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D A L L A S
P O L I C E & F I R E
P E N S I O N S Y S T E M



S E R V I N G T H O S E W H O P R O T E C T
T H E D A L L A S C O M M U N I T Y

2006 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 = 4,739

Benefit Recipients = 3,198

Terminated Vested = 158

Total Participants = 8,095

Service Retirements Added

Police = 74

Fire = 51

Total = 125

Disability Retirements Added

Police = 3

Fire = 1

Total = 4

System Assets at Market Value = \$3,131,265,222

Benefits Paid = \$122,120,302

Member Contributions (Net of Refunds) = \$17,214,469

City Contributions = \$91,652,586

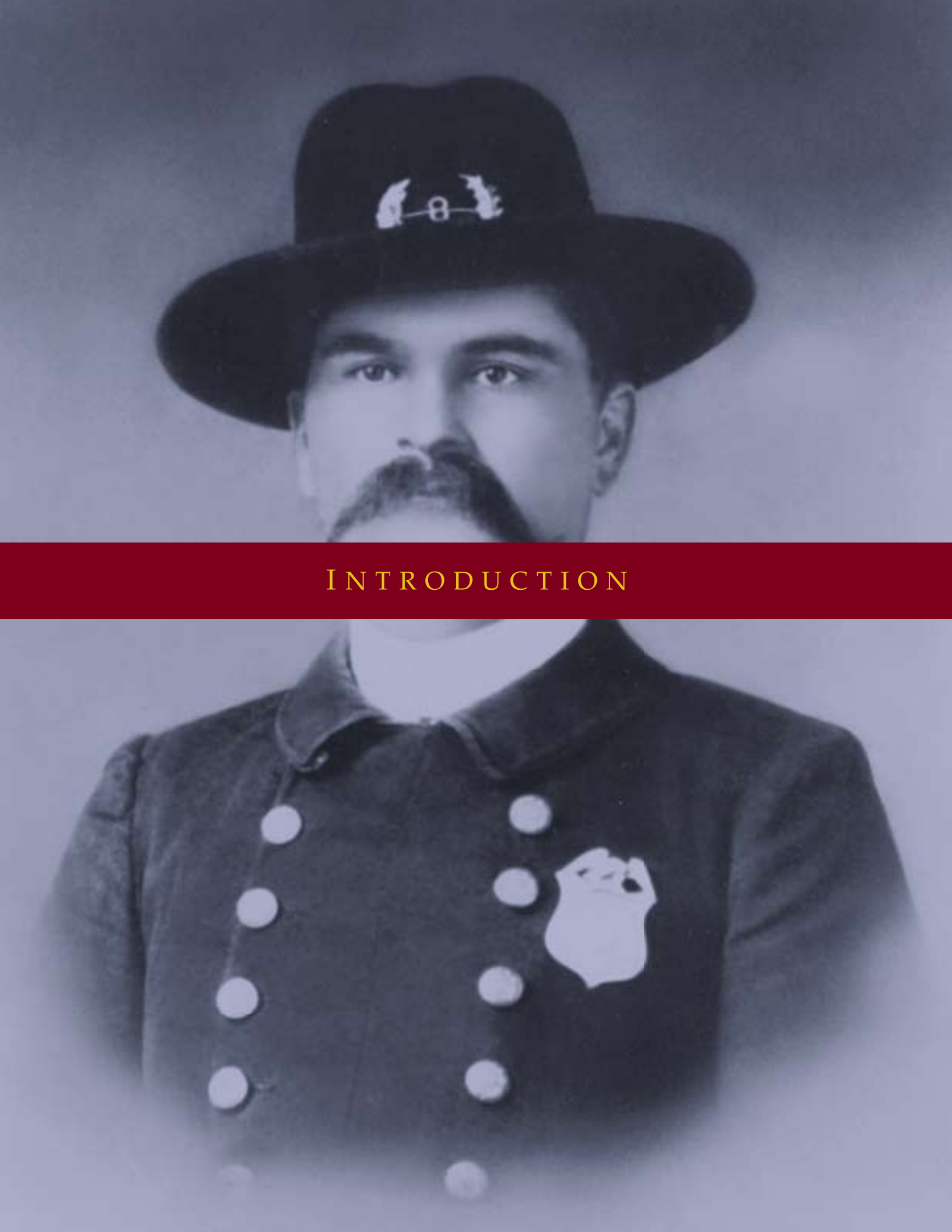
COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF THE
DALLAS POLICE AND FIRE PENSION SYSTEM

for the Year Ending December 31, 2006

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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INTRODUCTION

Richard L. Tettamant,
Administrator

Brian F. Blake,
Assistant Administrator

Donald C. Rohan,
Assistant Administrator



Board of Trustees

Gerald Brown, Chairman
Gary W. Edge
Donald W. Hill
John M. Mays
Rector McCollum
Steven G. Shaw
Maxine Thornton-Reese
George J. Tomasovic
Steven H. Umlor
Richard H. Wachsman

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*, to include the Financial Statements of the Supplemental Police and Fire Pension Plan of the City of Dallas (Supplemental Plan), for the fiscal year ended December 31, 2006 (the annual report). Though the System began a program at the start of 2006 to co-invest the assets of the Supplemental Plan with the assets of the System in order to maximize investment return of both plans, information regarding the two plans is presented separately in this 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 **Introduction** 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 **Financials** section presents the independent auditor's report on the System's financial statements. The audit includes Management's Discussion and Analysis (MD&A) and the System's basic financial statements and notes to the basic financial statements, with required supplemental information.
- The **Investments** section includes a report on investment activity and performance, a summary of investment policies, and other investment related schedules.
- The **Actuarial Report** contains the consulting actuary's Certification Letter and the full actuarial valuation report.
- The **Statistics** section presents membership, benefit payment and additional financial information in graphic form. Both current and historical data are presented.
- The **Supplemental Pension Plan** section contains the *2006 Actuarial Valuation* and the financial statements for the *Supplemental Police and Fire Pension Plan of the City of Dallas*.

Mir · Fox & Rodriguez, the System's independent auditor, issued an unqualified opinion on the System's financial statements. This type of report indicates that the financial statements are in accordance with

Governmental Accounting Standards Board rulings and that the System's financial condition and operations are fairly presented. It is the best type of report an independent auditor may issue.

The actuarial valuation was performed by Buck Consultants. The Actuarial Valuation Report states that the overall funding of the System remains sound. The System achieved a funding ratio of 87.9% funded and a funding period of 15 years to fully fund. The Actuarial Valuation for the Supplemental Plan is included in the last section of this annual report.

Except where noted, New England Pension Consultants and The Townsend Group provided the investment performance data included in this report.

As of December 31, 2006, through the unitization of assets, the System and the Supplemental Plan remained broadly diversified with investments in equities, fixed income, and real estate. For the fourth straight year, the System experienced a double digit investment return. The total rate of return on investments for the year was 16.8%. The System's investment performance ranked in the top 6% for the one year period, top 11% over three years, and top 4% over five years, for public funds using the Independent Consultants Cooperative Universe (ICC) data base. As of December 31, 2006, the ICC public fund data base consisted of 189 public funds.

The System's management staff 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 return and the diligence of the Board in monitoring the System's funding status help assure its continued financial health.

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

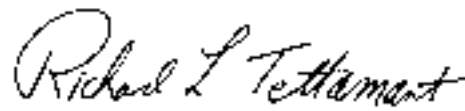
The Board of Trustees and the staff are dedicated to maintaining the System's excellent financial condition through diversification and sound management of the Pension System. We believe that a strong Pension System benefits the City and its taxpayers, as well as the Members of the System. We will continue to do our best to:

"Serve those who protect the Dallas community."

Respectfully submitted,



Gerald Brown
Chairman of the Board of Trustees



Richard L. Tettamant
Administrator

OVERVIEW

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. Together, the three plans are referred to as the Combined Pension Plan. In 2006, the System celebrated its 90th 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 were vacant as of December 31,2006).

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

The Board has retained the services of professional consultants and advisors considered essential to the effective operations of the System. These professionals assist the Board in making the decisions that affect the System’s investment performance as well as the administration and maintenance of benefit programs.

PROFESSIONAL SERVICE PROVIDERS

Investment Advisors

AllianceBernstein Inst. Inv. Management
Ashmore Investment Management Limited
Bank of Ireland Asset Management
Brandywine Investment Management
Capmark Investments LP
CDK Realty Advisors
Clay Finlay, Inc
Criswell Radovan
Crow Holdings Realty Partners
Eagle Asset Management
Forest Investment Associates
Frank Russell Company
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
Knudson Luxury Housing
LandBaron Investments
L&B Realty Advisors , LLP
Levine Leichtman Capital Partners
Lone Star Advisors
Lone Star Investment Advisors LLC
Loomis, Sayles & Company
Merit Energy
The Mitchell Group
Mondrian Investment Partners
N. Texas Opportunity Fund Capital Partners LP
Oak Associates
Oaktree Capital Management
Olympus Real Estate Partners
Pharos Capital Group
Pyramis Global Advisors
RMK Timberland 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
NEPC

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.

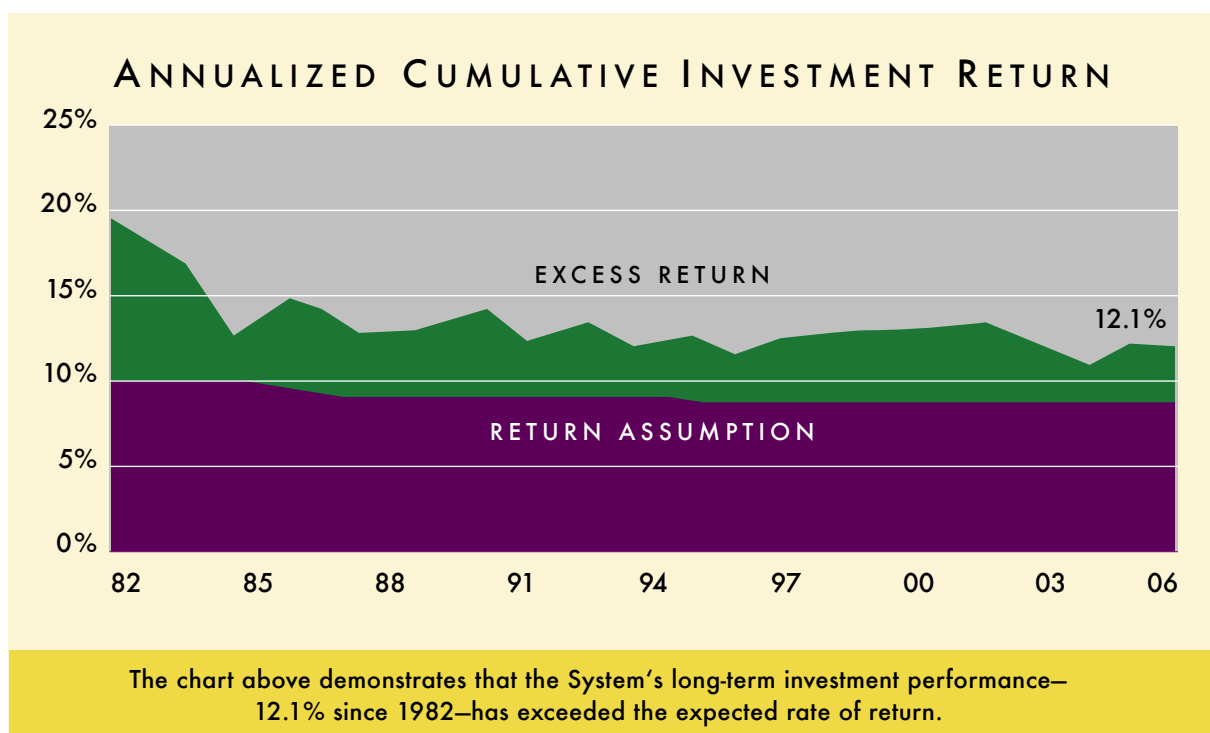
The administrative staff performs the day-to-day operations of the System. At year end, the staff consisted of 24 positions and included the Administrative, Benefits, Accounting, Investment, and Information Systems teams. The staff's main functions are (1) payment of benefits, (2) audit and control, (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 2006. For the fourth straight year, the System earned a double digit investment return, returning 16.8% 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 \$395.5 million, reaching \$3.13 billion.

New England Pension Consultants (NEPC), the System's investment consultant, ranked the fund in the top 6% for the one year period, top 11% over three years, and top 4% over five years, for public funds using the Independent Consultants Cooperative Universe (ICC) data base. As of December 31, 2006, the ICC public fund data base consisted of 189 public funds.



MAJOR INITIATIVES

In 2006, the System initiated a program to co-invest the assets of the Supplemental Plan with System assets. This program, called “unitization”, was designed to simplify investment of all the assets under the control of the System and maximize the investment return of the Supplemental Plan by opening this Plan to the economies of scale enjoyed by the larger fund. The two plans are still maintained separately. Benefits and contributions are applied directly to each of the plans respectively and all general costs and investment income are allocated to each plan prorated to the amount of assets in each plan.

The System continued to maintain a comprehensive business continuity plan (BCP) for the continuation of services in event of a business disruptive that prevents the System from carrying out normal activities at the System Office. The plan at this level was focused on maintaining the ability to pay pension benefits even though denied access to our business premises and equipment because of a fire or other disruption. The System began steps in 2006 to enhance our capabilities during a business disruptive event. When completed, all System data will be backed up daily at a remote site which will permit the System to carry out all essential operations in the event of business disruption. In addition, the System has entered into an agreement with the System’s pension administration software vendor for a more secure means to ensure pension payments in a business disruption prevents us from issuing pension payments.

The System hired NEPC (New England Pension Consultants) as the new general investment consultant effective January 1, 2006, and also hired two internal investment analysts during the year.

The new consultant and analysts assisted the System in initiating several new investment ventures in 2006. The System expanded its real estate portfolio by approximately \$200 million with various investments, entering into agreements with RMK Timberland Group (timber in Uruguay), Knudson Luxury Housing (residential housing focused primarily in Hawaii), Capmark Investments, L.P. (the largest apartment complex in Austin, TX), and Criswell Radovan (consultant to assist the System in developing a high rise residential tower in downtown Dallas). Additionally, the System purchased a building at 4100 Harry Hines (Nov. 2006) for use as the future pension headquarters building. Move in date for the System is scheduled for sometime in 2008.

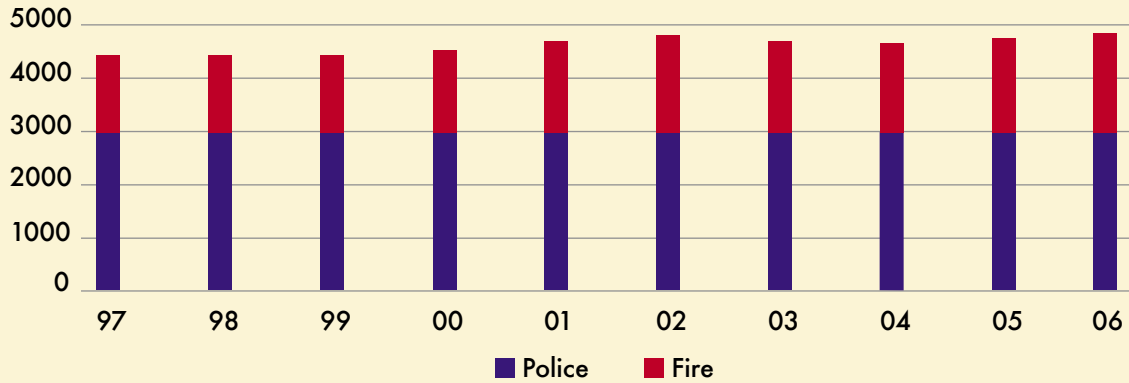
The System also expanded its private equity portfolio with a \$100 million capital commitment to energy investments in The Huff Energy Fund, L.P., a \$50 million capital commitment to the Levine Leichtman Capital Partners Deep Value fund and a \$16 million capital commitment to a local fund known as Lone Star Growth Capital LP.

In 2006, the System implemented changes approved by the Membership in the December 2005 Plan Amendment election. Most notable of the changes was the enhanced flexibility of DROP deferral and distribution rules.

