	$	12,326,969
b. Actual contributions greater than expected		(4,898,135)
c. Liability experience		(2,943,114)
d. Asset experience		(11,454,491)
e. Plan amendment		0
f. Total changes	$	(6,968,771)
3. UAAL as of January 1, 2006	$	582,084,793

Analysis of Change in Funding Cost

1. 40-year funding cost* as of January 1, 2005	25.86%
2. Changes due to:	
a. Resetting of amortization from prior year	(0.19)
b. Actual contributions greater than expected	(0.08)
c. Liability experience	(0.01)
d. Asset experience	(0.19)
e. Plan amendment	(3.49)
f. Changing amortization period to 30 years from 40 years	1.72
g. Total	(2.24)
3. 30-year funding cost* as of January 1, 2006	23.62%

* 30/40-year funding cost is necessary for accounting purposes only. The actual funding period is calculated each year based on level contributions and is currently 20 years.

Analysis of Change in Funding Period

1. Funding period as of January 1, 2005	29
2. Changes due to:	
a. Passage of time	(1)
b. Actual contributions greater than expected	0
c. Liability experience	0
d. Plan amendment	(7)
e. Asset experience	(1)
f. Total	(9)
3. Funding period as of January 1, 2006	20

Historical Trend Information

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

	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
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%
January 1, 2006	2,700	3,282	582	82.3%	295	197.3%

GASB #25 Schedule of Employer Contributions for Year Ending December 31, 2005

Annual Required Contribution	Percentage Contributed
27.50% of Pay	100.0%

Summary of Accumulated Benefits (FASB #35)

Accumulated Benefits at January 1, 2006

Vested benefits of participants and beneficiaries currently receiving payments	$ 1,413,468,914
Other vested benefits	1,534,491,044
Nonvested benefits	143,276,347
Total benefits	$ 3,091,236,305

FASB #35 Reconciliation

Accumulated benefits at January 1, 2005		$ 2,885,674,444
Benefits accumulated	$ 77,309,286	
Interest	240,604,733	
Benefits paid	(112,352,158)	
Assumption change	0	
Plan amendments	0	
Total Change		205,561,861
Accumulated benefits at January 1, 2006		$ 3,091,236,305

Reconciliation of Fund Assets

	Year Ending December 31, 2005
1. Value of fund at beginning of year	$ 2,484,994,949
2. Contributions	
a. City	87,373,312
b. Member	17,748,241
c. Total	$ 105,121,553
3. Benefit payments	(111,282,300)
4. Refunds	(1,069,858)
5. Earnings	286,195,551
6. Expenses	(18,005,824)
7. Value of assets at end of year	$ 2,745,954,071
8. Estimated rate of return	10.81%

Determination of Excess Earnings To Be Deferred

		Year Ending December 31, 2005
1. Market value at beginning of year*	$	2,484,994,949
2. Net new investments		
a. Contributions	$	105,121,553
b. Benefit payments		(111,282,300)
c. Refunds		(1,069,858)
d. Total	$	(7,230,605)
3. Market value at end of year	$	2,745,954,071
4. Yield (3 - 1 - 2d)	$	268,189,727
5. Average balance [1 + ½ x (2d)]		2,481,379,646
6. Assumed investment return rate		8.50%
7. Expected net return (5 x 6)	$	210,917,270
8. Gains/(losses) subject to deferral (4 - 7)	$	57,272,457

* The actual market value of assets as of December 31, 2004 are $8,808,978 higher than those reported to us at the time last year's valuation was completed.

Calculation of Actuarial Value of Assets

1. Market value of assets as of January 1, 2006 — $2,745,954,071

2. Deferral amounts*

	Year	Total Gain/(Loss)	Percent Deferred	Deferral Amount
a.	2005	$ 57,272,457	80%	$ 45,817,966
b.	N/A	N/A	60%	N/A
c.	N/A	N/A	40%	N/A
d.	N/A	N/A	20%	N/A
e.	Total			$ 45,817,966

3.	Preliminary actuarial value of assets (1 - 2e)	2,700,136,105
4.	80% of Market value	2,196,763,257
5.	120% of Market value	3,295,144,885
6.	Actuarial value of assets (3, not less than 4 or more than 5)	2,700,136,105
7.	Rate of return on actuarial value of assets	8.96%

* This method is being phased in effective January 1, 2005.

Membership Data

		January 1, 2006		January 1, 2005
1. Active members (excluding DROP)				
a. Police and Fire				
1. Number		3,592		3,619
2. Covered payroll	$	212,052,320	$	206,722,304
3. Average annual pay	$	59,035	$	57,121
4. Average age		38.42		38.42
5. Average service (years)		12.13		12.25
b. Police				
1. Number		2,416		2,400
2. Covered payroll	$	142,031,361	$	136,678,036
3. Average annual pay	$	58,788	$	56,949
4. Average age		38.23		38.20
5. Average service (years)		11.94		12.01
c. Fire				
1. Number		1,176		1,219
2. Covered payroll	$	70,020,959	$	70,044,268
3. Average annual pay	$	59,542	$	57,460
4. Average age		38.81		38.85
5. Average service (years)		12.52		12.72

Membership Data
(continued)

		January 1, 2006		January 1, 2005
2. Active members (DROP only)				
a. Police and Fire				
1. Number		1,056		978
2. Covered payroll	$	82,934,070	$	74,846,792
3. Average annual pay	$	78,536	$	76,530
4. Average age		54.34		54.30
5. Average total service (years)		28.80		28.29
6. Average time in DROP (years)		4.28		4.17
7. DROP account balance	$	235,952,968	$	200,704,549
b. Police				
1. Number		556		518
2. Covered payroll	$	43,549,770	$	39,612,098
3. Average annual pay	$	78,327	$	76,471
4. Average age		54.33		54.22
5. Average total service (years)		28.48		27.74
6. Average time in DROP (years)		4.15		4.00
7. DROP account balance	$	116,441,681	$	98,218,447
c. Fire				
1. Number		500		460
2. Covered payroll	$	39,384,300	$	35,234,694
3. Average annual pay	$	78,769	$	76,597
4. Average age		54.36		54.40
5. Average service (years)		29.16		28.90
6. Average time in DROP (years)		4.42		4.35
7. DROP account balance	$	119,511,287	$	102,486,102

Membership Data
(continued)

		January 1, 2006		January 1, 2005
3. Active members (including DROP)				
a. Police and Fire				
1. Number		4,648		4,597
2. Covered payroll	$	294,986,390	$	281,569,096
3. Average annual pay	$	63,465	$	61,251
4. Average age		42.04		41.80
5. Average service (years)		15.92		15.66
6. DROP account balance	$	235,952,968	$	200,704,549
b. Police				
1. Number		2,972		2,918
2. Covered payroll	$	185,581,131	$	176,290,134
3. Average annual pay	$	62,443	$	60,415
4. Average age		41.24		41.04
5. Average service (years)		15.03		14.80
6. DROP account balance	$	116,441,681	$	98,218,447
c. Fire				
1. Number		1,676		1,679
2. Covered payroll	$	109,405,259	$	105,278,962
3. Average annual pay	$	65,278	$	62,703
4. Average age		43.45		43.11
5. Average service (years)		17.48		17.15
6. DROP account balance	$	119,511,287	$	102,486,102

Membership Data
(continued)

		January 1, 2006		January 1, 2005
4. Inactive members				
a. Retired members		2,380		2,316
b. Beneficiaries		741		718
c. Number entitled to deferred benefits		141		156
d. Total number of inactive members		3,262		3,190
e. Total annual benefit	$	107,482,545	$	102,384,942
f. Average annual benefit	$	32,950	$	32,096

Summary of Benefit Provisions
As of January 1, 2006
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:

City	Member
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.

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2006
Schedule B (continued)

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:

City	Member
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.

Age	20 & Out Multiplier
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 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. New Members hired after December 31, 2006 will not be eligible for an automatic increase.