PLAN MEMBERSHIP

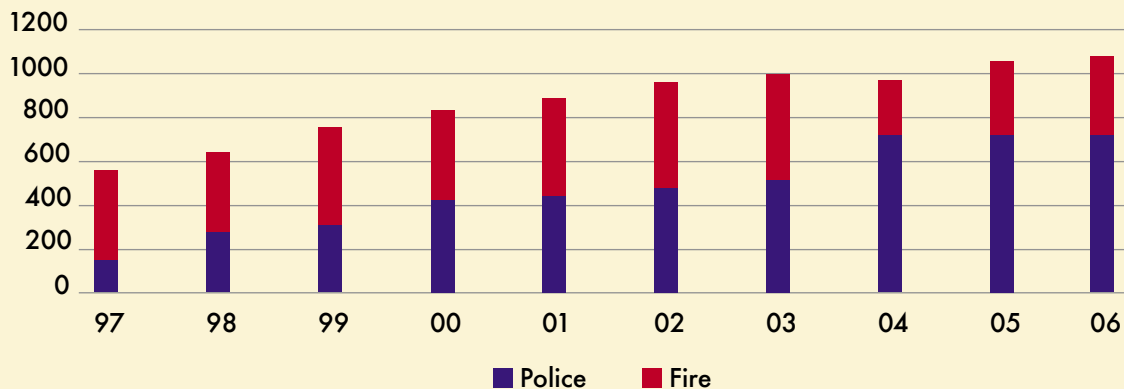
The System provides comprehensive retirement, disability and survivor benefits for the City’s 7,937 Police Officers, Firefighters, Pensioners, and their beneficiaries. As of December 31, 2006, 3,056 Police Officers and 1,683 Firefighters were Members of the Pension System. The total of 4,739 Active Members reflects an increase of 91 from last year’s total of 4,648 (2,972 Police Officers and 1,676 Firefighters). The average Police Officer is 41.03 years of age with 14.75 years of pension service. The average Firefighter is 43.69 years of age and has 17.66 years of pension service with the City of Dallas.

ACTIVE MEMBERSHIP IN THE SYSTEM 1997-2006



TOTAL ACTIVE MEMBERSHIP INCREASED BY 365 MEMBERS OVER THE LAST TEN YEARS FROM 4,374 TO 4,739 MEMBERS.

ACTIVE DROP MEMBERSHIP 1997-2006

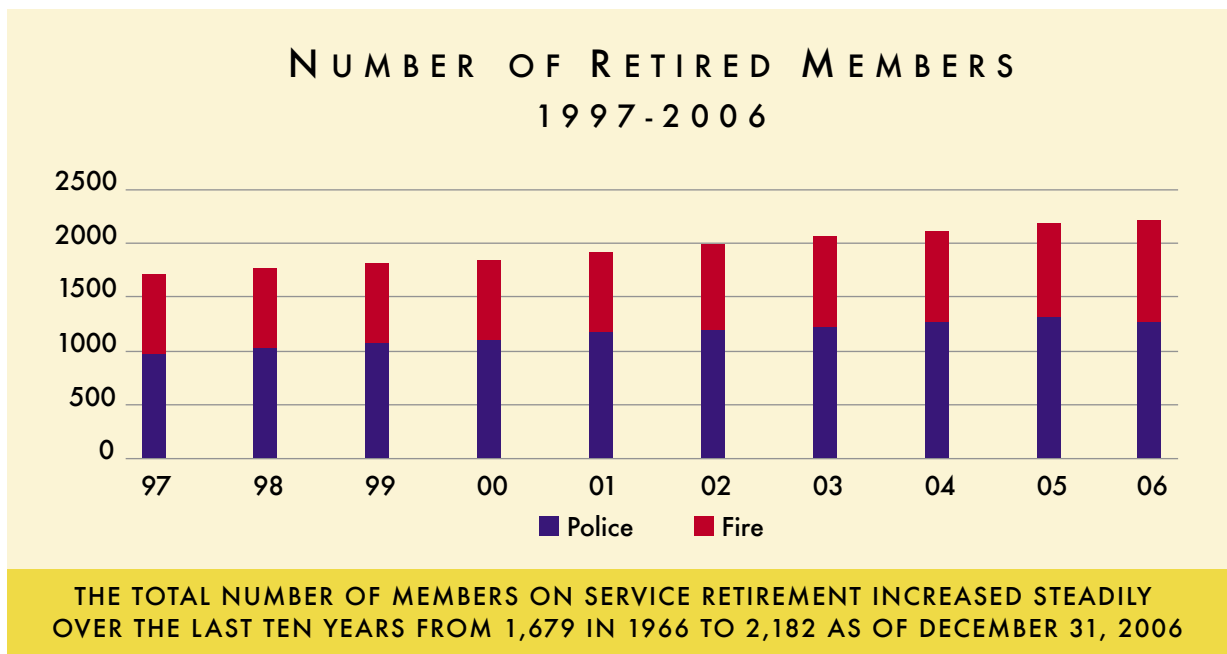


ACTIVE DROP MEMBERSHIP INCREASED BY 542 PARTICIPANTS OVER THE LAST TEN YEARS FROM 539 TO 1,081 PARTICIPANTS.

The Deferred Retirement Option Plan continues to be a very attractive option for Active Members. The number of Active DROP participants in active service reached 1,081 during 2006, an increase of 25 from the prior year. The average DROP participant in Active Service is 54.48 years of age with 28.95 years of pension service. The average age at which members enter DROP is 50.0 years of age.

The System paid \$122.1 million in pension benefit payments recipients in 2006. At the end of the year benefit payments were being made to 2,182 service Pensioners, 198 disability Pensioners, and 818 beneficiaries.

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

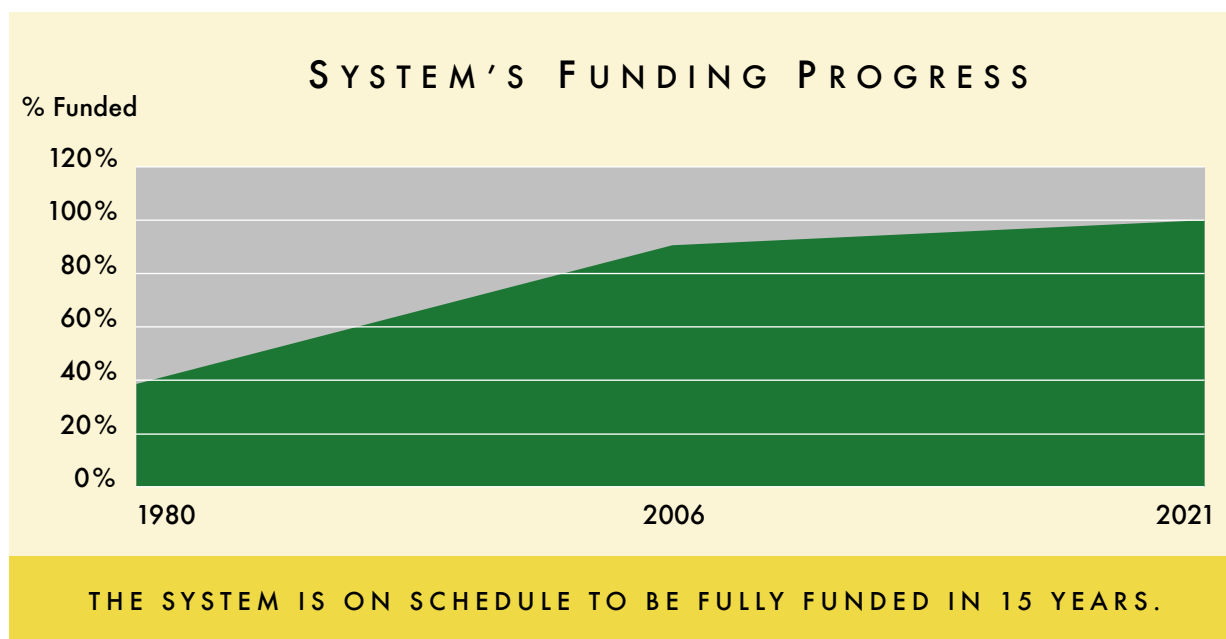
There were no changes to the Combined Pension Plan in 2006.

LEGISLATION

The System continuously monitors both State and federal legislative bodies to identify legislation that might have impact, positive or negative, on the System and our membership and take the appropriate action to support or oppose the legislation.

During 2006, long awaited legislation supported by the System was passed in Congress to eliminate the 10% early distribution tax on DROP distributions for some Members and to provide a \$3,000 tax credit toward health care expenses for retirees. Though both of these two new provisions offer valuable tax relief to Members, both require additional effort to finish the job and restore features intended to be in the law. The System is working with other pension plans through national organizations to get the provisions fixed.

The System continued to oppose federal legislation that would require mandatory or universal Social Security coverage and state and federal legislation that we feel would be harmful to the public defined benefit form of retirement plan such as the System.



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%.

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.

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*

2006 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
Sr. Accountant*



*Talal Elass
Investment Analyst*



*Amy Gray
Admin. Assistant*



*Vickie Johnson
Accounting
Specialist*



*Kevin Killingsworth
Communications
Specialist*



*Barbara McCann
Pensioner Liaison*



*Gale Paul
Pensioner Advocate*



*Rosa Perez
Receptionist*



*Erica Ramsey
Benefits Counselor*



*David Richardson
Accountant*



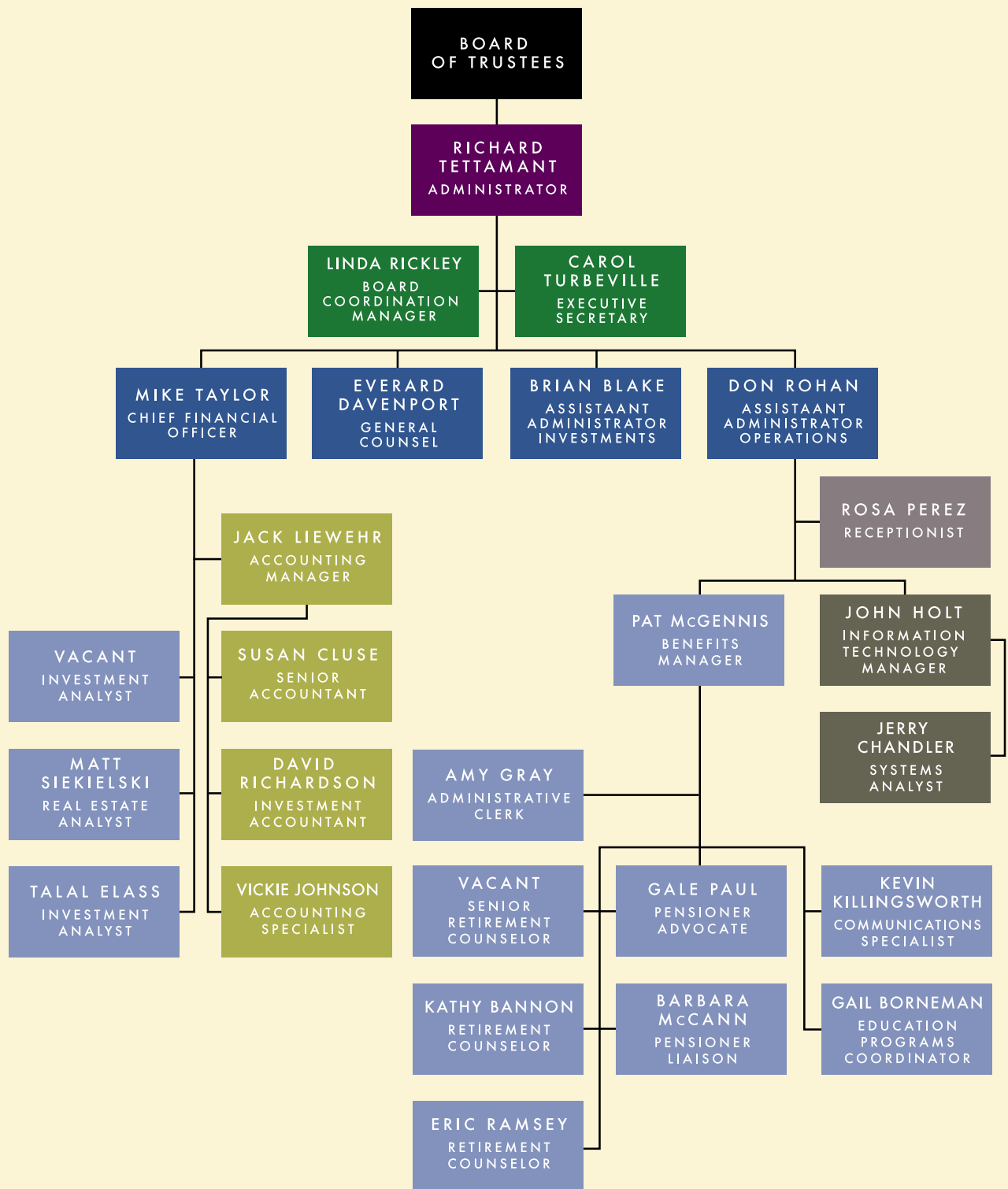
*Matt Siekielski
Investment Analyst*



*Carol Turbeville
Executive Secretary*

ORGANIZATIONAL CHART

(as of 12.31.2006)



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 billion (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 authorized 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 billion (12-31-05)

2006

- Initiated unitization of investment of pension fund assets co-investing the assets of the System and the Supplemental Plan
- System assets totaled \$3.13 billion (12-31-06)



FINANCIALS



DALLAS POLICE AND FIRE PENSION SYSTEM

**Financial Statements
and
Required Supplemental Information**

December 31, 2006 and 2005
(With Independent Auditors' Report Thereon)

DALLAS POLICE AND FIRE PENSION SYSTEM

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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, 2006 and 2005, 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, 2006 and 2005, 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.

April 29, 2008

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

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, 2006 and 2005. The System is a defined benefit pension plan under Section 401(a) of the Internal Revenue Code. 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 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* reflects the System's assets and liabilities and plan net assets held in trust as of the end of the year 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 overtime is an indication of whether the System's financial health is improving or deteriorating.

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

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

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.

CONDENSED FINANCIAL INFORMATION
(in thousands)

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|---|--------------|-------------|-------------|
| Assets | \$ 3,131,495 | 3,281,804 | 2,712,238 |
| Liabilities | 230 | 546,070 | 218,435 |
| Net Assets Available for Benefits | 3,131,265 | 2,735,734 | 2,493,804 |
| Contributions | 109,595 | 105,122 | 100,646 |
| Investment and Other Income | 431,041 | 252,204 | 317,192 |
| Benefit Payments | 122,120 | 111,331 | 103,394 |
| Withdrawals and Refunds of Contributions | 728 | 1,070 | 801 |
| Administrative Expenses and Professional Fees | 4,265 | 2,995 | 2,898 |

FINANCIAL HIGHLIGHTS

- In 2006, the System initiated a program to co-invest the assets of the Supplemental Police and Fire Pension Plan of the City of Dallas (Supplemental Plan) with System assets. This program, called "unitization", was designed to simplify investment of all the assets under the control of the System and maximize the investment return of the Supplemental Plan by opening the Supplemental Plan to the economies of scale enjoyed by the System. The two plans are still maintained separately. Benefits and contributions are applied directly to each of the plans respectively and all general costs and investment income are allocated to each plan prorated to the amount of assets in each plan.
- The System's plan net assets increased 395.5 million in 2006 and by \$241.9 million in 2005. Plan net assets totaled \$3.13 billion in 2006 and \$2.74 billion in 2005. The increase reflects a continued strong financial market and that income from employee and employer contributions and earnings on investments exceeded benefit payments and administrative expenses.
- The rate of return on System investments during 2006 was 16.8%, net of fees, compared to a rate of return of 10.3% for 2005. The increase in investment return reflects a positive financial market and the success of the System's asset allocation. The actuarial expected rate of return for both years was 8.5%.
- Liabilities totaled \$229.4 thousand as of December 31, 2006. Liabilities in 2005 totaled \$546.1 million. The great difference in liabilities between the two years primarily is a result of a change in the methodology of recording assets under unitization. In the current method, investment liabilities are incorporated into the Group Trust and are reflected in total investment.
- The System received employee contributions of \$17.9 million in 2006 and \$17.7 million in 2005 and received employer contributions from the City of Dallas in the amounts of \$91.6 million and \$87.4 million in 2006 and 2005, 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 of covered employees.
- The System paid \$122.1 million in service retirement, disability retirement, survivor benefits and DROP disbursements during 2006, compared to payments of \$111.3 million benefits in 2005. The System refunded approximately \$728.3 thousand and \$1.07 million in contributions to former members in 2006 and 2005, respectively. No changes to benefit provisions were implemented in 2006 and 2005. The increase in-benefit payments resulted both from an increase in the number of benefit recipients and annual adjustment increases to base benefits in 2006 and 2005.
- The cost of administering the benefit programs of the System, including administrative costs and professional fees, was \$4.3 million in 2006 compared to \$3.0 million in 2005.

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, 2007. 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 \$385 million during 2006 to \$3.131 billion as of January 1, 2007. The market value of assets as of January 1, 2006 was \$2.745 billion. During the same period, the actuarial value of the assets (AVA) increased \$262 million to a total of \$2.962 billion as of January 1, 2007.
- As of January 1, 2007, the actuarial accrued liability (AAL), or actuarial value of liabilities, increased during 2006 by \$89 million to \$3.371 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 87.9% during 2006. The ratio as of January 1, 2006 was 82.3%.
- 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, 2007, the System's UAAL was \$409 million, an improvement of \$173 million from a UAAL of \$582.1 million as of January 1, 2006.
- 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, 2007, the employer contribution rate of 27.5% covers the normal cost and the amortization of the UAAL over 15 years, compared to 20 years to fund as of the January 1, 2006 valuation. This decrease of 5 years in the number of years to fully fund the System further demonstrates the improvement in the System's funding status due primarily to improved investment return.

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, 2006 and 2005

| <u>Assets</u> | <u>2006</u> | <u>2005</u> |
|---|-------------------------|----------------------|
| Investments, at fair value (notes 2, 3 and 4): | | |
| Cash and cash equivalents | \$ | 272,737,505 |
| United States government securities | | 21,086,315 |
| United States government sponsored enterprises | | 34,239,013 |
| Foreign government securities | | 247,540,762 |
| Commingled funds | | 89,005,318 |
| Domestic equities | | 831,471,786 |
| International equities | | 660,850,977 |
| Corporate securities | | 373,824,612 |
| Investments, at appraised value - real estate equity funds (note 3) | | 546,201,086 |
| Plan interest in Group Master Trust, at fair value (notes 2, 3 and 4) | <u>3,129,921,814</u> | |
| Total investments | <u>3,129,921,814</u> | <u>3,076,957,374</u> |
| Receivables: | | |
| Accrued interest and dividends | | 12,335,285 |
| Employer contributions (note 5) | 1,330,581 | 1,025,927 |
| Member contributions | 242,187 | 203,027 |
| Forward currency contracts (note 6) | | 77,540,182 |
| Securities sold | | <u>113,742,075</u> |
| Total receivables | <u>1,572,768</u> | <u>204,846,496</u> |
| Total assets | <u>3,131,494,582</u> | <u>3,281,803,870</u> |
| <u>Liabilities and Net Assets</u> | | |
| Repurchase loan agreement (note 7) | | 51,778,137 |
| Payable for securities purchased | | 106,224,192 |
| Administrative and professional fees payable | 229,360 | 14,606,635 |
| Forward currency contracts (note 6) | | 79,254,983 |
| Securities lending collateral (note 4) | | 207,815,275 |
| Line of credit (note 8) | | <u>86,390,791</u> |
| Total liabilities | <u>229,360</u> | <u>546,070,013</u> |
| Net assets held in trust for pension benefits (a schedule of funding progress is included on page 27) | <u>\$ 3,131,265,222</u> | <u>2,735,733,857</u> |

See accompanying notes to basic financial statements.

DALLAS POLICE AND FIRE PENSION SYSTEM

Statements of Changes in Plan Net Assets
Years Ended December 31, 2006 and 2005

| | <u>2006</u> | <u>2005</u> |
|---|-------------------------|--------------------------------------|
| Additions to plan net assets: | | |
| Investment Income: | | |
| Net investment gain from the Group Master Trust | \$ 413,041,327 | |
| Interest | | 32,011,489 |
| Dividends | | 30,282,985 |
| Real estate income | | 23,745,204 |
| Net appreciation in fair value of investments | | 185,660,666 |
| Securities lending income | | 2,601,233 |
| Less investment expenses: | | |
| Securities lending borrower rebates | | (1,544,051) |
| Custody fees | | (479,286) |
| Investment services | | (20,418,398) |
| Net investment income | <u>413,041,327</u> | <u>251,859,842</u> |
| Contributions: | | |
| Employer | 91,652,586 | 87,373,312 |
| Employee | 17,942,807 | 17,748,241 |
| Total contributions | <u>109,595,393</u> | <u>105,121,553</u> |
| Other income | | |
| Total net additions to plan net assets | <u>522,636,720</u> | <u>344,399</u> <u>357,325,794</u> |
| Deductions from plan net assets: | | |
| Benefit payments | 122,120,302 | 111,330,798 |
| Withdrawal payments and refunds of contributions | 728,338 | 1,069,858 |
| Administrative expenses and professional fees | 4,256,715 | 2,995,209 |
| Total deductions from plan net assets | <u>127,105,355</u> | <u>115,395,865</u> |
| Net increase in plan net assets | <u>395,531,365</u> | <u>241,929,929</u> |
| Plan net assets held in trust for pension benefits: | | |
| Beginning of year | <u>2,735,733,857</u> | <u>2,493,803,928</u> |
| End of year | <u>\$ 3,131,265,222</u> | <u>2,735,733,857</u> |

See accompanying notes to basic financial statements.

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements
December 31, 2006 and 2005

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, 2006 and 2005, the System's membership consisted of:

| | <u>2006</u> | <u>2005</u> |
|---|--------------|--------------|
| Nonactive member: | | |
| Pensioners and qualified survivors currently receiving benefits and terminated employees entitled to benefits but not yet receiving them: | | |
| Firefighters | 1,384 | 1,369 |
| Police officers | 1,814 | 1,752 |
| Terminated vested members not yet receiving benefits | <u>158</u> | <u>141</u> |
| Total nonactive members | <u>3,356</u> | <u>3,262</u> |
| Current employees: | | |
| Vested: | | |
| Firefighters | 1,420 | 1,405 |
| Police officers | <u>2,390</u> | <u>2,346</u> |
| Total vested current employees | <u>3,810</u> | <u>3,751</u> |
| Nonvested: | | |
| Firefighters | 263 | 271 |
| Police officers | <u>666</u> | <u>626</u> |
| Total nonvested current employees | <u>929</u> | <u>897</u> |
| Total current employees | <u>4,739</u> | <u>4,648</u> |

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

Pension benefits

Members hired by the City before March 1, 1973 were eligible to be Group A members, all other members hired on or after March 1, 1973 became Group B members.

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.

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 non duty-related disabilities as are survivor benefits for qualified survivors.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

- 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 \$507,453,306 and \$428,990,153 for December 31, 2006 and 2005, 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 System's 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 contribute to the System 6.5% of their base pay, as defined in the System's plan document. However during 2006 and 2005 no member elected contribution under Group A. 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 System's 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.

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.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

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.

Effective January 1, 2006, the System's Board elected to establish a Group Master Trust (Group Trust) for investment unitization of the System's investment and those of the Supplemental Police and Fire Pension Plan of the City of Dallas (Supplemental Plan). The System's Board has investment oversight for the investment activities of the Group Trust.

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.

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.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, 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 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.

Plan interest in Group Master Trust

Beginning January 1, 2006, the System's investments are held in the Group Master Trust (Group Trust). JP Morgan Chase served as custodian for the year ended December 31, 2006. The fair value of the System interests in the Group Trust is based on the unitized interests that it has in the Group Trust. The System's interest in the Group Trust was approximately 99.3691% at December 31, 2006. The allocation of investment income between the System and the Supplemental Plan is based on the number of units owned of the Group Trust. Benefits, contributions and administrative expenses are allocated to each plan directly.

Investment valuation and income recognition

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

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Short-term investments are government and corporate bonds with a maturity of less than one year and are valued based on current market rates. The fair value of limited partnerships, real estate trusts, and real estate loans is based on independent appraisals and recent financial results. Investments that do not have an established market are reported at their estimated fair values. The System's interest in the Group Master Trust is based on the fair value of the unitized interest held by the System. The underlying investments included in the Group Master Trust are reported at fair value based on quoted market prices, when quoted market prices are not available, investments are based on independent appraisals and recent financial results, or if no established market then they 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.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

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 Group Trust and the System are 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 Group Trust's and the System's functional currency - United States dollars) are recorded by the Group Trust and 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 Group Trust and the System structure foreign exchange contracts and enter into certain transactions to substantially mitigate the Group Trust's and the System's exposure to fluctuations in foreign exchange rates.

Investments and broker accounts denominated in foreign currencies outstanding at December 31, 2006 and 2005 were converted to the Group Trust's and the System's functional currency (United States dollars) at the foreign exchange rates quoted at December 31, 2006 and 2005, respectively. 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.

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 Group Trust's and the System's deposits may not be returned to it. The Group Trust's and the System's deposits are held by the Custodian, JP Morgan Chase. As of December 31, 2006 and 2005, the Group Trust and the System had bank balances of \$1,082,459 and \$1,046,554, respectively, that are in demand deposit accounts subject to coverage by Federal deposit insurance, but not collateralized. The Group Trust and the System does not have a deposit policy for custodial credit risk; however, the Group Trust's and the System's credit risk exposure is mitigated by the financial strength of the banking institution in which the deposits are held.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

3. Investments and Plan Interest in Group Master Trust

The following disclosures on investments and plan interest in Group Master Trust are made for both the Group Master Trust as of and for the year ended December 31, 2006 and for the System as of and for the year ended December 31, 2005. The underlying investments are primarily the same in both 2006 and 2005 for the Group Master Trust and the System.

The following summarizes the fair value of investments for the Group Trust as of December 31, 2006:

| | |
|--|-------------------------|
| Investments, at fair value (notes 2, 3 and 4): | |
| Cash and cash equivalents | \$ 270,728,342 |
| United States government securities | 58,045,060 |
| United States government sponsored enterprises | 8,980,840 |
| Foreign government securities | 194,261,708 |
| Commingled funds | 86,465,708 |
| Domestic equities | 1,103,204,010 |
| International equities | 741,591,982 |
| Corporate securities | 374,426,266 |
| Investments, at appraised value - real estate equity funds | <u>767,991,320</u> |
| Total investments | <u>3,605,695,236</u> |
| Receivables: | |
| Accrued interest and dividends | 13,467,610 |
| Forward currency contracts (note 6) | 79,787,702 |
| Securities sold | <u>51,559,052</u> |
| Total receivables | <u>144,814,364</u> |
| Total assets | <u>3,750,509,600</u> |
| <u>Liabilities and Net Assets</u> | |
| Repurchase loan agreement (note 7) | 35,710,000 |
| Payable for securities purchased | 56,554,065 |
| Professional fees payable | 2,920,525 |
| Forward currency contracts (note 6) | 79,787,702 |
| Securities lending collateral (note 4) | 221,286,049 |
| Line of credit (note 8) | <u>204,460,000</u> |
| Total liabilities | <u>600,718,341</u> |
| Net assets in the Group Trust | <u>\$ 3,149,791,259</u> |

Continued

DALLAS POLICE AND FIRE PENSION GROUP TRUST

Notes to Basic Financial Statements, Continued

The following summarizes the net change in the Group Trust for the year ended December 31, 2006:

| | |
|---|---------------------|
| Investment income: | |
| Interest | \$ 28,451,894 |
| Dividends | 30,426,918 |
| Real estate income | 19,095,242 |
| Net appreciation in fair value of investments | 353,315,991 |
| Securities lending income | 937,538 |
| Less investment expenses: | |
| Custody fees | (420,106) |
| Investment services | <u>(17,363,973)</u> |
| Total investment income in Group Trust | <u>414,443,504</u> |

Plan net assets held in trust for pension benefits:

| | |
|---|-------------------------|
| Beginning of year | - |
| Transfer of investments by the System and the Supplemental Plan | <u>2,735,347,755</u> |
| End of year | <u>\$ 3,149,791,259</u> |

The following is a break out of interest held in the Group Trust:

| | |
|--|-------------------------|
| Group Trust interest held by the System | \$ 3,129,921,814 |
| Group Trust interest held by the Supplement Plan | <u>21,169,910</u> |
| Total nets assets of Group Trust | <u>\$ 3,149,791,259</u> |

Portions of the Group Trust's and 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.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

The fair values of the Group Trust's investments at December 31, 2006 and the System's investments at December 31, 2005 are presented by type, as follows:

| | Group Trust 2006 | System 2005 |
|---|-------------------------|----------------------|
| Cash and cash equivalents | \$ 270,728,342 | 272,737,505 |
| United States government securities | 58,045,060 | 21,086,315 |
| U.S. government sponsored enterprises | 8,980,840 | 34,239,013 |
| Foreign government securities | 194,261,708 | 247,540,762 |
| Commingled funds | 86,465,708 | 89,005,318 |
| Domestic equities | 1,103,204,010 | 831,471,786 |
| International equities | 741,591,982 | 660,850,977 |
| Corporate securities | 374,426,266 | 373,824,612 |
| Investments, at appraised value - real estate equity funds | <u>767,991,320</u> | <u>546,201,086</u> |
| Total investments | \$ <u>3,605,695,236</u> | <u>3,076,957,374</u> |

The Board has contracted with investment managers to manage the investment portfolio of the Group Trust and 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.

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:

| | Group Trust 2006 | System 2005 |
|---|-------------------------|----------------------|
| | <u>Fair value</u> | <u>Fair value</u> |
| Investments greater than 5% of net assets, at quoted market value: | | |
| Securities lending - | | |
| Global Securities Lending | | |
| JP Morgan | \$ <u>221,286,049</u> | <u>207,815,275</u> |
| Total investments greater than 5% of net assets | 221,286,049 | 207,815,275 |
| Investments less than 5% of net assets: | | |
| At quoted market value | 2,616,417,867 | 2,322,941,014 |
| At appraised value | <u>767,991,320</u> | <u>546,201,085</u> |
| Total investments | \$ <u>3,605,695,236</u> | <u>3,076,957,374</u> |

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

Custodial credit risk

For an investment, custodial credit is the risk that, in the event of the failure of the counterparty, the Group Trust and 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 Group Trust and the System, and are held by either the counterparty or the counterparty's trust department or agent but not in the Group Trust's or the System's name. At December 31, 2006 and 2005, the Group Trust's and 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 allocations of assets among various asset classes are set by the Board with the objective of optimizing the investment return of the Group Trust and 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 Group Trust and the System will further diversify by employing investment managers who implement the strategies selected by the Board.

Significant guidelines are as follows:

Public market investments

1. Specific guidelines are developed cooperatively by the System 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.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

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:
 - 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 Group Trust and 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.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

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, 2006, the following tables show the Group Trust'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, 2006, 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 | \$ 9,668,599 | 8,526,780 | 3,312,690 | 36,536,991 | 58,045,060 |
| U.S. Government Agency Securities | | | | 8,980,840 | 8,980,840 |
| Corporate Securities: | | | | | |
| Asset backed securities | | | 4,120,107 | 1,217,354 | 5,337,461 |
| Collateralized mortgage obligation | | | 3,069,824 | | 3,069,824 |
| Corporate bonds | 5,331,009 | 43,796,474 | 96,088,901 | 84,576,598 | 229,792,982 |
| Commingled funds | | | | 86,465,708 | 86,465,708 |
| Convertible bonds | 1,911,000 | 25,770,975 | 2,090,737 | 2,078,962 | 31,849,674 |
| Investment interests | | | | 68,155,759 | 68,155,759 |
| Total fixed maturity domestic | <u>16,910,608</u> | <u>78,094,229</u> | <u>108,682,259</u> | <u>288,010,212</u> | <u>491,697,308</u> |
| International government bonds: | | | | | |
| Australian Dollar AUD | | 3,739,340 | 7,840,577 | | 11,579,917 |
| Argentina | | 1,363,229 | | | 1,363,229 |
| British Pound Sterling | | 5,738,851 | 11,737,218 | | 17,476,069 |
| Canadian dollar | | 8,617,075 | 2,240,399 | | 10,857,474 |
| EURO Currency | 2,250,611 | 34,689,933 | 5,031,530 | 10,191,794 | 52,163,868 |
| Japanese Yen | 14,090,758 | 8,704,649 | 13,226,971 | | 36,022,378 |
| Mexican New Peso | | 9,397,369 | 218,065 | 1,203,035 | 10,818,469 |
| New Zealand Dollar | | | 3,245,872 | | 3,245,872 |
| Poland | | 3,844,168 | 8,086,824 | 6,071,669 | 18,002,661 |
| Peru | | | 1,432,512 | | 1,432,512 |
| Singapore Dollar | 8,020,427 | 5,634,599 | | | 13,655,026 |
| South African Rand | | 3,750,625 | 3,455,376 | | 7,206,001 |
| Swedish Krona | | 10,438,212 | | | 10,438,212 |
| Total international government bonds | <u>24,361,796</u> | <u>95,918,070</u> | <u>56,515,344</u> | <u>17,466,498</u> | <u>194,261,708</u> |
| International corporate bonds: | | | | | |
| Australian Dollar | | | 1,356,499 | | 1,356,499 |
| British Pound Sterling | | 6,144,216 | 4,932,936 | | 11,077,152 |
| EURO Currency | 5,060,182 | 5,365,982 | 5,048,916 | 1,187,073 | 16,662,153 |
| Indonesian Rupiah | | 2,001,362 | | | 2,001,362 |
| Thai Baht | | 5,123,600 | | | 5,123,600 |
| Total international corporate bonds | <u>5,060,182</u> | <u>18,634,960</u> | <u>11,338,351</u> | <u>1,187,073</u> | <u>36,220,566</u> |
| Pooled international fixed maturity | <u>-</u> | <u>4,832,149</u> | <u>1,247,205</u> | <u>68,155,759</u> | <u>74,235,113</u> |
| Total international fixed maturity | <u>29,421,978</u> | <u>119,385,179</u> | <u>69,100,900</u> | <u>86,809,330</u> | <u>304,717,387</u> |
| Total fixed maturity | <u>\$ 46,332,586</u> | <u>192,647,259</u> | <u>178,535,954</u> | <u>306,663,783</u> | <u>722,179,582</u> |