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, 2006)

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:

Annual Rate per 1,000 Members

	Withdrawal		Mortality - Disableds		Mortality - Other		Disability	
Age	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 for eligible Members
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 is being phased in effective January 1, 2005. Asset gains or losses prior to January 1, 2005, are fully reflected in the calculation of the Actuarial Value of Assets. In no event is the actuarial value of assets less than 80% nor more than 120% of the market value of assets.

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, 2005 shows that during this period there have been about 24% more terminations than expected.

January 1, 2004 through December 31, 2005	Actual	Expected	Actual/Expected
Termination Prior to Retirement	188	152	124%

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, 2001 through December 31, 2005 shows that during this period there have been exactly the same number of disability retirements as expected. Since there is not assumed disability retirements and actual disability retirements, we do not feel that any change in this assumption is necessary at this time.

January 1, 2001 through December 31, 2005	Actual	Expected	Actual/Expected
Disability Retirements	13	13	100%

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, 2005 shows that during this period there have been about 48% more retirements than expected.

January 1, 2004 through December 31, 2005	Actual	Expected	Actual/Expected
Retirement	381	257	148%

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, 2001 through December 31, 2005 shows that during this period there have been about 5% 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, 2001 through December 31, 2005	Actual	Expected	Actual/Expected
Death	450	427	105%

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, 2005	Actual	Expected	Actual/Expected
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, 2005 has been 4.06%. 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, 1946 through December 31, 2005	Actual	Expected	Actual/Expected
Inflation	4.06%	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, 2001 through December 31, 2005 follows.

January 1, 2001 through December 31, 2005	Actual	Expected	Actual/Expected
Valuation Compensation	$1,307,526,650	$1,283,367,799	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, 2005 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
1/1/2005	through	12/31/2005	10.81
10/1/1988	through	12/31/2005	10.48%

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 10.35%. Last year's DROP interest rate was 9.50%. Therefore, the annual DROP interest rate for October 1, 2006 is 9.75%.

TABLE 1

THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(excluding DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2006

POLICE

	YEARS OF SERVICE: Under 1		1 to 4		5 to 9		10 to 14		15 to 19		20 to 24		25 to 29		30 to 34		35 to 39		40 & up	
ATTAINED AGE	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp
Under 25	47	39,888	42	42,328	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	49	39,865	177	45,187	56	49,745	3	44,312	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	31	40,317	147	45,751	193	51,871	41	57,757	0	0	0	0	0	0	0	0	0	0	0	0
35 to 39	14	39,904	64	46,352	112	52,811	219	60,310	137	65,185	3	68,159	0	0	0	0	0	0	0	0
40 to 44	6	39,736	32	47,249	28	53,974	109	61,792	290	68,009	112	72,938	0	0	0	0	0	0	0	0
45 to 49	2	40,207	9	46,267	10	56,403	31	59,487	121	68,780	206	73,916	74	75,231	0	0	0	0	0	0
50 to 54	0	0	2	62,336	2	58,013	7	62,094	13	68,583	5	65,567	10	67,416	0	0	0	0	0	0
55 to 59	1	77,070	2	111,135	1	65,252	1	72,036	6	68,247	0	0	0	0	0	0	0	0	0	0
60 to 64	0	0	1	47,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
65 to 69	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

TABLE 1

THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(excluding DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2006

FIRE

	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	
ATTAINED AGE	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp
Under 25	5	39,675	4	39,931	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	18	39,773	88	43,240	40	50,142	1	52,882	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	19	39,817	84	45,056	123	52,954	24	60,613	1	48,535	0	0	0	0	0	0	0	0	0	0
35 to 39	4	39,897	29	44,408	59	52,927	70	60,762	31	68,412	1	77,172	0	0	0	0	0	0	0	0
40 to 44	3	40,255	15	43,867	16	52,242	54	61,815	107	69,768	94	73,093	0	0	0	0	0	0	0	0
45 to 49	1	39,606	1	41,318	3	54,962	23	61,904	56	69,447	131	72,385	51	74,747	0	0	0	0	0	0
50 to 54	0	0	0	0	0	0	2	63,685	4	69,793	5	67,486	6	69,222	0	0	0	0	0	0
55 to 59	0	0	0	0	0	0	1	65,574	1	65,554	0	0	1	72,016	0	0	0	0	0	0
60 to 64	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
65 to 69	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

TABLE 1

THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(excluding DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2006

POLICE AND FIRE

	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	
ATTAINED AGE	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp
Under 25	52	39,867	46	42,120	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	67	39,840	265	44,540	96	49,910	4	46,455	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	50	40,127	231	45,498	316	52,293	65	58,812	1	48,535	0	0	0	0	0	0	0	0	0	0
35 to 39	18	39,903	93	45,746	171	52,851	289	60,419	168	65,781	4	70,412	0	0	0	0	0	0	0	0
40 to 44	9	39,908	47	46,170	44	53,344	163	61,799	397	68,483	206	73,009	0	0	0	0	0	0	0	0
45 to 49	3	40,006	10	45,772	13	56,070	54	60,517	177	68,991	337	73,320	125	75,034	0	0	0	0	0	0
50 to 54	0	0	2	62,336	2	58,013	9	62,448	17	68,867	10	66,527	16	68,093	0	0	0	0	0	0
55 to 59	1	77,070	2	111,135	1	65,252	2	68,806	7	67,862	0	0	1	72,016	0	0	0	0	0	0
60 to 64	0	0	1	47,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
65 to 69	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

TABLE 2

THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(including DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2006

POLICE

	YEARS OF SERVICE Under 1		1 to 4		5 to 9		10 to 14		15 to 19		20 to 24		25 to 29		30 to 34		35 to 39		40 & up	
ATTAINED AGE	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp
Under 25	47	39,888	42	42,328	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	49	39,865	177	45,187	56	49,745	3	44,312	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	31	40,317	147	45,751	193	51,871	41	57,757	0	0	0	0	0	0	0	0	0	0	0	0
35 to 39	14	39,904	64	46,352	112	52,811	219	60,310	137	65,185	3	68,159	0	0	0	0	0	0	0	0
40 to 44	6	39,736	32	47,249	28	53,974	109	61,792	290	68,009	114	72,913	0	0	0	0	0	0	0	0
45 to 49	2	40,207	9	46,267	10	56,403	32	58,866	124	68,497	221	74,178	85	75,667	1	73,400	0	0	0	0
50 to 54	0	0	2	62,336	2	58,013	9	63,724	33	70,330	60	77,201	138	77,637	96	79,954	6	80,671	0	0
55 to 59	1	77,070	2	111,135	1	65,252	1	72,036	19	69,475	21	80,360	37	79,434	77	80,677	35	77,717	1	67,144
60 to 64	0	0	1	47,000	0	0	0	0	3	79,153	2	76,641	5	76,035	5	76,433	10	78,099	1	81,682
65 to 69	0	0	0	0	0	0	0	0	1	67,102	1	69,237	0	0	1	87,250	1	79,040	2	82,159
70 & up	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, 2006

FIRE

	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	
ATTAINED AGE	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp
Under 25	5	39,675	4	39,931	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	18	39,773	88	43,240	40	50,142	1	52,882	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	19	39,817	84	45,056	123	52,954	24	60,613	1	48,535	0	0	0	0	0	0	0	0	0	0
35 to 39	4	39,897	29	44,408	59	52,927	70	60,762	31	68,412	1	77,172	0	0	0	0	0	0	0	0
40 to 44	3	40,255	15	43,867	16	52,242	54	61,815	107	69,768	96	73,069	0	0	0	0	0	0	0	0
45 to 49	1	39,606	1	41,318	3	54,962	23	61,904	56	69,447	152	72,165	61	73,718	0	0	0	0	0	0
50 to 54	0	0	0	0	0	0	4	66,994	16	72,111	57	77,388	114	79,080	87	78,404	4	77,868	0	0
55 to 59	0	0	0	0	1	62,789	1	65,574	4	70,192	7	78,167	49	78,081	90	79,611	27	82,649	0	0
60 to 64	0	0	0	0	0	0	0	0	0	0	0	0	0	0	13	87,536	4	69,450	6	100,872
65 to 69	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	89,236	2	80,905
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 2

THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(including DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2006

POLICE AND FIRE

	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	
ATTAINED AGE	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp
Under 25	52	39,867	46	42,120	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	67	39,840	265	44,540	96	49,910	4	46,455	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	50	40,127	231	45,498	316	52,293	65	58,812	1	48,535	0	0	0	0	0	0	0	0	0	0
35 to 39	18	39,903	93	45,746	171	52,851	289	60,419	168	65,781	4	70,412	0	0	0	0	0	0	0	0
40 to 44	9	39,908	47	46,170	44	53,344	163	61,799	397	68,483	210	72,984	0	0	0	0	0	0	0	0
45 to 49	3	40,006	10	45,772	13	56,070	55	60,136	180	68,792	373	73,358	146	74,853	1	73,400	0	0	0	0
50 to 54	0	0	2	62,336	2	58,013	13	64,730	49	70,912	117	77,292	252	78,290	183	79,217	10	79,550	0	0
55 to 59	1	77,070	2	111,135	2	64,021	2	68,806	23	69,599	28	79,812	86	78,663	167	80,102	62	79,865	1	67,144
60 to 64	0	0	1	47,000	0	0	0	0	3	79,153	2	76,641	5	76,035	18	84,452	14	75,628	7	98,131
65 to 69	0	0	0	0	0	0	0	0	1	67,102	1	69,237	0	0	1	87,250	2	84,138	4	81,532
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, 2006

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
43	1	$ 30,023	$ 30,023
44	3	92,666	30,889
45	2	31,862	15,931
46	12	303,058	25,255
47	5	136,084	27,217
48	6	193,583	32,264
49	3	50,670	16,890
50	12	316,240	26,353
51	21	682,458	32,498
52	17	508,542	29,914
53	20	778,801	38,940
54	32	1,309,202	40,913
55	36	1,449,763	40,271
56	75	3,343,004	44,573
57	82	3,304,799	40,302
58	115	4,745,151	41,262
59	121	5,178,731	42,799
60	95	3,794,440	39,941
61	83	3,262,059	39,302
62	94	3,982,387	42,366
63	107	4,419,030	41,299
64	75	3,228,132	43,042
65	104	4,210,610	40,487
66	86	3,667,429	42,645
67	90	3,955,159	43,946
68	75	3,327,680	44,369
69	65	2,606,282	40,097
70	67	2,636,074	39,344
71	68	2,548,061	37,471
72	65	2,354,303	36,220
73	62	2,474,525	39,912
74	67	2,249,122	33,569
75	62	2,151,056	34,694
76	60	1,989,540	33,159

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TABLE 3

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS
BY AGE AS OF JANUARY 1, 2006
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
77	51	$ 1,720,821	$ 33,742
78	43	1,537,042	35,745
79	30	1,050,057	35,002
80	31	991,172	31,973
81	35	1,228,433	35,098
82	23	788,514	34,283
83	13	405,542	31,196
84	12	377,979	31,498
85	17	583,587	34,329
86	16	515,579	32,224
87	5	171,266	34,253
88	8	253,447	31,681
89	4	136,284	34,071
90	1	32,254	32,254
92	1	29,427	29,427
93	1	31,788	31,788
94	1	32,328	32,328
95	1	27,300	27,300
TOTAL	2,181	$ 85,223,346	$ 39,075
POLICE	1,273	$ 47,359,874	$ 37,203
FIRE	908	$ 37,863,472	$ 41,700

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TABLE 4

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF DISABLED MEMBERS
BY AGE AS OF JANUARY 1, 2006

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
33	1	$ 30,245	$ 30,245
38	2	54,199	27,100
39	1	27,618	27,618
40	1	32,757	32,757
41	2	57,766	28,883
42	3	84,714	28,238
43	3	88,671	29,557
44	2	47,507	23,754
45	3	82,254	27,418
46	2	68,280	34,140
48	3	87,056	29,019
49	4	114,630	28,658
50	3	82,119	27,373
51	5	148,671	29,734
52	2	59,118	29,559
53	1	31,043	31,043
54	6	208,694	34,782
55	6	197,987	32,998
56	6	256,409	42,735
57	6	187,567	31,261
58	7	249,723	35,675
59	4	102,091	25,523
60	2	41,890	20,945
61	6	193,125	32,188
62	2	72,424	36,212
63	4	179,677	44,919
64	3	91,724	30,575
65	7	271,507	38,787
66	12	513,247	42,771
67	6	238,774	39,796
68	6	224,199	37,367
69	6	181,708	30,285
70	5	201,619	40,324
71	5	190,058	38,012

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TABLE 4

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF DISABLED MEMBERS
BY AGE AS OF JANUARY 1, 2006
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
72	4	$ 129,367	$ 32,342
73	4	142,055	35,514
74	4	123,719	30,930
75	5	212,451	42,490
76	6	199,259	33,210
77	4	136,981	34,245
78	4	128,817	32,204
79	6	192,905	32,151
80	5	161,318	32,264
81	5	170,713	34,143
82	3	91,882	30,627
83	4	117,304	29,326
84	3	86,878	28,959
85	2	64,408	32,204
86	1	32,081	32,081
88	1	31,784	31,784
93	1	32,229	32,229
TOTAL	199	$ 6,753,222	$ 33,936
POLICE	73	$ 2,188,472	$ 29,979
FIRE	126	$ 4,564,750	$ 36,228

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TABLE 5

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF BENEFICIARIES
BY AGE AS OF JANUARY 1, 2006

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
5	2	$ 13,070	$ 6,535
6	3	21,783	7,261
7	3	19,098	6,366
8	3	17,836	5,945
9	5	24,971	4,994
11	4	33,415	8,354
12	2	21,692	10,846
13	3	16,553	5,518
14	4	35,593	8,898
15	3	64,527	21,509
16	6	101,575	16,929
17	4	63,238	15,810
18	7	83,907	11,987
19	1	7,211	7,211
22	1	13,200	13,200
32	2	28,761	14,381
34	2	34,100	17,050
35	1	14,457	14,457
36	2	29,697	14,849
37	1	14,421	14,421
38	3	46,105	15,368
39	2	27,600	13,800
40	1	14,400	14,400
41	3	46,421	15,474
43	1	36,238	36,238
44	3	56,402	18,801
45	3	44,047	14,682
46	4	87,390	21,848
47	3	47,649	15,883
48	4	68,742	17,186
49	3	46,209	15,403
50	4	65,386	16,347
51	7	124,519	17,788
52	9	156,696	17,411

TABLE 5

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF BENEFICIARIES
BY AGE AS OF JANUARY 1, 2006
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
53	3	$ 51,232	$ 17,077
54	6	124,221	20,704
55	8	165,256	20,657
56	6	151,149	25,192
57	15	303,471	20,231
58	10	234,799	23,480
59	17	316,271	18,604
60	12	260,126	21,677
61	7	146,775	20,968
62	14	295,385	21,099
63	9	215,871	23,986
64	16	338,567	21,160
65	10	168,745	16,875
66	23	528,763	22,990
67	19	425,748	22,408
68	16	427,351	26,709
69	15	340,963	22,731
70	21	415,227	19,773
71	17	277,346	16,314
72	18	297,295	16,516
73	23	377,028	16,393
74	17	348,663	20,510
75	24	401,807	16,742
76	22	371,754	16,898
77	31	626,368	20,205
78	23	386,492	16,804
79	28	498,718	17,811
80	16	288,452	18,028
81	29	478,703	16,507
82	24	428,667	17,861
83	18	332,163	18,454
84	23	405,123	17,614
85	9	146,971	16,330
86	16	271,798	16,987