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Group Trust does not have a formal policy limiting investment credit risk, but rather mandates such limits within the Investment Management Services Contract. The Group Trust's exposure to investment credit risk in fixed income securities as of December 31, 2006 is as follows:

| Type | Moody Rating | Amount | Percentage of Holdings | Moody Rating | Amount | Percentage of Holdings |
|---|--------------|--------------------|------------------------|--------------|--------|------------------------|
| Corporate securities: | | | | | | |
| Asset backed securities | | | | | | |
| | B2 | \$ 247,977 | 0.03% | | | |
| | Ba1 | 54,483 | 0.01% | | | |
| | Ba2 | 868,654 | 0.12% | | | |
| | Ba2 | 587,364 | 0.08% | | | |
| | WR | 3,578,993 | 0.50% | | | |
| Total asset backed securities | | 5,337,851 | 0.74% | | | |
| Convertible bonds | | | | | | |
| | B2 | 429,463 | 0.06% | | | |
| | B3 | 1,427,063 | 0.20% | | | |
| | Ba2 | 915,800 | 0.13% | | | |
| | Caa2 | 2,821,138 | 0.39% | | | |
| | Caa3 | 1,728,350 | 0.24% | | | |
| | NR | 24,291,610 | 3.36% | | | |
| | WR | 236,252 | 0.03% | | | |
| Total convertible bonds | | 31,859,674 | 4.41% | | | |
| Corporate bonds | | | | | | |
| | A1 | 1,762,561 | 0.24% | | | |
| | A2 | 4,575,496 | 0.63% | | | |
| | A3 | 2,484,853 | 0.34% | | | |
| | Aa1 | 6,023,899 | 0.83% | | | |
| | Aa3 | 2,370,726 | 0.33% | | | |
| | Aaa | 9,350,937 | 1.29% | | | |
| | B1 | 54,726,837 | 7.58% | | | |
| | B1e | 1,218,000 | 0.17% | | | |
| | B2 | 38,797,013 | 5.37% | | | |
| | B3 | 29,375,498 | 4.07% | | | |
| | B3e | 715,850 | 0.10% | | | |
| | Ba1 | 8,418,019 | 1.17% | | | |
| | Ba2 | 20,483,300 | 2.84% | | | |
| | Ba3 | 18,644,791 | 2.58% | | | |
| | Baa1 | 6,204,504 | 0.86% | | | |
| | Baa2 | 2,910,887 | 0.40% | | | |
| | Baa3 | 9,013,961 | 1.25% | | | |
| | Caa1 | 25,019,321 | 3.46% | | | |
| | Caa2 | 1,517,000 | 0.21% | | | |
| | P1 | 150,628 | 0.02% | | | |
| | NR | 3,902,298 | 0.54% | | | |
| | WR | 18,347,149 | 2.54% | | | |
| Total corporate bonds | | 206,013,548 | 36.83% | | | |
| Mortgage bonds | | | | | | |
| | B3 | \$ 1,247,205 | 0.17% | | | |
| | WR | 1,822,619 | 0.26% | | | |
| Total mortgage bonds | | 3,069,824 | 0.43% | | | |
| Investment fund | | | | | | |
| | NR | 68,155,759 | 9.44% | | | |
| Total investment fund | | 68,155,759 | 9.44% | | | |
| Total corporate securities: | | | | | | |
| | | 374,426,267 | 51.85% | | | |
| Government sponsored enterprises - | | | | | | |
| | Aaa | 8,980,840 | 1.24% | | | |
| Foreign government securities- | | | | | | |
| Government bonds | | | | | | |
| | A2 | 57,386,672 | 7.95% | | | |
| | A3 | 2,730,654 | 0.38% | | | |
| | Aa1 | 2,240,399 | 0.31% | | | |
| | Aa2 | 2,365,339 | 0.33% | | | |
| | Aaa | 106,414,386 | 14.74% | | | |
| | Ba3 | 1,432,512 | 0.20% | | | |
| | Baa1 | 10,818,469 | 1.50% | | | |
| | NR | 10,882,676 | 1.51% | | | |
| Total foreign government securities: | | 194,261,708 | 26.90% | | | |
| United States government securities: | | | | | | |
| | P-1 | 4,990,250 | 0.69% | | | |
| | Aaa | 36,536,991 | 5.06% | | | |
| | Aaa | 16,517,818 | 2.29% | | | |
| Total U.S. government securities | | 58,045,060 | 8.04% | | | |
| Commingled | | | | | | |
| | NR | 85,465,708 | 11.97% | | | |
| Total credit risk debt securities | | 722,179,582 | 100.00% | | | |

4. Securities Lending

The Board has authorized the Group Trust and the System to enter into an agreement with JP Morgan Chase (JP Morgan) for the lending of certain of the Group Trust's and 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.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

During 2006 and 2005, JP Morgan lent, on behalf of the Group Trust and the System, securities held by JP Morgan as the Group Trust's and 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 2006 and 2005 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 2006 and 2005. Moreover, there were no losses during the 2006 and 2005 fiscal years resulting from a default of the borrower, JP Morgan indemnifies the Group Trust and System in respect of any loan related to any non-cash distribution and return of securities.

During 2006 and 2005, 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, 2006 and 2005, the Group Trust and the System had no credit risk exposure to borrowers. The market value of securities on loan and collateral held for the Group Trust were \$221,286,049 at December 31, 2006 and \$207,815,275 for the System at December 31, 2005.

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 the System as of December 31, 2005 and included in the Group Trust information as of December 31, 2006.

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 15 years as of January 1, 2007 compared to 20 years as of January 1, 2006.

The required contribution rate of the City, pursuant to an actuarial study effective January 1, 2007, consists of 18.78% of covered members' salaries to pay normal costs, increased by 7.07% of covered members' salaries to amortize its funding deficit over 15 years, increased by 1.65% 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.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

In 2006 and 2005, combined police officers, firefighters and City contributions represent approximately 8.5 % and 27.5%, 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 2006 and 2005, 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 26 through 28. 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 2006 and 2005, the Group Trust and 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 Group Trust and the System records the unrealized currency translation gain or loss based on the applicable forward exchange rates. Such matching existed at December 31, 2006 and 2005.

During 2006 and 2005, the Group Trust and the System recognized net realized losses on foreign currency forward contracts of \$1,964,102 and \$305,327, respectively. At December 31, 2006 and 2005, the Group Trust and the System had net unrealized loss on forward currency contracts reflected in the accompanying Group Trust summary information and the basic financial statements of approximately \$2,068,373 and \$1,714,801, respectively.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

7. **Obligation Under Reverse Repurchase Agreements**

State statutes permit the System to enter into reverse repurchase agreements. The credit exposure at year end 2006 and 2005 related to these agreements was \$35,710,000 and \$2,369,792 in the Group Trust and the System, respectively. 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 December 31, 2006 and 2005.

8. **Line of Credit**

The Group Trust has a credit agreement with a commercial bank which provides for a revolving line of credit bearing interest of 5.75% at December 31, 2006, payable quarterly and 4.7% at December 31, 2006, payable monthly. At December 31, 2006, the Group Trust had borrowed approximately \$204,460,000 related to the revolving credit line which provides for a maximum borrowing of \$234,000,000. The revolving credit line was opened in November 1, 2006, and expires on September 13, 2008. The interest rate is based on LIBOR plus 40 basis points. The Group Trust and the System also pays a quarterly fee on the unused portion of the 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. The System reimbursed the City for \$336,027 and \$418,863 related to the System's overall administrative costs during the years ended December 31, 2006 and 2005, respectively.

Investment related expenses for the years ended December 31, 2006 and 2005 also include \$12,622,475 and \$13,552,627, respectively, in asset management fees for the Group Trust and the System, respectively.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM**Notes to Basic Financial Statements, Continued****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, 2006 and 2005, aggregate contributions from active members of the System with less than five years of service were \$7,445,067 and \$7,635,685, respectively.

The Group Trust had outstanding investment commitments to various limited partnerships and international investment advisors of \$501,151,919 at December 31, 2006.

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

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 2006 and 2005, the System contributed \$225,638 and \$139,680, 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.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM**Notes to Basic Financial Statements, Continued****13. Risks and Uncertainties**

The Group Trust and the System invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the 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 28, and schedule of funding progress, page 27, 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 System's basic financial statements as of December 31, 2006 and 2005.

REQUIRED SUPPLEMENTAL INFORMATION

Schedule 1

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 (AVA) (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 |
| 1/1/2007 | 2,962 | 3,371 | 409 | 87.9 | 306 | 133.7 |

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 | | |
|------------------------------------|---|-----------------------------------|
| <u>Year ended December 31,</u> | <u>Annual required contribution</u> | <u>Percentage contributed</u> |
| 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% |
| 2006 | 91,653 | 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.

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, 2007 and 2006 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% to 9.64% in 2007 actuary report and range 4.3% to 10% in 2006 actuary report |
| 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 | 15 years in 2007 actuary report and 20 years in 2006 actuary report |
| 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. for 2006 and 2005 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, 2007 and 2006, and are not materially different from what they would have been had they been calculated on December 31, 2006 and 2005, 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.



INVESTMENTS



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

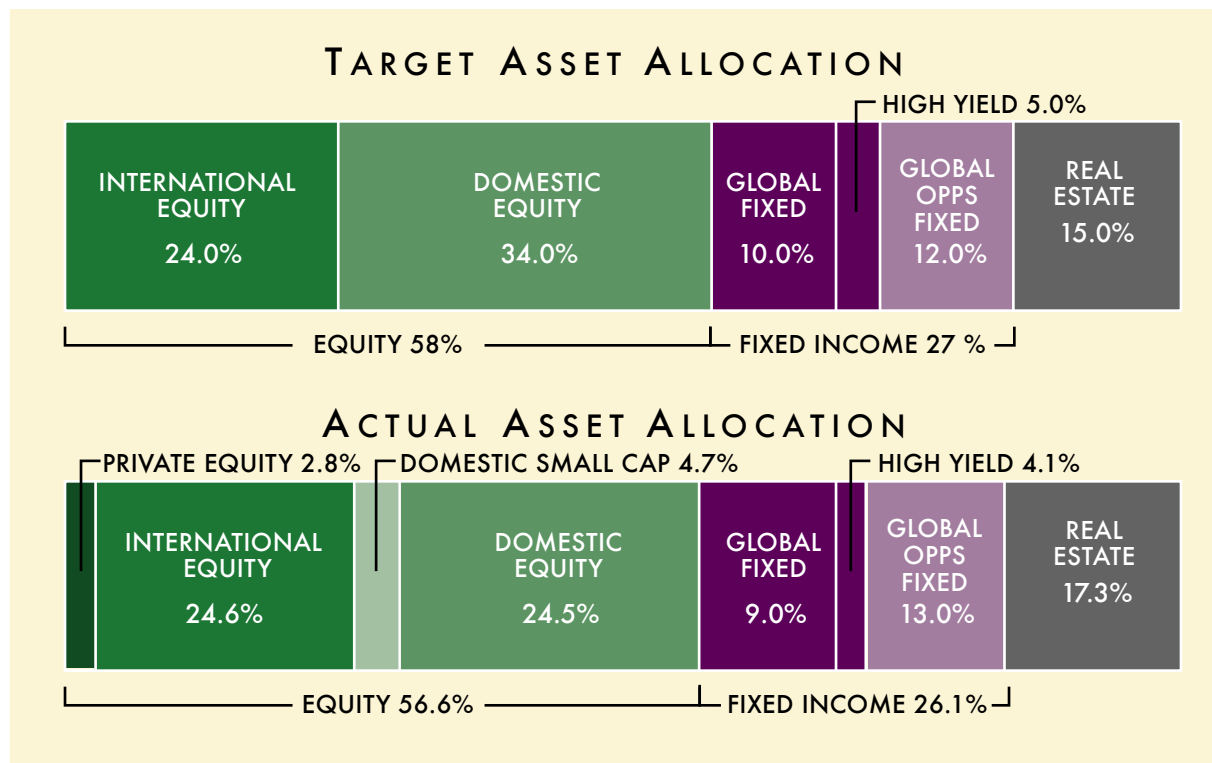
The general investment goals of the System are broad in nature to encompass the purpose of the System and its investments. They articulate the philosophy by which the Board will manage the System’s assets within the applicable regulatory constraints.

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:



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 \$386.2 million in 2006, resulting in a year-end total asset valuation of \$3.15 billion. The System had an excellent year returning 16.8% for the year 2006. 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, 2006

| INVESTMENT CATEGORY | RATE OF RETURN | BENCHMARK COMPARISON | |
|----------------------------|----------------|----------------------|-----------------------------|
| DOMESTIC EQUITY | 14.9% | 15.8% | S&P 500 INDEX |
| INTERNATIONAL EQUITY | 24.8% | 26.3% | EAFE INDEX |
| GLOBAL FUNDS | 7.3% | 6.7% | LEHMAN GLOBAL AGGREGATE |
| DOMESTIC HIGH YIELD BONDS | 7.6% | 11.9% | CITIGROUP COMP. HIGH YIELD |
| GLOBAL OPPORTUNISTIC FIXED | 23.9% | 11.1% | CUSTOM BOND INDEX |
| REAL ESTATE | 13.8% | 16.6% | NCREIF PROPERTY INDEX |
| CASH EQUIVALENT | 5.14% | 4.85% | 91-DAY TREASURY BILL |
| TOTAL PORTFOLIO | 16.8% | 8.5% | ACTUARIAL ASSUMPTION |

Investments are diversified among various asset classes, and the performance of each category is compared to a benchmark index. Diversification helped the System achieve superior return.

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 6% for the one year period, top 11% over three years, and top 4% over five years, for public funds using the Independent Consultants Cooperative Universe (ICC) data base.

Equity Portfolio

Large capitalization value stocks outperformed large capitalization growth stocks as measured by Russell. The Russell 1000 Value Index returned 22.2% versus the Russell 1000 Growth Index which returned 9.1%. Over the last five years, large value stocks tracked by Russell outperformed growth stocks on an annualized basis by 8.2%. The difference between small capitalization value and small capitalization growth was large as evidenced by Russell 2000 Value that returned 23.5% versus the Russell 2000 Growth that returned 13.4%. The S&P 500 Index returned 15.8% for the year.

The System's domestic equity portfolio represents approximately 29.2% of the total investment portfolio. The domestic equity composite for the System returned 14.9% in 2006.

T. Rowe Price, a US large Cap advisor, returned an impressive 16.6% for the year, outperforming the S&P 500 by 0.8%.

AllianceBernstein Institutional Investment Management, managing a deep value strategy for the System, returned an impressive 23.0% for the year. AllianceBernstein produced a three year annualized performance of 16.70% in an environment where the S&P 500 Index returned 10.4% over the same period on an annualized basis.

TOP TEN US HOLDINGS

| SECURITY DESCRIPTION | MARKET VALUE |
|--------------------------------|-----------------|
| AT&T INC | \$15,227,885.50 |
| CITIGROUP INC | \$14,027,815.00 |
| CHEVRON/TEXACO CORP | \$13,781,664.00 |
| BANK AMER CORP | \$13,141,876.45 |
| AMERICAN INTERNATIONAL GR INC. | \$12,381,304.00 |
| J P MORGAN CHASE & CO COM | \$11,424,510.00 |
| GENERAL ELECTRIC COMPANY | \$11,070,576.00 |
| EXXON MOBIL CORP COM | \$10,434,672.00 |
| MICROSOFT CORP | \$9,350,831.00 |
| WELLS FARGO + CO NEW | \$9,260,261.00 |

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 26.3% for the year in comparison to the S&P 500 Index that returned 15.8% for the year.

TOP TEN INTERNATIONAL HOLDINGS

| SECURITY DESCRIPTION | MARKET VALUE |
|--------------------------|-----------------|
| NESTLE SA CHF1(REGD) | \$13,393,697.78 |
| BG GROUP ORD GBP0.10 | \$12,539,009.52 |
| VODAFONE GROUP | \$12,336,547.81 |
| CREDITO ITALIANO | \$12,281,929.52 |
| ROCHE HOLDINGS AG | \$12,110,613.25 |
| STATOIL ASA NOK2.50 | \$11,107,057.24 |
| ROYAL BK SCOT GRP | \$10,931,111.34 |
| NINTENDO CO | \$10,481,153.08 |
| AXA | \$10,205,352.03 |
| ING GROEP NV CVA EURO.24 | \$10,141,868.06 |

The System's international equity portfolio represents approximately 24.6% of the total assets of the fund and returned 24.8% as a composite group in 2006. The System's international growth manager, Clay Finlay, returned 18.1% for the year. Pyramis Global Advisors Trust Company manages a risk controlled international equity portfolio and that portfolio returned 28.2% for the year. Pyramis' three year annualized performance of 21.4% outperformed the MSCI EAFE Index over the same period by 1.50%.

Fixed Income Portfolio

The System's fixed income investments represent approximately 26.1 % of the total portfolio. The System's fixed income portfolio is divided among three categories; Domestic High Yield, Global Quality, and Global Opportunistic.

The Domestic High Yield portfolio is approximately 4.1% of the total portfolio for the System. The System's high yield investment manager, W. R. Huff Asset Management, returned 7.6% for the year.

The Global Quality bond portfolio comprises approximately 9.0% of the total fund and returned a 7.3% for the year. Brandywine Asset Management returned 6.2% for the year which is in line with benchmark Lehman Global Aggregate benchmark.

The Global Opportunistic represents approximately 13% 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 17.3% for the year and exceeded their custom benchmark by 6.2% for the year. Loomis Sayles returned 13.0% annualized for the last three years and returned 16.30% annualized for the last five years. Loomis Sayles exceeded their custom benchmark for the three years annualized and five year annualized by 4.0% and 5.1% respectively. Highland Capital, one of the distressed debt managers in the Global Opportunistic category, returned an impressive 44.9% for the year.

TOP TEN FIXED INCOME HOLDINGS

| SECURITY DESCRIPTION | MARKET VALUE |
|--------------------------------|-----------------|
| WRH GLOBAL SECURITIES POOLED | \$12,994,966.76 |
| VIRGIN MEDIA INC | \$7,747,028.04 |
| TIME WARNER CABLE INC | \$3,551,073.86 |
| OWENS ILL INC | \$3,008,200.00 |
| CHESAPEAKE ENERGY CORP | \$1,948,964.25 |
| LUCENT TECH CAP TR 7.75% CV PR | \$1,879,750.00 |
| SIX FLAGS INC 7.25% CNV PRF | \$1,592,675.00 |
| FORD MOTOR CO CAPITAL TRUST II | \$1,504,387.50 |
| AES TRUST III 6.75% PRF CNV | \$1,316,640.25 |
| ADELPHIA CONTINGENT VALUE | \$1,009,162.72 |

Real Estate Portfolio

The real estate portfolio is approximately 17.3% of the entire market value of the investment portfolio. The gross return for the real estate portfolio in 2006 was 13.81%. The System's real estate portfolio returned 12.03%, 19.00%, 14.53%, and 12.14% annualized net of fees respectively for one year, three years, five years, and ten years periods.

The private real estate portfolio represents approximately 72.6% of the total real estate portfolio. The private real estate portfolio is 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, Washington, Nevada, Missouri, Florida, Massachusetts, and Texas.

The System had strong performance in the private real estate portfolio from L&B Realty Advisors returning 12.06% net of fees for 2006. In addition, CDK Realty Advisors returned 11.80% for the year. The private real estate portfolio performed well in the fourth quarter, boosting net annual returns to 7.50% for 2006. The performance history for the System's private real estate is impressive having returned net annualized numbers of 17.14%, 13.43%, and 13.57% respectively for three years, five years, and ten years ending 2006.

The public real estate portfolio consists of investments in Real Estate Investment Trusts (REITs) and totals approximately 9.9% of the System's real estate assets. The REIT portfolio managed by RREEF provided outstanding results with a return of 40.90% net of fees for the year 2006. Additionally, the three year annualized return was 28.44% and the five year annualized return was 25.53%.

The timber portfolio is managed by Forest Investment Associates and RMK Timberland Group. As of the year ending 2006, timber investments represented approximately 6.90% of the real estate assets and returned 9.25% net of fees. Further, Forest Investment Associates accounted for the majority of the timber returns because RMK Timberland Group acquired their first property during the fourth quarter, therefore had minimal impact on the portfolio. Longer term performance for the timber portfolio has provided 14.37%, 7.35%, and 8.69% for the three year, five year, and ten year period ending 2006.

The agricultural portfolio represents approximately of 10.6% 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 82% located in the United States and approximately 18% in Australia. The crops include apples, cranberries, almonds, pistachios, walnuts, macadamia nuts, and wine grapes.

The 2006 return for the agricultural investments was 25.45% net of fees. Hancock has produced annualized returns of 28.07% and 19.58% net of fees for the three year and five year period ending 2006.

INFLATION

Inflation as measured by the Consumer Price Index for all Urban Consumers (CPI-U) increased 2.50% for the year 2006 according to the U.S. Department of Labor.



ACTUARIAL REPORT



DALLAS POLICE AND FIRE PENSION SYSTEM
ACTUARIAL VALUATION
AS OF JANUARY 1, 2007



June 25, 2007

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, 2007

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, 2007.

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, 2007, the employer contribution rate for GASB 27 purposes needed in order to pay the normal cost and fund the Unfunded Actuarial Accrued Liability over 30 years is 25.85%. This amount is less than the 26.68% employer contribution rate calculated as of January 1, 2006. After reflecting the elimination of the Automatic Adjustment for Members hired after December 31, 2006, the current contribution rate covers the normal cost and the amortization of the Unfunded Actuarial Accrued Liability (UAAL) over 15 years.

14911 Quorum Drive, Suite 200 • Dallas, TX 75254-7534
972.628.6800 • 972.628.6801 (fax)

Benefit Provisions

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

Assumptions and Methods

The actuarial assumptions and methods used in the valuation are presented in Schedule C. The salary increase assumption was changed to a service-based table that better reflects the revised compensation package adopted by the city council in 2006. All other assumptions are consistent with 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, 2007 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

Dallas Police and Fire Pension System
 Actuarial Valuation - January 1, 2007

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Dallas Police and Fire Pension System
 Actuarial Valuation - January 1, 2007

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Dallas Police and Fire Pension System
 Actuarial Valuation - January 1, 2007

Section 1

Summary of Principal Results

| | January 1, 2007 | January 1, 2006 |
|--------------------------------------|------------------|------------------|
| Membership | | |
| Active | 4,739 | 4,648 |
| Terminated with deferred benefits | 158 | 141 |
| Retired members and beneficiaries | 3,198 | 3,121 |
| Compensation | | |
| Total | \$ 305,610,668 | \$ 294,986,390 |
| Average | \$ 64,488 | \$ 63,465 |
| Assets | | |
| Market value | \$ 3,131,265,222 | \$ 2,745,954,071 |
| Actuarial value | \$ 2,962,488,333 | \$ 2,700,136,105 |
| Valuation Results | | |
| Unfunded actuarial accrued liability | \$ 408,079,026 | \$ 582,084,793 |
| Funding period | 15 | 20 |
| GASB No. 25 | | |
| Actuarial accrued liability (AAL) | \$ 3,370,567,359 | \$ 3,282,220,898 |
| Assets (actuarial) | \$ 2,962,488,333 | \$ 2,700,136,105 |
| GASB ratio | 87.9% | 82.3% |
| Unfunded AAL | \$ 408,079,026 | \$ 582,084,793 |

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 15 years from 20 years. This decrease was primarily due to a gain on the actuarial value of assets and the less than expected pay increases during 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 by GASB 27 to pay the normal cost and to amortize the UAAL over a 30-year period. This rate is currently 25.85% compared with the City's actual contribution rate of 27.50% and with the 30-year funding cost in 2006 of 26.68%. Section 3 shows a reconciliation of the changes between the 2006 and 2007 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. After reflecting the elimination of the Automatic Adjustment for Members hired after December 31, 2006, the current contribution rate is sufficient to pay the normal cost and amortize the UAAL over 15 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 2006 and 2007.

GASB Statements

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

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Section 2
(continued)

Benefit Provisions

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

Actuarial Assumptions and Methods

The actuarial assumptions and methods used in the valuation are presented in Schedule C. The salary increase assumption was changed to a service-based table that better reflects the revised compensation package adopted by the city council in 2006. All other assumptions are consistent with 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

Initially, under GASB Statement No. 27, employers were required to determine a pension expense based on a 40-year amortization of the UAAL for fiscal years beginning after June 15, 1996. After the 10-year transition period, the required amortization period is now 30 years. The amortization can assume payroll growth due to inflation, but no membership growth. If the actual contribution rate is less than the rate required by GASB No. 27, the excess must be expensed. This will result in the employer showing an accrued but unpaid liability for pension benefits on its financial statements.

A City Contribution rate of 25.85% will be required for the City to avoid showing an accrued pension liability on its financial statements for the fiscal year beginning in 2007. 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 2006 and 2007 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

Benefit Provisions

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

Actuarial Assumptions and Methods

The actuarial assumptions and methods used in the valuation are presented in Schedule C. The salary increase assumption was changed to a service-based table that better reflects the revised compensation package adopted by the city council in 2006. All other assumptions are consistent with the last actuarial valuation.

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

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Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Section 2
(continued)

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 2007 valuation, 20% of the asset gain for 2006 and 40% of the asset gain for 2005 is reflected in the actuarial value of assets. The estimated rate of return for 2006 is 14.64% for the market value of assets, and 10.32% for the actuarial value of assets.

Membership Statistics

Data on active members and on retired members was supplied by the Administrator. Active membership and total payroll for active members both grew during the last year. The active membership increased from 4,648 members as of January 1, 2006 to 4,739 members as of January 1, 2007. The total active payroll increased from \$294,986,390 to \$305,610,668 over the same period, a 3.6% increase. Schedule A shows a summary of the membership data.

Experience

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

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Section 2
(continued)

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Experience

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Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Section 3

Actuarial Cost, Margin and Funding Period

| | <u>January 1, 2007</u> | <u>January 1, 2006</u> |
|---|------------------------|------------------------|
| 1. Covered Payroll | | |
| a. Active members excluding DROP | 213,880,363 | 212,052,320 |
| b. DROP members | <u>91,730,305</u> | <u>82,934,070</u> |
| c. Total | 305,610,668 | 294,986,390 |
| 2. Actuarial value of future pay | | |
| a. Active members excluding DROP | 1,635,073,500 | 1,490,851,870 |
| b. DROP members | <u>1,194,116,000</u> | <u>1,134,387,500</u> |
| c. Total | 2,829,189,500 | 2,625,239,370 |
| 3. Current contribution rates | | |
| a. City | 27.50% | 27.50% |
| b. Member | <u>8.50%</u> | <u>8.50%</u> |
| c. Total | 36.00% | 36.00% |
| 4. Actuarial present value of future benefits | 4,128,898,566 | 3,887,670,934 |
| 5. Actuarial present value of future normal costs | | |
| a. Total | 758,331,207 | 605,450,036 |
| b. Member (3b x 2a) | 138,981,250 | 126,722,409 |
| c. City (5a - 5b) | 619,349,957 | 478,727,627 |
| 6. Actuarial accrued liability (4 - 5a) | 3,370,567,359 | 3,282,220,898 |
| 7. Actuarial value of assets | 2,962,488,333 | 2,700,136,105 |
| 8. Unfunded actuarial accrued liability (UAAL) (6 - 7) | 408,079,026 | 582,084,793 |
| 9. Normal cost | | |
| a. Normal cost percentage (5a ÷ 2c) | 26.80% | 23.06% |
| b. Total normal cost (1c x 9a) | 81,903,659 | 68,023,862 |
| c. Member normal cost (1a x 3b) | 18,179,831 | 18,024,447 |
| d. City normal cost (9b - 9c) | 63,723,828 | 49,999,415 |
| e. City normal rate (9d ÷ [1c x (1.11 or 1.07)*]) | 18.78% | 15.84% |

* The non-computation pay is assumed to be 11% of total pay for 2007 and 7% for 2006.

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Section 3
(continued)

Actuarial Cost, Margin and Funding Period

| | <u>January 1, 2007</u> | <u>January 1, 2006</u> |
|---|------------------------|------------------------|
| 10. 30-year funding cost* | | |
| a. City normal cost rate** | 18.78% | 15.84% |
| b. Amortization rate | <u>7.07%</u> | <u>10.84%</u> |
| c. Total | 25.85% | 26.68% |
| 11. Margin over/(under) 30-year cost* (3a - 10c) | 1.65% | 0.82% |
| 12. Funding period to amortize UAAL | 15 | 20 |

* 30-year funding cost is necessary for accounting purposes only. The actual funding period is calculated each year based on level contributions and reflects the elimination of the Automatic Adjustment for Members hired after December 31, 2006. On this basis, the period is 15 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.

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Section 3
(continued)

Analysis of Change in UAAL

| | |
|---|---------------------|
| 1. UAAL as of January 1, 2006 | \$ 582,084,793 |
| 2. Changes due to: | |
| a. Expected increase (negative amortization) | \$ 10,313,660 |
| b. Actual contributions greater than expected | (3,332,604) |
| c. Liability experience | (53,883,152) |
| d. Asset experience | (48,952,374) |
| e. Assumption Change | <u>(78,151,297)</u> |
| f. Total changes | \$ (174,005,767) |
| 3. UAAL as of January 1, 2007 | \$ 408,079,026 |

Dallas Police and Fire Pension System
 Actuarial Valuation - January 1, 2007

Section 3
(continued)

Analysis of Change in Funding Cost

| | |
|--|-------------|
| 1. 30-year funding cost* as of January 1, 2006 | 26.68% |
| 2. Changes due to: | |
| a. Resetting of amortization from prior year | (0.23) |
| b. Actual contributions greater than expected | (0.06) |
| c. Liability experience | (0.78) |
| d. Asset experience | (0.87) |
| e. Assumption Change | <u>1.11</u> |
| f. Total | (0.83) |
| 3. 30-year funding cost* as of January 1, 2007 | 25.85% |

* 30-year funding cost is necessary for accounting purposes only. The actual funding period is calculated each year based on level contributions and reflects the elimination of the Automatic Adjustment for Members hired after December 31, 2006. On this basis, the period is 15 years.

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Section 3
(continued)

Analysis of Change in Funding Period

| | |
|---|------------|
| 1. Funding period as of January 1, 2006 | 20 |
| 2. Changes due to: | |
| a. Passage of time | (1) |
| b. Actual contributions greater than expected | 0 |
| c. Liability experience | (2) |
| d. Assumption Change | 0 |
| e. Asset experience | <u>(2)</u> |
| f. Total | (5) |
| 3. Funding period as of January 1, 2007 | 15 |

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Section 4

Historical Trend Information

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

| | Actuarial Value of <u>Assets</u> | Actuarial Accrued Liability (AAL) <u>Entry Age</u> | Unfunded AAL (UAAL) | Funded <u>Ratio</u> | Covered <u>Payroll</u> | UAAL as a Percentage of Covered <u>Payroll</u> |
|-----------------|--|--|---------------------------|------------------------|---------------------------|---|
| 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% |
| January 1, 2007 | 2,962 | 3,371 | 409 | 87.9% | 306 | 133.7% |

GASB #25 Schedule of Employer Contributions for Year Ending December 31, 2006

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

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Section 4
(continued)

Summary of Accumulated Benefits
(FASB #35)

Accumulated Benefits at January 1, 2007

| | | |
|--|--|--------------------|
| Vested benefits of participants and beneficiaries currently receiving payments | | \$ 1,518,240,160 |
| Other vested benefits | | 1,627,549,856 |
| Nonvested benefits | | <u>139,319,175</u> |
| Total benefits | | \$ 3,285,109,191 |

FASB #35 Reconciliation

| | | |
|--|---------------|--------------------|
| Accumulated benefits at January 1, 2006 | | \$ 3,091,236,305 |
| Benefits accumulated | \$ 59,734,327 | |
| Interest | 257,614,376 | |
| Benefits paid | (123,475,817) | |
| Assumption change | 0 | |
| Plan amendments | <u>0</u> | |
| Total Change | | <u>193,872,886</u> |
| Accumulated benefits at January 1, 2007 | | \$ 3,285,109,191 |

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Section 5

Reconciliation of Fund Assets

| | Year Ending December 31, 2006 |
|---------------------------------------|----------------------------------|
| 1. Value of fund at beginning of year | \$ 2,745,954,071 |
| 2. Contributions | |
| a. City | 90,319,320 |
| b. Member | <u>17,701,615</u> |
| c. Total | \$ 108,020,935 |
| 3. Benefit payments | (122,747,479) |
| 4. Refunds | (728,338) |
| 5. Earnings | 405,385,619 |
| 6. Expenses | (4,619,586) |
| 7. Value of assets at end of year | \$ 3,131,265,222 |
| 8. Estimated rate of return | 14.64% |

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Section 5
(continued)

Determination of Excess Earnings To Be Deferred

| | Year Ending December 31, 2006 |
|---|----------------------------------|
| 1. Market value at beginning of year* | \$ 2,745,954,071 |
| 2. Net new investments | |
| a. Contributions | \$ 108,020,935 |
| b. Benefit payments | (122,727,479) |
| c. Refunds | <u>(728,338)</u> |
| d. Total | \$ (15,454,882) |
| 3. Market value at end of year | \$ 3,131,265,222 |
| 4. Yield (3 - 1 - 2d) | \$ 400,766,033 |
| 5. Average balance [1 + ½ x (2d)] | 2,738,226,630 |
| 6. Assumed investment return rate | 8.50% |
| 7. Expected net return (5 x 6) | \$ 232,749,264 |
| 8. Gains/(losses) subject to deferral (4 - 7) | \$ 168,016,769 |

* The actual market value of assets as of December 31, 2005 are \$10,220,214 lower than those reported to us at the time last year's valuation was completed.