TABLE 5

THE NUMBER AND ANNUAL RETIREMENT ALLOWANCE OF BENEFICIARIES BY AGE AS OF JANUARY 1, 2006 CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
87	16	$ 261,314	$ 16,332
88	9	144,519	16,058
89	9	146,539	16,282
90	8	172,077	21,510
91	9	147,896	16,433
92	2	33,138	16,569
93	3	48,426	16,142
94	3	49,731	16,577
95	4	65,067	16,267
96	1	16,545	16,545
97	3	48,486	16,162
TOTAL	741	$ 13,507,915	$ 18,229
POLICE	406	$ 7,205,438	$ 17,747
FIRE	335	$ 6,302,477	$ 18,813

TABLE 6

THE NUMBER AND ANNUAL RETIREMENT ALLOWANCE OF RETIRED MEMBERS, DISABLED MEMBERS AND BENEFICIARIES BY AGE AS OF JANUARY 1, 2006

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
5	2	$ 13,070	$ 6,535
6	3	21,783	7,261
7	3	19,098	6,366
8	3	17,836	5,945
9	5	24,971	4,994
11	4	33,415	8,354
12	2	21,692	10,846
13	3	16,553	5,518
14	4	35,593	8,898
15	3	64,527	21,509
16	6	101,575	16,929
17	4	63,238	15,810
18	7	83,907	11,987
19	1	7,211	7,211
22	1	13,200	13,200
32	2	28,761	14,381
33	1	30,245	30,245
34	2	34,100	17,050
35	1	14,457	14,457
36	2	29,697	14,849
37	1	14,421	14,421
38	5	100,304	20,061
39	3	55,218	18,406
40	2	47,157	23,579
41	5	104,187	20,837
42	3	84,714	28,238
43	5	154,932	30,986
44	8	196,575	24,572
45	8	158,163	19,770
46	18	458,728	25,485
47	8	183,733	22,967
48	13	349,381	26,875
49	10	211,509	21,151
50	19	463,745	24,408

TABLE 6

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS,
DISABLED MEMBERS AND BENEFICIARIES
BY AGE AS OF JANUARY 1, 2006
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
51	33	$ 955,648	$ 28,959
52	28	724,356	25,870
53	24	861,076	35,878
54	44	1,642,117	37,321
55	50	1,813,006	36,260
56	87	3,750,562	43,110
57	103	3,795,837	36,853
58	132	5,229,673	39,619
59	142	5,597,093	39,416
60	109	4,096,456	37,582
61	96	3,601,959	37,520
62	110	4,350,196	39,547
63	120	4,814,578	40,121
64	94	3,658,423	38,919
65	121	4,650,862	38,437
66	121	4,709,439	38,921
67	115	4,619,681	40,171
68	97	3,979,230	41,023
69	86	3,128,953	36,383
70	93	3,252,920	34,978
71	90	3,015,465	33,505
72	87	2,780,965	31,965
73	89	2,993,608	33,636
74	88	2,721,504	30,926
75	91	2,765,314	30,388
76	88	2,560,553	29,097
77	86	2,484,170	28,886
78	70	2,052,351	29,319
79	64	1,741,680	27,214
80	52	1,440,942	27,710
81	69	1,877,849	27,215
82	50	1,309,063	26,181
83	35	855,009	24,429
84	38	869,980	22,894

TABLE 6

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS,
DISABLED MEMBERS AND BENEFICIARIES
BY AGE AS OF JANUARY 1, 2006
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
85	28	$ 794,966	$ 28,392
86	33	819,458	24,832
87	21	432,580	20,599
88	18	429,750	23,875
89	13	282,823	21,756
90	9	204,331	22,703
91	9	147,896	16,433
92	3	62,565	20,855
93	5	112,443	22,489
94	4	82,059	20,515
95	5	92,367	18,473
96	1	16,545	16,545
97	3	48,486	16,162
TOTAL	3,121	$ 105,484,483	$ 33,798
POLICE	1,752	$ 56,753,784	$ 32,394
FIRE	1,369	$ 48,730,699	$ 35,596

TABLE 7

THE NUMBER AND FUTURE ANNUAL ALLOWANCE OF TERMINATED MEMBERS ENTITLED TO A FUTURE BENEFIT BY AGE AS OF JANUARY 1, 2006

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
28	1	$ 7,405	$ 7,405
29	1	5,004	5,004
30	1	7,223	7,223
31	4	35,366	8,842
32	2	12,436	6,218
33	3	25,223	8,408
34	4	40,627	10,157
35	6	44,523	7,421
36	10	104,593	10,459
37	6	70,116	11,686
38	6	95,352	15,892
39	6	52,571	8,762
40	13	160,122	12,317
41	7	129,066	18,438
42	11	151,526	13,775
43	15	291,789	19,453
44	7	84,428	12,061
45	10	175,324	17,532
46	6	166,503	27,751
47	6	127,378	21,230
48	7	102,721	14,674
49	7	70,266	10,038
50	1	17,297	17,297
52	1	21,164	21,164
TOTAL	141	$ 1,998,023	$ 14,170
POLICE	113	$ 1,614,342	$ 14,286
FIRE	28	$ 383,681	$ 13,703

TABLE 8

THE NUMBER, ANNUAL RETIREMENT ALLOWANCE AND ACCOUNT BALANCE OF DROP MEMBERS BY AGE AS OF JANUARY 1, 2006

POLICE AND FIRE
DROP

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT	ACCOUNT BALANCE	AVERAGE ACCOUNT BALANCE
41	1	$ 30,320	$ 30,320	$ 7,638	$ 7,638
42	1	27,208	27,208	9,085	9,085
43	1	27,129	27,129	15,830	15,830
44	1	24,520	24,520	2,043	2,043
45	2	51,177	25,589	174,000	87,000
46	6	175,135	29,189	272,035	45,339
47	2	88,843	44,422	22,394	11,197
48	11	469,432	42,676	167,625	15,239
49	31	1,323,869	42,705	1,137,854	36,705
50	52	2,409,772	46,342	2,146,787	41,284
51	119	5,840,696	49,081	7,518,657	63,182
52	104	5,144,176	49,463	11,415,449	109,764
53	118	6,147,276	52,096	19,676,274	166,748
54	139	6,987,132	50,267	30,011,434	215,910
55	110	5,055,605	45,960	26,473,753	240,670
56	96	4,511,916	46,999	29,526,670	307,569
57	73	3,143,476	43,061	23,899,967	327,397
58	71	2,990,476	42,119	27,020,053	380,564
59	46	1,841,408	40,031	17,689,333	384,551
60	24	1,077,262	44,886	11,476,597	478,192
61	13	583,785	44,907	7,089,765	545,367
62	13	532,827	40,987	7,217,102	555,162
63	13	522,191	40,169	7,778,952	598,381
65	3	120,155	40,052	1,707,118	569,039
66	2	41,593	20,797	581,559	290,780
67	1	19,281	19,281	233,862	233,862
68	2	111,792	55,896	2,159,866	1,079,933
70	1	84,574	84,574	521,283	521,283
TOTAL	1,056	$ 49,383,026	$ 46,764	$ 235,952,985	$ 223,440
POLICE	556	$ 25,975,198	$ 46,718	$ 116,441,690	$ 209,428
FIRE	500	$ 23,407,828	$ 46,816	$ 119,511,295	$ 239,023

Statistics Section

Membership of the System
(As of January 1, 2006)