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Section 5
(continued)

Calculation of Actuarial Value of Assets

| | | | | | |
|----|---|-------------|--------------------------|-------------------------|------------------------|
| 1. | Market value of assets as of January 1, 2007 | | | \$3,131,265,222 | |
| 2. | Deferral amounts* | | | | |
| | | <u>Year</u> | <u>Total Gain/(Loss)</u> | <u>Percent Deferred</u> | <u>Deferral Amount</u> |
| a. | | 2006 | \$ 168,016,769 | 80% | \$ 134,413,415 |
| b. | | 2005 | 57,272,457 | 60% | 34,363,474 |
| c. | | N/A | N/A | 40% | N/A |
| d. | | N/A | N/A | 20% | N/A |
| e. | | Total | | | \$ 168,776,889 |
| 3. | Preliminary actuarial value of assets (1 - 2e) | | | 2,962,488,333 | |
| 4. | 80% of Market value | | | 2,505,012,178 | |
| 5. | 120% of Market value | | | 3,757,518,266 | |
| 6. | Actuarial value of assets (3, not less than 4 or more than 5) | | | 2,962,488,333 | |
| 7. | Rate of return on actuarial value of assets | | | 10.32% | |

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

Dallas Police and Fire Pension System
 Actuarial Valuation - January 1, 2007

Schedule A

Membership Data

| | <u>January 1, 2007</u> | <u>January 1, 2006</u> |
|------------------------------------|------------------------|------------------------|
| 1. Active members (excluding DROP) | | |
| a. Police and Fire | | |
| 1. Number | 3,658 | 3,592 |
| 2. Covered payroll | \$ 213,880,363 | \$ 212,052,320 |
| 3. Average annual pay | \$ 58,469 | \$ 59,035 |
| 4. Average age | 38.28 | 38.42 |
| 5. Average service (years) | 11.89 | 12.13 |
| b. Police | | |
| 1. Number | 2,499 | 2,416 |
| 2. Covered payroll | \$ 145,442,908 | \$ 142,031,361 |
| 3. Average annual pay | \$ 58,200 | \$ 58,788 |
| 4. Average age | 38.06 | 38.23 |
| 5. Average service (years) | 11.68 | 11.94 |
| c. Fire | | |
| 1. Number | 1,159 | 1,176 |
| 2. Covered payroll | \$ 68,437,455 | \$ 70,020,959 |
| 3. Average annual pay | \$ 59,049 | \$ 59,542 |
| 4. Average age | 3.876 | 38.81 |
| 5. Average service (years) | 12.35 | 12.52 |

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Schedule A
(continued)

Membership Data
(continued)

| | <u>January 1, 2007</u> | <u>January 1, 2006</u> |
|----------------------------------|------------------------|------------------------|
| 2. Active members (DROP only) | | |
| a. Police and Fire | | |
| 1. Number | 1,081 | 1,056 |
| 2. Covered payroll | \$ 91,730,305 | \$ 82,934,070 |
| 3. Average annual pay | \$ 84,857 | \$ 78,536 |
| 4. Average age | 54.48 | 54.34 |
| 5. Average total service (years) | 28.95 | 28.80 |
| 6. Average time in DROP (years) | 4.48 | 4.28 |
| 7. DROP account balance | \$ 264,694,334 | \$ 235,952,968 |
| b. Police | | |
| 1. Number | 557 | 556 |
| 2. Covered payroll | \$ 47,794,446 | \$ 43,549,770 |
| 3. Average annual pay | \$ 85,807 | \$ 78,327 |
| 4. Average age | 54.37 | 54.33 |
| 5. Average total service (years) | 28.53 | 28.48 |
| 6. Average time in DROP (years) | 4.26 | 4.15 |
| 7. DROP account balance | \$ 124,668,697 | \$ 116,441,681 |
| c. Fire | | |
| 1. Number | 524 | 500 |
| 2. Covered payroll | \$ 43,935,859 | \$ 39,384,300 |
| 3. Average annual pay | \$ 83,847 | \$ 78,769 |
| 4. Average age | 54.59 | 54.36 |
| 5. Average service (years) | 29.40 | 29.16 |
| 6. Average time in DROP (years) | 4.71 | 4.42 |
| 7. DROP account balance | \$ 140,025,637 | \$ 119,511,287 |

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Schedule A
(continued)

Membership Data
(continued)

| | <u>January 1, 2007</u> | <u>January 1, 2006</u> |
|------------------------------------|------------------------|------------------------|
| 3. Active members (including DROP) | | |
| a. Police and Fire | | |
| 1. Number | 4,739 | 4,648 |
| 2. Covered payroll | \$ 305,610,668 | \$ 294,986,390 |
| 3. Average annual pay | \$ 64,488 | \$ 63,465 |
| 4. Average age | 41.98 | 42.04 |
| 5. Average service (years) | 15.78 | 15.92 |
| 6. DROP account balance | \$ 264,694,334 | \$ 235,952,968 |
| b. Police | | |
| 1. Number | 3,056 | 2,972 |
| 2. Covered payroll | \$ 193,237,354 | \$ 185,581,131 |
| 3. Average annual pay | \$ 63,232 | \$ 62,443 |
| 4. Average age | 41.03 | 41.24 |
| 5. Average service (years) | 14.75 | 15.03 |
| 6. DROP account balance | \$ 124,668,697 | \$ 116,441,681 |
| c. Fire | | |
| 1. Number | 1,683 | 1,676 |
| 2. Covered payroll | \$ 112,373,314 | \$ 109,405,259 |
| 3. Average annual pay | \$ 66,770 | \$ 65,278 |
| 4. Average age | 43.69 | 43.45 |
| 5. Average service (years) | 17.66 | 17.48 |
| 6. DROP account balance | \$ 140,025,637 | \$ 119,511,287 |

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Schedule A
(continued)

Membership Data
(continued)

| | <u>January 1, 2007</u> | <u>January 1, 2006</u> |
|---|------------------------|------------------------|
| 4. Inactive members | | |
| a. Retired members | 2,380 | 2,380 |
| b. Beneficiaries | 818 | 741 |
| c. Number entitled to deferred benefits | <u>158</u> | <u>141</u> |
| d. Total number of inactive members | 3,356 | 3,262 |
| e. Total annual benefit | \$ 113,184,975 | \$ 107,482,545 |
| f. Average annual benefit | \$ 33,726 | \$ 32,950 |

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Schedule B

**Summary of Benefit Provisions
As of January 1, 2007
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.

Dallas Police and Fire Pension System
 Actuarial Valuation - January 1, 2007

Schedule B
(continued)

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

Contribution Rates

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

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

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

Service Retirement Benefits

Annual Normal Retirement Pension

Greater of I or II:

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

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

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Schedule B
(continued)

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 $\frac{2}{3}$ 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 $\frac{2}{3}$ 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).

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Schedule B
(continued)

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.

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Schedule B
(continued)

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

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Schedule B
(continued)

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.

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Schedule B
(continued)

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, 2007

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:

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

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

Service Retirement Benefits

Annual Normal Retirement Pension

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

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

Dallas Police and Fire Pension System
 Actuarial Valuation - January 1, 2007

Schedule B
(continued)

Early Retirement Pension

Condition for Retirement:

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

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

- b. 20 years of Pension Service

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

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

Special Rule for Members of former Old Plan or Plan A

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

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Schedule B
(continued)

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.

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Schedule B
(continued)

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

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Schedule B
(continued)

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.

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Schedule C

**Statement of Actuarial Methods and Assumptions
(Effective as of January 1, 2007)**

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

DROP balances are assumed to earn 9.00% per annum.

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

| Age | Annual Rate per 1,000 Members | | | | | | | |
|-----|-------------------------------|------|-----------------------|--------|-------------------|--------|------------|------|
| | Withdrawal | | Mortality - Disableds | | Mortality - Other | | Disability | |
| | Police | Fire | Male | Female | Male | Female | Police | Fire |
| 20 | 47.0 | 23.0 | 48.30 | 26.30 | .51 | .28 | .35 | .70 |
| 25 | 47.0 | 23.0 | 48.30 | 26.30 | .66 | .29 | .37 | .75 |
| 30 | 35.0 | 18.0 | 36.20 | 23.70 | .80 | .35 | .42 | .84 |
| 35 | 25.0 | 18.0 | 27.80 | 21.40 | .85 | .48 | .48 | .96 |
| 40 | 25.0 | 18.0 | 28.20 | 20.90 | 1.07 | .71 | .57 | 1.15 |
| 45 | 25.0 | 18.0 | 32.20 | 22.40 | 1.58 | .97 | .79 | 1.58 |
| 50 | NA | NA | 38.30 | 25.70 | 2.58 | 1.43 | NA | NA |
| 60 | NA | NA | 60.30 | 33.10 | 7.98 | 4.44 | NA | NA |
| 70 | NA | NA | 73.90 | 41.10 | 23.73 | 13.73 | NA | NA |
| 75 | NA | NA | 84.20 | 49.20 | 37.21 | 22.69 | NA | NA |

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

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Schedule C
(continued)

| Years of Service | Annual Rate of Salary Increase* |
|------------------|---------------------------------|
| 0 | 9.64% |
| 5 | 9.19 |
| 10 | 7.72 |
| 15 | 5.82 |
| 20 | 4.56 |
| 25 | 4.08 |
| 30 | 4.00 |

* Due to the revised compensation package adopted by the City Council in 2006, the inflationary component of this increase has been ignored for salary increases expected in 2007.

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

Overtime and other non-computation pay are assumed to be 11% of base pay. The city contributes on total pay including non-computation pay. This assumption is based on the revised compensation package adopted by the city council in 2006.

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

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

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

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Schedule C
(continued)

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

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

Dallas Police and Fire Pension System
 Actuarial Valuation - January 1, 2007

Schedule C
 (continued)

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.

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Schedule D

Comparison of Actual Experience and Actuarial Expectations

Demographic Assumptions

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

Terminations Prior to Retirement

This assumption was last changed as of January 1, 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, 2006 shows that during this period there have been about 19% more terminations than expected.

January 1, 2004 through December 31, 2006

| | <u>Actual</u> | <u>Expected</u> | <u>Actual/Expected</u> |
|---------------------------------|---------------|-----------------|------------------------|
| Termination Prior to Retirement | 268 | 226 | 119% |

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, 2002 through December 31, 2006 shows that during this period there have been about 8% more of disability retirements as expected. Since there is little difference between the assumed disability retirements and actual disability retirements, we do not feel that any change in this assumption is necessary at this time.

January 1, 2002 through December 31, 2006

| | <u>Actual</u> | <u>Expected</u> | <u>Actual/Expected</u> |
|------------------------|---------------|-----------------|------------------------|
| Disability Retirements | 13 | 12 | 108% |

Dallas Police and Fire Pension System
 Actuarial Valuation - January 1, 2007

Schedule D
(continued)

| 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, 2006 shows that during this period there have been about 15% less retirements than expected. | | | |
| January 1, 2004 through December 31, 2006 | | | |
| | <u>Actual</u> | <u>Expected</u> | <u>Actual/Expected</u> |
| Retirement | 339 | 401 | 85% |

| 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, 2002 through December 31, 2006 shows that during this period there have been the same number of deaths as expected. It is generally desirable to have some margin in this assumption for mortality improvement. If the actual and expected deaths remain close, this assumption should be changed. | | | |
| January 1, 2002 through December 31, 2006 | | | |
| | <u>Actual</u> | <u>Expected</u> | <u>Actual/Expected</u> |
| Death | 441 | 441 | 100% |

| 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, 2006 | | | |
| | <u>Actual</u> | <u>Expected</u> | <u>Actual/Expected</u> |
| Age at DROP | 50.0 | 50.0 | 100% |

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Schedule D
(continued)

Economic Assumptions

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

| Inflation | | | |
|---|---------------|-----------------|------------------------|
| The inflation assumption used to value the liabilities of the System is 4%. This assumption was last changed as of January 1, 1999 to better anticipate future expectations. The average annual inflation rate (as measured by CPI-U) over the 60 years ending December 31, 2006 has been 3.81%. 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, 1947 through December 31, 2006 | | | |
| | <u>Actual</u> | <u>Expected</u> | <u>Actual/Expected</u> |
| Inflation | 3.81% | 4.00% | 95% |

| Salary Increases | | | |
|--|---------------|-----------------|------------------------|
| The salary increase assumption used to value the liabilities of the System varies by the service of the Member. This assumption was last changed as of January 1, 2007 to reflect the expected change in future pay increases. 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, 2006 through December 31, 2006 follows. | | | |
| January 1, 2006 through December 31, 2006 | | | |
| | <u>Actual</u> | <u>Expected</u> | <u>Actual/Expected</u> |
| Valuation Compensation | \$293,570,071 | \$298,419,783 | 98% |

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Schedule D
(continued)

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, 2006 follows.

| <u>Period</u> | | | <u>Annualized Rate of Return</u> |
|---------------|---------|------------|----------------------------------|
| 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 |
| 1/1/2006 | through | 12/31/2006 | 14.64 |
| 10/1/1988 | through | 12/31/2006 | 10.80% |

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 10.14%. Last year's DROP interest rate was 9.75%. Therefore, the annual DROP interest rate for October 1, 2007 is 10.00%.

TABLE 1
 THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
 (excluding DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
 AS OF JANUARY 1, 2007

POLICE

| ATTAINED AGE | YEARS OF SERVICE | | | | | | | | | | | | | | | | | | | | | |
|--------------|------------------|----------|--------|----------|--------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|---------|----------|---|---|
| | Under 1 | | 1 to 4 | | 5 to 9 | | 10 to 14 | | 15 to 19 | | 20 to 24 | | 25 to 29 | | 30 to 34 | | 35 to 39 | | 40 & up | | | |
| | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | | |
| Under 25 | 70 | 40,638 | 44 | 42,117 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 25 to 29 | 103 | 40,605 | 174 | 44,856 | 63 | 49,599 | 3 | 45,448 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 30 to 34 | 32 | 40,554 | 111 | 45,406 | 225 | 51,762 | 42 | 57,348 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 35 to 39 | 12 | 40,703 | 70 | 45,373 | 125 | 52,739 | 178 | 59,898 | 148 | 66,109 | 2 | 61,037 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 40 to 44 | 7 | 40,326 | 27 | 46,656 | 34 | 53,035 | 85 | 61,017 | 309 | 67,811 | 96 | 73,315 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 45 to 49 | 1 | 39,606 | 9 | 48,139 | 16 | 53,129 | 30 | 60,595 | 134 | 68,413 | 202 | 73,618 | 95 | 74,603 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 50 to 54 | 2 | 43,456 | 1 | 76,303 | 2 | 44,412 | 4 | 63,862 | 16 | 66,817 | 6 | 72,250 | 10 | 73,564 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 55 to 59 | 0 | 0 | 2 | 70,224 | 1 | 51,677 | 0 | 0 | 6 | 69,391 | 0 | 0 | 0 | 0 | 1 | 86,661 | 0 | 0 | 0 | 0 | 0 | 0 |
| 60 to 64 | 0 | 0 | 1 | 48,481 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 65 to 69 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 70 & up | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

TABLE 1
 THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
 (excluding DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
 AS OF JANUARY 1, 2007

FIRE

| ATTAINED AGE | YEARS OF SERVICE | | | | | | | | | | | | | | | | | | | |
|--------------|------------------|----------|--------|----------|--------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|---------|----------|
| | Under 1 | | 1 to 4 | | 5 to 9 | | 10 to 14 | | 15 to 19 | | 20 to 24 | | 25 to 29 | | 30 to 34 | | 35 to 39 | | 40 & up | |
| | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp |
| Under 25 | 13 | 39,966 | 2 | 40,099 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 25 to 29 | 23 | 40,341 | 72 | 43,338 | 31 | 50,575 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 30 to 34 | 12 | 39,942 | 90 | 44,173 | 129 | 52,338 | 21 | 58,767 | 1 | 50,193 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 35 to 39 | 4 | 39,606 | 29 | 44,595 | 72 | 52,391 | 99 | 61,230 | 20 | 67,687 | 1 | 84,411 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 40 to 44 | 0 | 0 | 12 | 43,913 | 18 | 51,480 | 55 | 62,502 | 81 | 69,731 | 83 | 72,149 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 45 to 49 | 1 | 39,606 | 5 | 41,180 | 0 | 0 | 24 | 59,831 | 48 | 69,785 | 136 | 72,791 | 54 | 73,816 | 1 | 71,130 | 0 | 0 | 0 | 0 |
| 50 to 54 | 0 | 0 | 0 | 0 | 1 | 50,957 | 2 | 62,568 | 9 | 70,681 | 2 | 68,115 | 4 | 68,021 | 0 | 0 | 0 | 0 | 0 | 0 |
| 55 to 59 | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 66,631 | 0 | 0 | 1 | 65,502 | 0 | 0 | 1 | 72,016 | 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, 2007