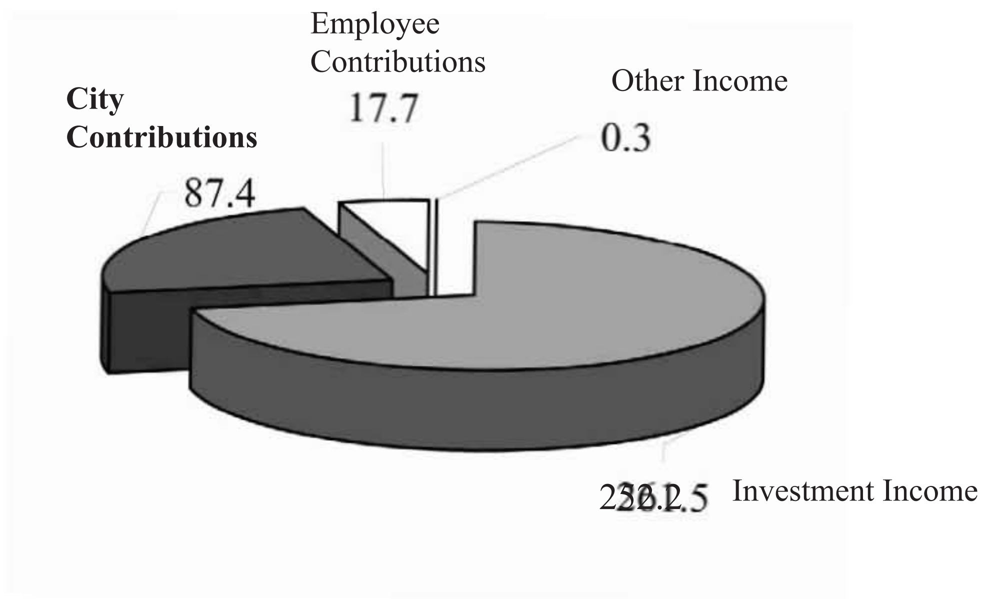
Years of Service	Police	Fire	Total
Fewer than five	626	271	897
5-9	402	241	643
10-14	411	175	586
15-19	567	200	767
20-24	326	231	557
25-29	84	58	142
30 and over	0	0	0
DROP Members	556	500	1,056
TOTAL	**2,972**	**1,676**	**4,648**

The "Membership of the System" chart lists Active Members, including Active DROP, by Department according to years of service. The average service for all Active Members is 15.92 years -- 15.03 for Police Officers, and 17.48 for Firefighters. There were 4,648 Active Members as of December 31, 2005.

Changes in Benefit Recipients During 2005

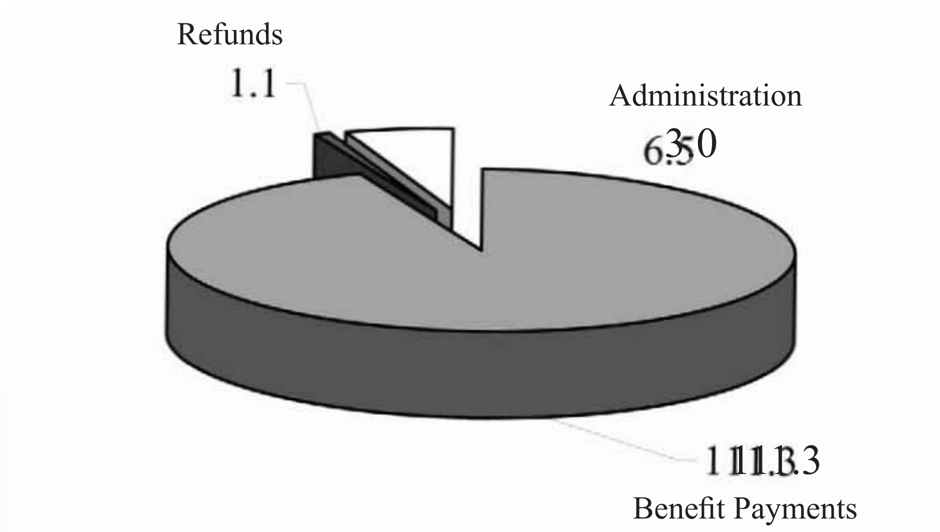
	Police	Fire	Total
Service Pensions Granted	69	46	105
Disability Pensions Granted	3	1	4
Pensions Discontinued due to Death	19	23	42
Survivor Pensions Granted	28	19	47
Survivor Pensions Discontinued	3	5	8

2005 Revenues
(in millions)

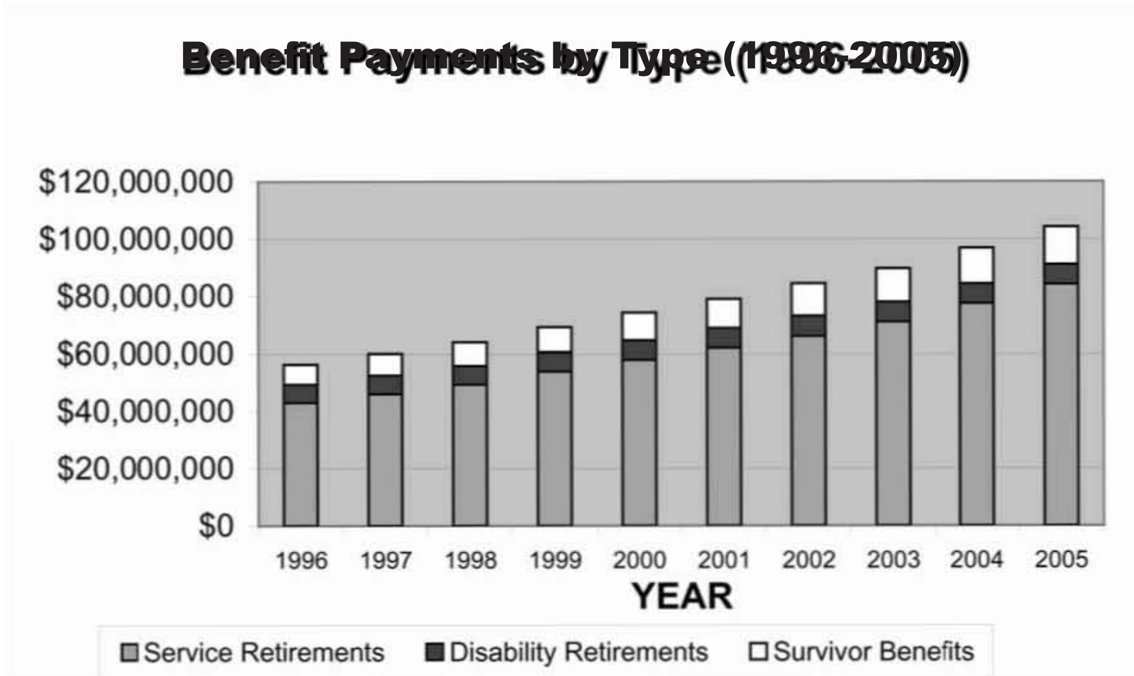


Revenues totaled $357.3 million in 2005.

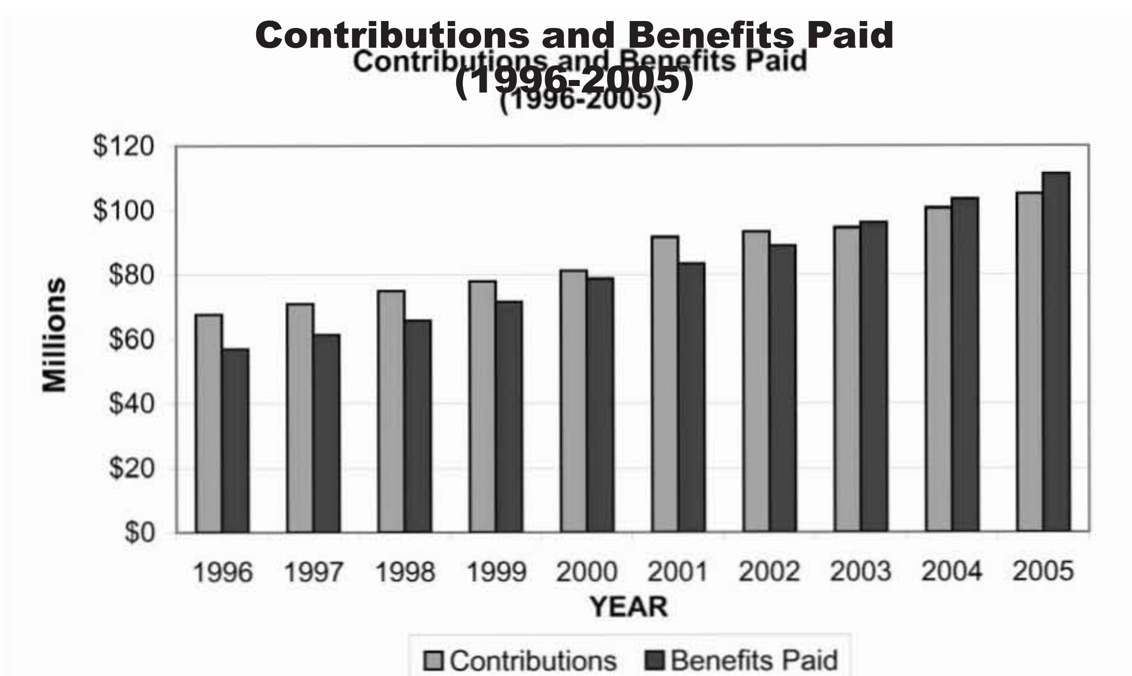
Expenses
(in millions)



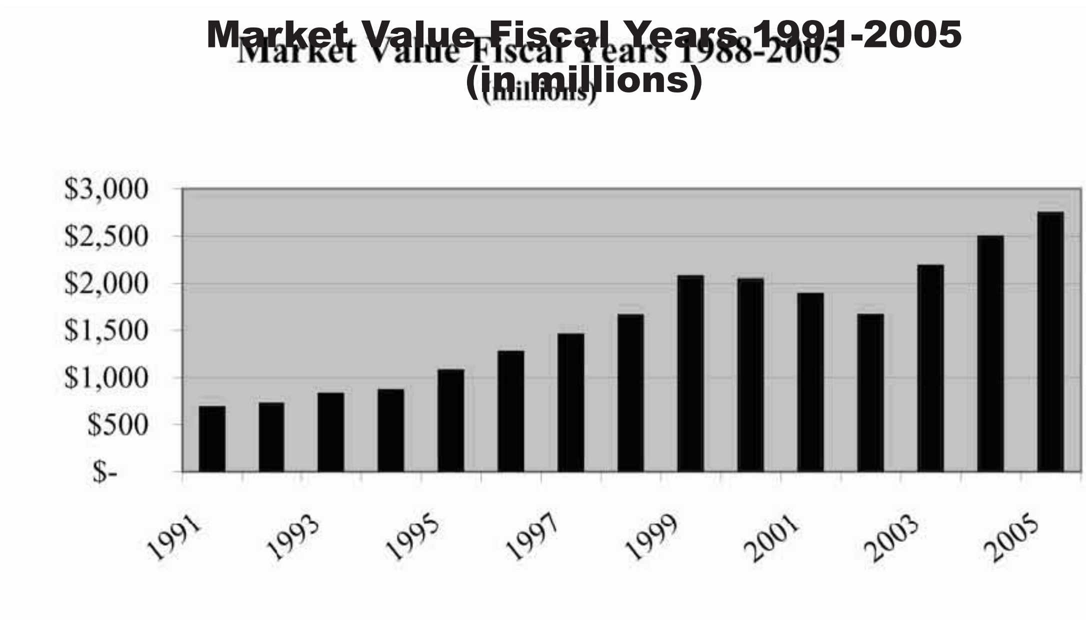
Expenses totaled $115.4 million in 2005.



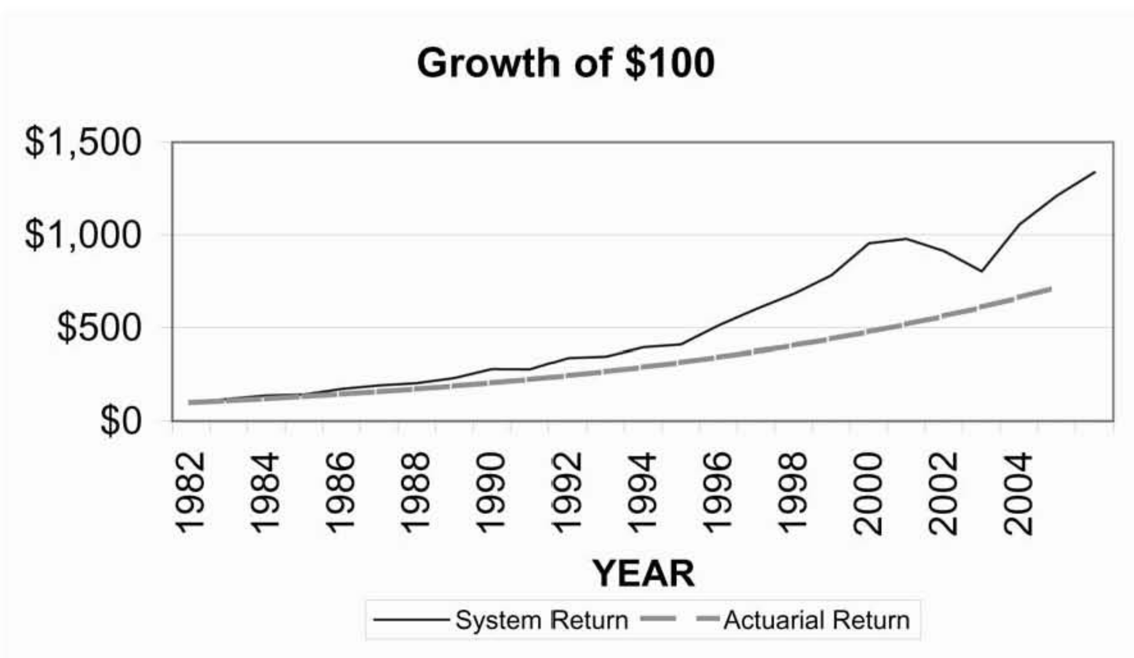
Ten Year History of Benefit Recipients by Type



Total benefit payments have grown faster over the last ten years than contributions received. Investment income pays benefits not covered by contributions received.



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 $719 million in 1990 to over $2.7 billion in 2005.



One hundred dollars invested in the Pension System's portfolio in 1982 is worth $1,336.91 as of December 31, 2005. If the $100 had earned the actuarial rate, it would be worth $780.12.

Actuarial Summary Information

Actuarial Valuation Results	January 1, 2004 Valuation	January 1, 2005 Valuation	January 1, 2006 Valuation
UAAL[1]	$603,180,958	$589,053,564	$582,084,793
Actuarial Value[2]	$2,285,744,890	$2,484,994,949	$2,700,136,105
Market Value[3]	$2,183,058,868	$2,484,994,949	$2,745,954,071
AAL Ratio[4]	79.10%	80.80%	82.30%
Years To Fund[5]	38	29	20

[1] Unfunded Actuarial Accrued Liability

[2] Actuarial Value of Assets

[3] Market Value of Assets

[4] Actuarial Accrued Liability (GASB 25)

[5] Projected Years to Fund Level Funding

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

Examples of Monthly Benefit Payments Based on Years of Service and Final Computation Pay

Average Monthly Comp Pay	Years of Pension Service					
	5	10	15	20	25	30
$3,000	$450	$900	$1,350	$1,800	$2,250	$2,700
$3,500	$525	$1,050	$1,575	$2,100	$2,625	$3,150
$4,000	$600	$1,200	$1,800	$2,400	$3,000	$3,600
$4,500	$675	$1,350	$2,025	$2,700	$3,375	$4,050
$5,000	$750	$1,500	$2,250	$3,000	$3,750	$4,500
$5,500	$825	$1,650	$2,475	$3,300	$4,125	$4,950
$6,000	$900	$1,800	$2,700	$3,600	$4,500	$5,400
$6,500	$975	$1,950	$2,925	$3,900	$4,875	$5,850
$7,000	$1,050	$2,100	$3,150	$4,200	$5,250	$6,300

Go down first column to a sample average computation pay amount and then read across the row to the column for years of pension service. The number in the selected block is the approximate monthly pension benefit at age 50.