POLICE AND FIRE

| ATTAINED AGE | YEARS OF SERVICE | | | | | | | | | | | | | | | | | | | | | |
|--------------|------------------|----------|--------|----------|--------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|---------|----------|---|---|
| | Under 1 | | 1 to 4 | | 5 to 9 | | 10 to 14 | | 15 to 19 | | 20 to 24 | | 25 to 29 | | 30 to 34 | | 35 to 39 | | 40 & up | | | |
| | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | | |
| Under 25 | 83 | 40,532 | 46 | 42,029 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 25 to 29 | 126 | 40,556 | 246 | 44,412 | 94 | 49,921 | 3 | 45,448 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 30 to 34 | 44 | 40,387 | 201 | 44,854 | 354 | 51,972 | 63 | 57,821 | 1 | 50,193 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 35 to 39 | 16 | 40,429 | 99 | 45,145 | 197 | 52,612 | 277 | 60,374 | 168 | 66,297 | 3 | 68,828 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 40 to 44 | 7 | 40,326 | 39 | 45,812 | 52 | 52,497 | 140 | 61,600 | 390 | 68,209 | 179 | 72,774 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 45 to 49 | 2 | 39,606 | 14 | 45,654 | 16 | 53,129 | 54 | 60,255 | 182 | 68,775 | 338 | 73,285 | 149 | 74,318 | 1 | 71,130 | 0 | 0 | 0 | 0 | 0 | 0 |
| 50 to 54 | 2 | 43,456 | 1 | 76,303 | 3 | 46,594 | 6 | 63,431 | 25 | 68,208 | 8 | 71,216 | 14 | 71,980 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 55 to 59 | 0 | 0 | 2 | 70,224 | 1 | 51,677 | 2 | 66,631 | 6 | 69,391 | 1 | 65,502 | 0 | 0 | 2 | 79,339 | 0 | 0 | 0 | 0 | 0 | 0 |
| 60 to 64 | 0 | 0 | 1 | 48,481 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 65 to 69 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 70 & up | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

TABLE 2
 THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
 (including DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
 AS OF JANUARY 1, 2007

POLICE

| ATTAINED AGE | YEARS OF SERVICE | | | | | | | | | | | | | | | | | | | |
|--------------|------------------|----------|--------|----------|--------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|---------|----------|
| | Under 1 | | 1 to 4 | | 5 to 9 | | 10 to 14 | | 15 to 19 | | 20 to 24 | | 25 to 29 | | 30 to 34 | | 35 to 39 | | 40 & up | |
| | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp |
| Under 25 | 70 | 40,638 | 44 | 42,117 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 25 to 29 | 103 | 40,605 | 174 | 44,856 | 63 | 49,599 | 3 | 45,448 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 30 to 34 | 32 | 40,554 | 111 | 45,406 | 225 | 51,762 | 42 | 57,348 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 35 to 39 | 12 | 40,703 | 70 | 45,373 | 125 | 52,739 | 178 | 59,898 | 148 | 66,109 | 2 | 61,037 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 40 to 44 | 7 | 40,326 | 27 | 46,656 | 34 | 53,035 | 85 | 61,017 | 309 | 67,811 | 97 | 73,428 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 45 to 49 | 1 | 39,606 | 9 | 48,139 | 16 | 53,129 | 30 | 60,595 | 134 | 68,413 | 216 | 73,985 | 113 | 76,547 | 1 | 73,787 | 0 | 0 | 0 | 0 |
| 50 to 54 | 2 | 43,456 | 1 | 76,303 | 2 | 44,412 | 5 | 63,778 | 36 | 77,219 | 66 | 84,672 | 145 | 86,919 | 81 | 89,470 | 7 | 79,886 | 0 | 0 |
| 55 to 59 | 0 | 0 | 2 | 70,224 | 1 | 51,677 | 0 | 0 | 20 | 74,837 | 21 | 85,291 | 37 | 82,605 | 67 | 85,294 | 43 | 81,229 | 1 | 67,687 |
| 60 to 64 | 0 | 0 | 1 | 48,481 | 0 | 0 | 0 | 0 | 2 | 75,393 | 4 | 77,831 | 6 | 83,655 | 4 | 80,550 | 16 | 86,927 | 2 | 74,548 |
| 65 to 69 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 71,395 | 0 | 0 | 1 | 120,145 | 0 | 0 | 1 | 84,335 |
| 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, 2007

FIRE

| ATTAINED AGE | YEARS OF SERVICE | | | | | | | | | | | | | | | | | | | |
|--------------|------------------|----------|--------|----------|--------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|---------|----------|
| | Under 1 | | 1 to 4 | | 5 to 9 | | 10 to 14 | | 15 to 19 | | 20 to 24 | | 25 to 29 | | 30 to 34 | | 35 to 39 | | 40 & up | |
| | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp |
| Under 25 | 13 | 39,966 | 2 | 40,099 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 25 to 29 | 23 | 40,341 | 72 | 43,338 | 31 | 50,575 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 30 to 34 | 12 | 39,942 | 90 | 44,173 | 129 | 52,338 | 21 | 58,767 | 1 | 50,193 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 35 to 39 | 4 | 39,606 | 29 | 44,595 | 72 | 52,391 | 99 | 61,230 | 20 | 67,687 | 1 | 84,411 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 40 to 44 | 0 | 0 | 12 | 43,913 | 18 | 51,480 | 55 | 62,502 | 81 | 69,731 | 86 | 72,367 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 45 to 49 | 1 | 39,606 | 5 | 41,180 | 1 | 39,606 | 24 | 59,831 | 48 | 69,785 | 164 | 73,606 | 65 | 74,468 | 1 | 71,130 | 0 | 0 | 0 | 0 |
| 50 to 54 | 0 | 0 | 0 | 0 | 1 | 50,957 | 2 | 62,568 | 20 | 75,961 | 55 | 84,034 | 120 | 83,235 | 58 | 88,363 | 8 | 81,159 | 0 | 0 |
| 55 to 59 | 0 | 0 | 0 | 0 | 1 | 58,000 | 3 | 71,864 | 2 | 65,574 | 8 | 74,299 | 56 | 84,879 | 94 | 79,842 | 37 | 86,126 | 0 | 0 |
| 60 to 64 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 66,912 | 12 | 87,503 | 14 | 84,209 | 7 | 110,128 |
| 65 to 69 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 79,823 |
| 70 & up | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 106,009 |

TABLE 2
 THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
 (including DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
 AS OF JANUARY 1, 2007

POLICE AND FIRE

| ATTAINED AGE | YEARS OF SERVICE | | | | | | | | | | | | | | | | | | | |
|-----------------|------------------|-------------|--------|-------------|--------|-------------|----------|-------------|----------|-------------|----------|-------------|----------|-------------|----------|-------------|----------|-------------|---------|-------------|
| | Under 1 | | 1 to 4 | | 5 to 9 | | 10 to 14 | | 15 to 19 | | 20 to 24 | | 25 to 29 | | 30 to 34 | | 35 to 39 | | 40 & up | |
| | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp |
| Under 25 | 83 | 40,532 | 46 | 42,029 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 25 to 29 | 126 | 40,556 | 246 | 44,412 | 94 | 49,921 | 3 | 45,448 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 30 to 34 | 44 | 40,387 | 201 | 44,854 | 354 | 51,972 | 63 | 57,821 | 1 | 50,193 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 35 to 39 | 16 | 40,429 | 99 | 45,145 | 197 | 52,612 | 277 | 60,374 | 168 | 66,297 | 3 | 68,828 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 40 to 44 | 7 | 40,326 | 39 | 45,812 | 52 | 52,497 | 140 | 61,600 | 390 | 68,209 | 183 | 72,929 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 45 to 49 | 2 | 39,606 | 14 | 45,654 | 17 | 52,333 | 54 | 60,255 | 182 | 68,775 | 380 | 73,821 | 178 | 75,788 | 2 | 72,459 | 0 | 0 | 0 | 0 |
| 50 to 54 | 2 | 43,456 | 1 | 76,303 | 3 | 46,594 | 7 | 63,432 | 56 | 76,770 | 121 | 84,382 | 265 | 85,251 | 139 | 89,008 | 15 | 80,565 | 0 | 0 |
| 55 to 59 | 0 | 0 | 2 | 70,224 | 2 | 54,839 | 3 | 71,864 | 22 | 73,995 | 29 | 82,259 | 93 | 83,974 | 161 | 82,111 | 80 | 83,494 | 1 | 67,687 |
| 60 to 64 | 0 | 0 | 1 | 48,481 | 0 | 0 | 0 | 0 | 2 | 75,393 | 4 | 77,831 | 8 | 79,470 | 16 | 85,765 | 30 | 85,659 | 9 | 102,221 |
| 65 to 69 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 71,395 | 0 | 0 | 1 | 120,145 | 0 | 0 | 3 | 81,327 |
| 70 & up | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 106,009 |

TABLE 3
 THE NUMBER AND ANNUAL RETIREMENT
 ALLOWANCE OF RETIRED MEMBERS
 BY AGE AS OF JANUARY 1, 2007

POLICE AND FIRE

| AGE | NUMBER | BENEFIT | AVERAGE BENEFIT |
|-----|--------|-----------|--------------------|
| 44 | 1 | \$ 31,178 | \$ 31,178 |
| 45 | 3 | 96,191 | 32,064 |
| 46 | 3 | 70,435 | 23,478 |
| 47 | 14 | 388,488 | 27,749 |
| 48 | 6 | 182,453 | 30,409 |
| 49 | 10 | 347,664 | 34,766 |
| 50 | 6 | 183,203 | 30,534 |
| 51 | 17 | 585,789 | 34,458 |
| 52 | 19 | 701,340 | 36,913 |
| 53 | 20 | 659,618 | 32,981 |
| 54 | 21 | 889,539 | 42,359 |
| 55 | 45 | 2,068,020 | 45,956 |
| 56 | 51 | 2,377,398 | 46,616 |
| 57 | 84 | 4,143,497 | 49,327 |
| 58 | 94 | 4,057,063 | 43,160 |
| 59 | 122 | 5,308,657 | 43,514 |
| 60 | 125 | 5,560,251 | 44,482 |
| 61 | 92 | 3,919,366 | 42,602 |
| 62 | 81 | 3,342,453 | 41,265 |
| 63 | 88 | 3,929,359 | 44,652 |
| 64 | 109 | 4,642,432 | 42,591 |
| 65 | 70 | 3,195,274 | 45,647 |
| 66 | 98 | 4,168,034 | 42,531 |
| 67 | 79 | 3,595,355 | 45,511 |
| 68 | 88 | 3,976,179 | 45,184 |
| 69 | 73 | 3,308,900 | 45,327 |
| 70 | 62 | 2,535,237 | 40,891 |
| 71 | 64 | 2,631,624 | 41,119 |
| 72 | 66 | 2,512,369 | 38,066 |
| 73 | 63 | 2,306,855 | 36,617 |
| 74 | 61 | 2,471,512 | 40,517 |
| 75 | 64 | 2,194,639 | 34,291 |
| 76 | 57 | 1,978,448 | 34,710 |
| 77 | 55 | 1,846,479 | 33,572 |

TABLE 3
 THE NUMBER AND ANNUAL RETIREMENT
 ALLOWANCE OF RETIRED MEMBERS
 BY AGE AS OF JANUARY 1, 2007
 CONTINUED

POLICE AND FIRE

| AGE | NUMBER | BENEFIT | AVERAGE BENEFIT |
|--------|--------|---------------|--------------------|
| 78 | 48 | \$ 1,679,645 | \$ 34,993 |
| 79 | 38 | 1,386,289 | 36,481 |
| 80 | 27 | 947,911 | 35,108 |
| 81 | 27 | 879,427 | 32,571 |
| 82 | 34 | 1,180,735 | 34,728 |
| 83 | 23 | 794,808 | 34,557 |
| 84 | 11 | 370,581 | 33,689 |
| 85 | 12 | 378,634 | 31,553 |
| 86 | 17 | 585,920 | 34,466 |
| 87 | 15 | 480,062 | 32,004 |
| 88 | 3 | 107,595 | 35,865 |
| 89 | 8 | 253,447 | 31,681 |
| 90 | 4 | 137,081 | 34,270 |
| 91 | 1 | 32,254 | 32,254 |
| 93 | 1 | 29,971 | 29,971 |
| 94 | 1 | 32,385 | 32,385 |
| 96 | 1 | 27,300 | 27,300 |
| TOTAL | 2,182 | \$ 89,509,344 | \$ 41,022 |
| POLICE | 1,283 | \$ 50,492,453 | \$ 39,355 |
| FIRE | 899 | \$ 39,016,891 | \$ 43,400 |

TABLE 4
 THE NUMBER AND ANNUAL RETIREMENT
 ALLOWANCE OF DISABLED MEMBERS
 BY AGE AS OF JANUARY 1, 2007

POLICE AND FIRE

| AGE | NUMBER | BENEFIT | AVERAGE BENEFIT |
|-----|--------|-----------|--------------------|
| 30 | 1 | \$ 26,464 | \$ 26,464 |
| 34 | 2 | 59,790 | 29,895 |
| 38 | 1 | 27,312 | 27,312 |
| 39 | 2 | 56,744 | 28,372 |
| 40 | 1 | 28,641 | 28,641 |
| 41 | 1 | 34,017 | 34,017 |
| 42 | 2 | 58,972 | 29,486 |
| 43 | 3 | 85,814 | 28,605 |
| 44 | 3 | 89,972 | 29,991 |
| 45 | 2 | 48,936 | 24,468 |
| 46 | 3 | 83,174 | 27,725 |
| 47 | 2 | 70,538 | 35,269 |
| 49 | 2 | 60,680 | 30,340 |
| 50 | 4 | 115,643 | 28,911 |
| 51 | 3 | 84,681 | 28,227 |
| 52 | 5 | 151,322 | 30,264 |
| 53 | 2 | 60,003 | 30,002 |
| 54 | 1 | 31,800 | 31,800 |
| 55 | 6 | 218,778 | 36,463 |
| 56 | 6 | 205,674 | 34,279 |
| 57 | 6 | 263,876 | 43,979 |
| 58 | 6 | 192,269 | 32,045 |
| 59 | 7 | 255,880 | 36,554 |
| 60 | 4 | 104,609 | 26,152 |
| 61 | 2 | 41,890 | 20,945 |
| 62 | 6 | 196,424 | 32,737 |
| 63 | 2 | 74,318 | 37,159 |
| 64 | 4 | 184,232 | 46,058 |
| 65 | 3 | 91,724 | 30,575 |
| 66 | 7 | 276,546 | 39,507 |
| 67 | 12 | 522,924 | 43,577 |
| 68 | 6 | 238,698 | 39,783 |
| 69 | 6 | 227,311 | 37,885 |
| 70 | 6 | 181,708 | 30,285 |

TABLE 4
 THE NUMBER AND ANNUAL RETIREMENT
 ALLOWANCE OF DISABLED MEMBERS
 BY AGE AS OF JANUARY 1, 2007
 CONTINUED

POLICE AND FIRE

| AGE | NUMBER | BENEFIT | AVERAGE BENEFIT |
|--------|--------|--------------|--------------------|
| 71 | 5 | \$ 197,383 | \$ 39,477 |
| 72 | 5 | 192,232 | 38,446 |
| 73 | 4 | 130,078 | 32,520 |
| 74 | 4 | 136,370 | 34,093 |
| 75 | 4 | 119,095 | 29,774 |
| 76 | 5 | 215,821 | 43,164 |
| 77 | 5 | 168,713 | 33,743 |
| 78 | 4 | 130,021 | 32,505 |
| 79 | 4 | 128,817 | 32,204 |
| 80 | 6 | 192,905 | 32,151 |
| 81 | 4 | 128,990 | 32,248 |
| 82 | 5 | 171,624 | 34,325 |
| 83 | 3 | 91,882 | 30,627 |
| 84 | 4 | 117,304 | 29,326 |
| 85 | 2 | 59,578 | 29,789 |
| 86 | 2 | 64,408 | 32,204 |
| 87 | 1 | 32,081 | 32,081 |
| 89 | 1 | 31,784 | 31,784 |
| 94 | 1 | 32,229 | 32,229 |
| TOTAL | 198 | \$ 6,792,679 | \$ 34,306 |
| POLICE | 74 | \$ 2,223,904 | \$ 30,053 |
| FIRE | 124 | \$ 4,568,775 | \$ 36,845 |