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, 2006

DALLAS POLICE AND FIRE PENSION SYSTEM
SUPPLEMENTAL PLAN

ACTUARIAL VALUATION

AS OF JANUARY 1, 2006

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May 19, 2006

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, 2006

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, 2006.

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, 2006, the employer contribution rate needed in order to pay the normal cost and fund the Unfunded Actuarial Accrued Liability over 30 years is 23.62%. This amount is less than the 25.86% 40-year employer contribution rate calculated as of January 1, 2005. The current contribution rate covers the normal cost and the amortization of the Unfunded Actuarial Accrued Liability (UAAL) over 20 years.

14911 Quorum Drive, Suite 200 • Dallas, TX 75254-7534
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Mr. Richard Tettamant
May 19, 2006
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, except that the removal of the Automatic Adjustment for new Members after December 31, 2006 was reflected.

Assumptions and Methods

The actuarial assumptions and methods used in the valuation are presented in Schedule C. There were no changes in actuarial assumptions since the last actuarial valuation.

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, 2006 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,

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

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Enclosures

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Summary of Principal Results

	January 1, 2006	January 1, 2005
Membership		
Active	42	41
Retired and terminated members and beneficiaries	106	106
Compensation		
Total	$ 927,703	$ 818,312
Average	$ 22,088	$ 19,959
Assets		
Market value	$ 19,960,748	$ 18,720,154
Valuation Results		
Unfunded actuarial accrued liability (UAAL)	$ 6,409,421	$ 5,776,250
City's normal cost contribution	$ 187,872	$ 155,358
Funding Policy contribution	$ 1,300,000	$ 1,200,000
GASB No. 25		
Actuarial accrued liability (AAL)	$ 26,370,169	$ 24,496,404
Assets	$ 19,960,748	$ 18,720,154
GASB ratio	75.7%	76.4%
Unfunded AAL	$ 6,409,421	$ 5,776,250

Comments on the Valuation

Overview

The current valuation indicates that a total contribution of $1,300,000 should be contributed during 2006.

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 no changes in actuarial assumptions since the last actuarial valuation.

The assumptions used are individually reasonable and reasonable in the aggregate.

GASB Statement No. 27

Under GASB Statement No. 27, employers must determine a pension expense based on a 40-year amortization of the UAAL for fiscal years beginning after June 15, 1996. 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 60.08% will be required for the City to avoid showing an accrued pension liability on its financial statements for the fiscal year beginning in 2006, 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 2005 and 2006. The estimated rate of return for 2005 was 6.64%.

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 41 members as of January 1, 2005, to 42 members as of January 1, 2006. The payroll increased from January 1, 2005 to January 1, 2006 ($818,312 for 2005 and $927,703 for 2006). Schedule A shows a summary of the membership data.

Actuarial Cost

			January 1, 2006		January 1, 2005
1.	Covered Payroll	$	927,703	$	818,312
2.	Actuarial present value of future benefits	$	27,604,587	$	25,672,251
3.	Actuarial present value of future normal costs	$	1,234,418	$	1,175,847
4.	Actuarial accrued liability (2 - 3)	$	26,370,169	$	24,496,404
5.	Actuarial value of assets	$	19,960,748	$	18,720,154
6.	Unfunded actuarial accrued liability (UAAL) (4 - 5)	$	6,409,421	$	5,776,250
7.	City's normal cost contribution	$	187,872	$	155,358
8.	Funding Policy contribution	$	1,300,000	$	1,200,000
9.	Total contribution as a percentage of covered payroll (8 ÷ 1)		140.13%		146.64%

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Analysis of Change in UAAL

1.	UAAL as of January 1, 2005	$	5,776,250
2.	Changes due to:		
	a. Expected decrease	$	(642,455)
	b. Actual contributions greater than expected		0
	c. Liability experience		928,037
	d. Asset experience		347,589
	e. Assumption changes		0
	f. Plan amendment		0
	g. Total Changes	$	633,171
3.	UAAL as of January 1, 2006	$	6,409,421

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Historical Trend Information

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

Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
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%
January 1, 2006	19.961	26.370	6.409	75.7%	0.928	690.6%

GASB #25 Schedule of Employer Contributions for Year Ending December 31, 2005

Annual Required Contribution	Percentage Contributed
$1,200,000	100%

Summary of Accumulated Benefits (FASB #35)

Accumulated Benefits at January 1, 2006

Vested benefits of participants and beneficiaries currently receiving payments	$ 19,380,985
Other vested benefits	7,140,784
Nonvested benefits	180,871
Total benefits	$ 26,702,640

FASB #35 Reconciliation

Accumulated benefits at January 1, 2005		$ 24,986,803
Benefits accumulated and actuarial gains/losses	$ 876,059	
Interest	2,072,554	
Benefits paid	(1,232,776)	
Assumption changes	0	
Total change		1,744,346
Accumulated benefits at January 1, 2006		$ 26,702,640

Reconciliation of Fund Assets

		Year Ending December 31, 2005
1. Value of fund at beginning of year	$	18,720,154
2. Contributions		
a. City		1,200,000
b. Member		29,869
c. Total	$	1,229,869
3. Benefit payments		(1,232,776)
4. Refunds		0
5. Earnings		1,243,938
6. Expenses		(437)
7. Value of assets at end of year		19,960,748
8. Estimated rate of return		6.64%

Membership Data

		January 1, 2006		January 1, 2005
1. Active members (excluding DROP)				
a. Number		19		24
b. Compensation	$	297,807	$	390,369
c. Average compensation	$	15,674	$	16,265
d. Average age		46.37		46.42
e. Average service (years)		22.05		20.67
2. Active members (DROP only)				
a. Number		23		17
b. Compensation	$	629,896	$	427,943
c. Average Compensation	$	27,387	$	25,173
d. Average age		53.61		53.76
e. Average total service		28.61		30.47
f. DROP account balance	$	1,245,197	$	887,841
3. Inactive members				
a. Number		106		106
b. Total current annual benefit	$	1,401,955	$	1,343,588
c. Average current annual benefit	$	13,226	$	12,675

Summary of Benefit Provisions
As of January 1, 2006
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.

Age	20 & Out Multiplier
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 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. New Members hired on or after January 1, 2007 will not be eligible for an automatic increase.

Benefit Supplement

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

Deferred Retirement Option Plan

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

benefit will be accumulated in an account earning interest based on a ten-year average of the System's actual market return. Upon termination of employment, the Member will have the balance in account in addition to the monthly benefit payable as though the Member retired at the date the Member entered DROP.

Statement of Actuarial Methods and Assumptions
(Effective as of January 1, 2006)

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:

Annual Rate per 1,000 Members

	Withdrawal		Mortality - Disableds		Mortality - Other		Disability	
Age	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:

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

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

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

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

Age	Rate	Age	Rate	Age	Rate
38	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.

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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. Due to the manner in which members join this plan, the amendment lifting the automatic increase for members hired on or after January 1, 2007 was not reflected in this valuation.

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, 2005 and 2004
(With Independent Auditors' Report Thereon)

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

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Mir • Fox & Rodriguez, P.C.
Certified Public Accountants

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, 2005 and 2004, and the related statements 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Supplemental Plan's internal control over financial reporting. Accordingly, we express no such opinion. 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, 2005 and 2004, 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 funding progress and the schedule of employer contributions, 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.

Mir, Fox & Rodriguez

August 7, 2006

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

OVERVIEW

The Management's Discussion and Analysis (MD&A) of the Supplemental Police and Fire Pension Plan of the City of Dallas's (the Supplemental Plan) financial position and performance provides an overview of the Supplemental Plan's financial activities for the fiscal year ended December 31, 2005 and 2004. 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, (2) Notes to Basic Financial Statements, and (3) Required Supplemental 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

	2005	2004	2003
Assets	$ 19,960,748	18,883,128	16,966,660
Liabilities	207,969	162,974	16,656
Plan Assets Available for Benefits	19,752,779	18,720,154	16,950,004
Contributions	1,229,869	1,130,145	1,035,251
Investment Income	1,080,964	1,743,013	2,847,718
Benefit Payments	1,232,776	1,046,124	963,978
Administrative Expenses & Professional Fees	45,432	56,884	50,143

FINANCIAL HIGHLIGHTS

- The Supplemental Plan's net assets increased by $1.03 million in 2005 to $19.8 million. Net assets were $18.7 million in 2004.
- The rate of return on Supplemental Plan investments was 4.66% for the year, compared to an expected return (actuarial assumed investment rate of return) of 8.5%. The rate of return for 2004 was 10.2%.
- Liabilities totaled $207,969 as of December 31, 2005, compared to $162,974 as of December 31, 2004.
- The Supplemental Plan received employee contributions of $29,869 in 2005 and $30,145 in 2004. The Supplemental Plan received employer contributions from the City of Dallas in the amounts $1.2 million and $1.1 million in 2005 and 2004, respectively.
- The Supplemental Plan paid $1,232,776 in service retirement, disability retirement and survivor benefits during 2005, compared to $1,046,124 in 2004, an increase of 17.8%. 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 $45,432 compared to $56,884 for 2004.
- The active membership of the Supplemental Plan increased by one to 42 members as of the end of 2005. There were 41 active members in 2004. The number of retired, terminated vested and beneficiaries remained at 106 for both 2005 and 2004.

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. to conduct an actuarial valuation to determine the actuarial position of the Supplemental Plan as of January 1, 2006.

The ratio of a plan's actuarial value of assets (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 decreased slightly to 75.7% in 2005, compared to 76.4% for 2004.

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, 2006, the Supplemental Plan's UAAL was $6.4 million, an increase of $0.6 million from a UAAL of $5.8 million as of January 1, 2005.

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, 2005 and 2004

	2005	2004
Assets		
Investments, at fair value (note 4):		
Short-term investments	$ 76,237	153,896
Commingled trust funds	19,884,039	18,729,071
Total investments	19,960,276	18,882,967
Accrued interest, dividends and employee contributions receivable	472	161
Total assets	19,960,748	18,883,128
Liabilities and Plan Net Assets		
Administrative and benefit expenses payable	207,969	162,974
Plan net assets held in trust for pension benefits (a schedule of funding progress is presented on page 14)	$ 19,752,779	18,720,154

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, 2005 and 2004

	2005	2004
Additions:		
Net investment income:		
Interest and dividends	$ 39,786	4,914
Net appreciation in fair value of investments	1,041,178	1,738,099
Total net investment income	1,080,964	1,743,013
Contributions:		
Employer	1,200,000	1,100,000
Member	29,869	30,145
Total contributions	1,229,869	1,130,145
Total additions to plan net assets	2,310,833	2,873,158
Deductions:		
Benefit payments	1,232,776	1,046,124
Administrative and professional fees	45,432	56,884
Total deductions from plan net assets	1,278,208	1,103,008
Net increase in plan net assets	1,032,625	1,770,150
Plan net assets held in trust for pension benefits		
Beginning of year	18,720,154	16,950,004
End of year	$ 19,752,779	18,720,154

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, 2005 and 2004

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, 2005 and 2004, the Supplemental Plan membership consisted of:

	2005	2004
Non-active members -		
pensioners and qualified survivors currently receiving benefits:		
Firefighters	44	44
Police officers	62	62
Total non-active members	106	106
Current employees -		
vested:		
Firefighters	18	18
Police officers	24	23
Total members	42	41

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 $3,798,715 and $2,956,417 for December 31, 2005 and 2004, respectively.

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 Supplemental Plan 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

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.

Adoption of new 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 beginning after June 15, 2004 and accordingly, has been implemented by the Supplemental Plan in fiscal year 2005.

Recent accounting pronouncement

The GASB has issued Statement No. 44, *Economic Condition Reporting,* which amends National Council on Governmental Accounting Statement No. 1, *Governmental Accounting and Financials Reporting Principles* that guide the preparation of the statistical section. GASB Statement No. 44 requires disclosure information related to statistical data to assess the economic condition of a government. The statement is effective for financial statements for periods beginning after June 15, 2005 and accordingly, will be implemented by the Supplemental Plan in fiscal year 2006.

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.

Continued

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.

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 with a maturity of less than one year are valued at quoted market rates. Commingled trust funds are valued at quoted market prices of the underlying securities in these commingled trust funds.

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 are recorded on the trade date.

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 paid to participants.

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

2. **Investments**

Portions of the Supplemental Plan's investments are classified as security investments. A security is a transferable financial instrument that evidences ownership or creditorship. Investments in commingled funds are investments that are evidenced by contracts rather than securities.

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

	2005	2004
Short-term investment fund	$ 76,237	153,896
Commingled index funds	19,884,039	18,729,071
Total	$ 19,960,276	18,882,967

The commingled index funds are not rated and have an average duration of 10 plus years.

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 a 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, 2005 and 2004 consisted of the following:

	2005		2004	
	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	34,378	$ 7,970,790	34,740	7,675,713
Commingled Bond Index Trust Fund State Street Global Advisors	324,088	7,824,464	303,567	7,154,461
Commingled EAFE Provisional Index Trust Fund State Street Global Advisors	72,053	4,088,785	78,144	3,898,897
State Street Short-term Investment Fund (not greater than 5%)	76,237	76,237	153,896	153,896
Total investments		$ 19,960,276		18,882,967

Continued

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

For the years ended December 31, 2005 and 2004, the Supplemental Plan's investments, including investments bought, sold, as well as held during the year, appreciated in value as follows:

	2005	2004
Investments, at quoted market value:		
S&P 500 Index Commingled Equity Trust Fund	$ 364,659	748,909
Commingled Bond Index Trust Fund	180,003	305,397
Commingled EAFE Provisional Index Trust Fund	496,516	683,793
	$ 1,041,178	1,738,099

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, $45,432 and $56,884 was reimbursed to the System by the Supplemental Plan during the years ended December 31, 2005 and 2004, 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, 2005 and 2004, the aggregate contributions from participants of the Supplemental Plan with less than five years of service were approximately $8,112 and $55,135, respectively.

Continued

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

7. **Risks 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 funding progress, page 14, and employer contributions, page 15, 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 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 Supplemental Plan's basic financial statements as of December 31, 2005 and 2004.

Required Supplemental Information

Schedule 1

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

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

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

Schedule of Funding Progress

Actuarial valuation date	Actuarial value of assets (AVA) (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)
1/1/1997	$ 10,490	$ 14,414	$ 3,984	73 %	$ 795	494 %
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
1/1/2006	19,961	26,320	6,409	76	928	691

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.

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 plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the plan is becoming financially stronger or weaker, generally, the greater this percentage, the stronger the plan. 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 plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

See accompanying independent auditors' report.

See accompanying note to required supplemental schedules.

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Schedule 2

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Schedule of Employer Contributions
(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
1998	$1,030,687	100 %
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 %
2005	1,200,000	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 Supplemental Plan 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 independent auditors' report.

See accompanying note to required supplemental schedules.

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Note to Required Supplemental Schedules
(Unaudited)

The information in the companying 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, 2006 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	20 years in 2006 and 29 years in 2005

* Includes inflation rate of 4% and a real rate of return of 4.5%. DROP balances are assumed to earn 9% per annum. Total payroll is assumed to increase 4% per year. Overtime is assumed to be 7% of base pay.

The actuarial information presented was determined by the actuarial firm Buck Consultants, Inc. for 2005 and 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 Buck Consultants, Inc. as of January 1, 2006 and 2005, and are not materially different from what they would have been had they been calculated on December 31, 2005 and 2004, respectively. The above 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. Plan benefits are fully described in the Supplemental Plan's document.