TABLE 5
 THE NUMBER AND ANNUAL RETIREMENT
 ALLOWANCE OF BENEFICIARIES
 BY AGE AS OF JANUARY 1, 2007

POLICE AND FIRE

| AGE | NUMBER | BENEFIT | AVERAGE BENEFIT |
|-----|--------|----------|--------------------|
| 3 | 1 | \$ 4,727 | \$ 4,727 |
| 6 | 2 | 21,004 | 10,502 |
| 7 | 3 | 22,083 | 7,361 |
| 8 | 4 | 30,916 | 7,729 |
| 9 | 4 | 23,205 | 5,801 |
| 10 | 6 | 36,584 | 6,097 |
| 12 | 4 | 34,581 | 8,645 |
| 13 | 2 | 31,145 | 15,573 |
| 14 | 4 | 26,457 | 6,614 |
| 15 | 5 | 57,876 | 11,575 |
| 16 | 3 | 66,266 | 22,089 |
| 17 | 6 | 104,510 | 17,418 |
| 18 | 4 | 64,207 | 16,052 |
| 19 | 2 | 13,213 | 6,607 |
| 23 | 1 | 13,200 | 13,200 |
| 33 | 2 | 29,191 | 14,596 |
| 35 | 3 | 48,878 | 16,293 |
| 36 | 1 | 14,923 | 14,923 |
| 37 | 3 | 35,548 | 11,849 |
| 38 | 1 | 14,936 | 14,936 |
| 39 | 3 | 46,791 | 15,597 |
| 40 | 2 | 27,600 | 13,800 |
| 41 | 1 | 14,400 | 14,400 |
| 42 | 3 | 47,145 | 15,715 |
| 44 | 1 | 37,488 | 37,488 |
| 45 | 3 | 57,865 | 19,288 |
| 46 | 5 | 68,804 | 13,761 |
| 47 | 6 | 102,003 | 17,001 |
| 48 | 5 | 94,519 | 18,904 |
| 49 | 4 | 69,633 | 17,408 |
| 50 | 3 | 47,029 | 15,676 |
| 51 | 6 | 91,183 | 15,197 |
| 52 | 11 | 201,569 | 18,324 |
| 53 | 9 | 184,774 | 20,530 |

TABLE 5
 THE NUMBER AND ANNUAL RETIREMENT
 ALLOWANCE OF BENEFICIARIES
 BY AGE AS OF JANUARY 1, 2007
 CONTINUED

POLICE AND FIRE

| AGE | NUMBER | BENEFIT | AVERAGE BENEFIT |
|-----|--------|-----------|--------------------|
| 54 | 6 | \$ 97,956 | \$ 16,326 |
| 55 | 11 | 211,663 | 19,242 |
| 56 | 11 | 220,725 | 20,066 |
| 57 | 13 | 224,692 | 17,284 |
| 58 | 19 | 362,092 | 19,057 |
| 59 | 14 | 308,495 | 22,035 |
| 60 | 23 | 446,099 | 19,396 |
| 61 | 18 | 330,531 | 18,363 |
| 62 | 11 | 191,077 | 17,371 |
| 63 | 18 | 375,762 | 20,876 |
| 64 | 16 | 330,655 | 20,666 |
| 65 | 18 | 352,611 | 19,590 |
| 66 | 17 | 264,984 | 15,587 |
| 67 | 30 | 640,495 | 21,350 |
| 68 | 20 | 443,169 | 22,158 |
| 69 | 17 | 462,648 | 27,215 |
| 70 | 17 | 375,686 | 22,099 |
| 71 | 24 | 479,047 | 19,960 |
| 72 | 20 | 366,984 | 18,349 |
| 73 | 18 | 298,147 | 16,564 |
| 74 | 25 | 415,891 | 16,636 |
| 75 | 18 | 372,247 | 20,680 |
| 76 | 25 | 419,508 | 16,780 |
| 77 | 23 | 387,486 | 16,847 |
| 78 | 31 | 621,659 | 20,054 |
| 79 | 23 | 387,743 | 16,858 |
| 80 | 29 | 517,120 | 17,832 |
| 81 | 18 | 322,412 | 17,912 |
| 82 | 28 | 463,447 | 16,552 |
| 83 | 22 | 397,341 | 18,061 |
| 84 | 15 | 280,384 | 18,692 |
| 85 | 19 | 339,098 | 17,847 |
| 86 | 9 | 147,319 | 16,369 |
| 87 | 14 | 227,808 | 16,272 |

TABLE 5
 THE NUMBER AND ANNUAL RETIREMENT
 ALLOWANCE OF BENEFICIARIES
 BY AGE AS OF JANUARY 1, 2007
 CONTINUED

POLICE AND FIRE

| AGE | NUMBER | BENEFIT | AVERAGE BENEFIT |
|--------|--------|---------------|--------------------|
| 88 | 15 | \$ 245,329 | \$ 16,355 |
| 89 | 9 | 144,519 | 16,058 |
| 90 | 9 | 146,834 | 16,315 |
| 91 | 6 | 140,199 | 23,367 |
| 92 | 6 | 98,729 | 16,455 |
| 93 | 1 | 16,593 | 16,593 |
| 94 | 3 | 48,426 | 16,142 |
| 95 | 3 | 49,731 | 16,577 |
| 96 | 1 | 16,581 | 16,581 |
| 97 | 1 | 16,593 | 16,593 |
| 98 | 1 | 16,593 | 16,593 |
| TOTAL | 818 | \$ 14,807,361 | \$ 18,102 |
| POLICE | 457 | \$ 8,005,901 | \$ 17,518 |
| FIRE | 361 | \$ 6,801,460 | \$ 18,841 |

TABLE 6

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS,
DISABLED MEMBERS AND BENEFICIARIES
BY AGE AS OF JANUARY 1, 2007

POLICE AND FIRE

| AGE | NUMBER | BENEFIT | AVERAGE BENEFIT |
|-----|--------|----------|--------------------|
| 3 | 1 | \$ 4,727 | \$ 4,727 |
| 6 | 2 | 21,004 | 10,502 |
| 7 | 3 | 22,083 | 7,361 |
| 8 | 4 | 30,916 | 7,729 |
| 9 | 4 | 23,205 | 5,801 |
| 10 | 6 | 36,584 | 6,097 |
| 12 | 4 | 34,581 | 8,645 |
| 13 | 2 | 31,145 | 15,573 |
| 14 | 4 | 26,457 | 6,614 |
| 15 | 5 | 57,876 | 11,575 |
| 16 | 3 | 66,266 | 22,089 |
| 17 | 6 | 104,510 | 17,418 |
| 18 | 4 | 64,207 | 16,052 |
| 19 | 2 | 13,213 | 6,607 |
| 23 | 1 | 13,200 | 13,200 |
| 30 | 1 | 26,464 | 26,464 |
| 33 | 2 | 29,191 | 14,596 |
| 34 | 2 | 59,790 | 29,895 |
| 35 | 3 | 48,878 | 16,293 |
| 36 | 1 | 14,923 | 14,923 |
| 37 | 3 | 35,548 | 11,849 |
| 38 | 2 | 42,248 | 21,124 |
| 39 | 5 | 103,535 | 20,707 |
| 40 | 3 | 56,241 | 18,747 |
| 41 | 2 | 48,417 | 24,209 |
| 42 | 5 | 106,117 | 21,223 |
| 43 | 3 | 85,814 | 28,605 |
| 44 | 5 | 158,638 | 31,728 |
| 45 | 8 | 202,992 | 25,374 |
| 46 | 11 | 222,413 | 20,219 |
| 47 | 22 | 561,029 | 25,501 |
| 48 | 11 | 276,972 | 25,179 |
| 49 | 16 | 477,977 | 29,874 |
| 50 | 13 | 345,875 | 26,606 |

TABLE 6
 THE NUMBER AND ANNUAL RETIREMENT
 ALLOWANCE OF RETIRED MEMBERS,
 DISABLED MEMBERS AND BENEFICIARIES
 BY AGE AS OF JANUARY 1, 2007
 CONTINUED

POLICE AND FIRE

| AGE | NUMBER | BENEFIT | AVERAGE BENEFIT |
|-----|--------|------------|--------------------|
| 51 | 26 | \$ 761,653 | \$ 29,294 |
| 52 | 35 | 1,054,231 | 30,121 |
| 53 | 31 | 904,395 | 29,174 |
| 54 | 28 | 1,019,295 | 36,403 |
| 55 | 62 | 2,498,461 | 40,298 |
| 56 | 68 | 2,803,797 | 41,232 |
| 57 | 103 | 4,632,065 | 44,972 |
| 58 | 119 | 4,611,424 | 38,751 |
| 59 | 143 | 5,873,032 | 41,070 |
| 60 | 152 | 6,110,959 | 40,204 |
| 61 | 112 | 4,291,787 | 38,320 |
| 62 | 98 | 3,729,954 | 38,061 |
| 63 | 108 | 4,379,439 | 40,550 |
| 64 | 129 | 5,157,319 | 39,979 |
| 65 | 91 | 3,639,609 | 39,996 |
| 66 | 122 | 4,709,564 | 38,603 |
| 67 | 121 | 4,758,774 | 39,329 |
| 68 | 114 | 4,658,046 | 40,860 |
| 69 | 96 | 3,998,859 | 41,655 |
| 70 | 85 | 3,092,631 | 36,384 |
| 71 | 93 | 3,308,054 | 35,570 |
| 72 | 91 | 3,071,585 | 33,754 |
| 73 | 85 | 2,735,080 | 32,177 |
| 74 | 90 | 3,023,773 | 33,597 |
| 75 | 86 | 2,685,981 | 31,232 |
| 76 | 87 | 2,613,777 | 30,043 |
| 77 | 83 | 2,402,678 | 28,948 |
| 78 | 83 | 2,431,325 | 29,293 |
| 79 | 65 | 1,902,849 | 29,275 |
| 80 | 62 | 1,657,936 | 26,741 |
| 81 | 49 | 1,330,829 | 27,160 |
| 82 | 67 | 1,815,806 | 27,102 |
| 83 | 48 | 1,284,031 | 26,751 |
| 84 | 30 | 768,269 | 25,609 |

TABLE 6

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS,
DISABLED MEMBERS AND BENEFICIARIES
BY AGE AS OF JANUARY 1, 2007
CONTINUED

POLICE AND FIRE

| AGE | NUMBER | BENEFIT | AVERAGE BENEFIT |
|--------|--------|----------------|--------------------|
| 85 | 33 | \$ 777,310 | \$ 23,555 |
| 86 | 28 | 797,647 | 28,487 |
| 87 | 30 | 739,951 | 24,665 |
| 88 | 18 | 352,924 | 19,607 |
| 89 | 18 | 429,750 | 23,875 |
| 90 | 13 | 283,915 | 21,840 |
| 91 | 7 | 172,453 | 24,636 |
| 92 | 6 | 98,729 | 16,455 |
| 93 | 2 | 46,564 | 23,282 |
| 94 | 5 | 113,040 | 22,608 |
| 95 | 3 | 49,731 | 16,577 |
| 96 | 2 | 43,881 | 21,941 |
| 97 | 1 | 16,593 | 16,593 |
| 98 | 1 | 16,593 | 16,593 |
| TOTAL | 3,198 | \$ 111,109,384 | \$ 34,743 |
| POLICE | 1,814 | \$ 60,722,258 | \$ 33,474 |
| FIRE | 1,384 | \$ 50,387,126 | \$ 36,407 |

TABLE 7

THE NUMBER AND FUTURE ANNUAL
ALLOWANCE OF TERMINATED MEMBERS
ENTITLED TO A FUTURE BENEFIT
BY AGE AS OF JANUARY 1, 2007

POLICE AND FIRE

| AGE | NUMBER | BENEFIT | AVERAGE BENEFIT |
|--------|--------|--------------|--------------------|
| 29 | 6 | \$ 20,614 | \$ 3,436 |
| 30 | 4 | 22,541 | 5,635 |
| 31 | 2 | 8,301 | 4,151 |
| 32 | 4 | 35,366 | 8,842 |
| 33 | 2 | 17,524 | 8,762 |
| 34 | 4 | 39,071 | 9,768 |
| 35 | 3 | 27,939 | 9,313 |
| 36 | 9 | 84,991 | 9,443 |
| 37 | 11 | 120,462 | 10,951 |
| 38 | 8 | 111,768 | 13,971 |
| 39 | 7 | 102,925 | 14,704 |
| 40 | 6 | 55,418 | 9,236 |
| 41 | 14 | 163,838 | 11,703 |
| 42 | 7 | 129,066 | 18,438 |
| 43 | 9 | 123,451 | 13,717 |
| 44 | 16 | 334,524 | 20,908 |
| 45 | 9 | 99,338 | 11,038 |
| 46 | 9 | 159,420 | 17,713 |
| 47 | 6 | 143,993 | 23,999 |
| 48 | 6 | 79,719 | 13,287 |
| 49 | 6 | 75,662 | 12,610 |
| 50 | 6 | 63,546 | 10,591 |
| 51 | 1 | 11,095 | 11,095 |
| 52 | 1 | 18,825 | 18,825 |
| 53 | 1 | 21,164 | 21,164 |
| 57 | 1 | 4,997 | 4,997 |
| TOTAL | 158 | \$ 2,075,558 | \$ 13,136 |
| POLICE | 129 | \$ 1,742,606 | \$ 13,509 |
| FIRE | 29 | \$ 332,952 | \$ 11,481 |

TABLE 8

THE NUMBER, ANNUAL RETIREMENT
ALLOWANCE AND ACCOUNT BALANCE
OF DROP MEMBERS
BY AGE AS OF JANUARY 1, 2007

POLICE AND FIRE
DROP

| AGE | NUMBER | BENEFIT | AVERAGE BENEFIT | ACCOUNT BALANCE | AVERAGE ACCOUNT BALANCE |
|--------|--------|---------------|--------------------|--------------------|-------------------------------|
| 42 | 2 | \$ 59,635 | \$ 29,818 | \$ 56,737 | \$ 28,369 |
| 43 | 1 | 28,254 | 28,254 | 38,609 | 38,609 |
| 44 | 1 | 28,172 | 28,172 | 45,916 | 45,916 |
| 45 | 1 | 25,500 | 25,500 | 28,073 | 28,073 |
| 46 | 4 | 102,078 | 25,520 | 257,352 | 64,338 |
| 47 | 6 | 180,911 | 30,152 | 430,508 | 71,751 |
| 48 | 16 | 737,013 | 46,063 | 301,092 | 18,818 |
| 49 | 31 | 1,380,732 | 44,540 | 1,127,842 | 36,382 |
| 50 | 68 | 3,340,434 | 49,124 | 3,137,496 | 46,140 |
| 51 | 97 | 4,861,114 | 50,115 | 6,288,118 | 64,826 |
| 52 | 121 | 6,102,542 | 50,434 | 14,376,280 | 118,812 |
| 53 | 105 | 5,288,714 | 50,369 | 17,390,809 | 165,627 |
| 54 | 116 | 6,171,017 | 53,198 | 26,928,925 | 232,146 |
| 55 | 127 | 6,510,138 | 51,261 | 35,511,161 | 279,615 |
| 56 | 93 | 4,304,263 | 46,282 | 27,940,797 | 300,439 |
| 57 | 82 | 3,773,905 | 46,023 | 29,494,008 | 359,683 |
| 58 | 57 | 2,454,787 | 43,066 | 22,143,350 | 388,480 |
| 59 | 58 | 2,444,223 | 42,142 | 25,908,972 | 446,706 |
| 60 | 38 | 1,472,852 | 38,759 | 17,273,535 | 454,567 |
| 61 | 20 | 897,960 | 44,898 | 11,229,731 | 561,487 |
| 62 | 12 | 566,253 | 47,188 | 7,894,954 | 657,913 |
| 63 | 11 | 455,554 | 41,414 | 6,897,983 | 627,089 |
| 64 | 8 | 349,264 | 43,658 | 5,582,836 | 697,855 |
| 66 | 2 | 80,105 | 40,053 | 1,845,036 | 922,518 |
| 67 | 2 | 42,718 | 21,359 | 681,836 | 340,918 |
| 69 | 1 | 56,258 | 56,258 | 1,219,641 | 1,219,641 |
| 71 | 1 | 87,302 | 87,302 | 662,745 | 662,745 |
| TOTAL | 1,081 | \$ 51,801,698 | \$ 47,920 | \$ 264,694,342 | \$ 244,861 |
| POLICE | 557 | \$ 26,558,531 | \$ 47,681 | \$ 124,668,707 | \$ 223,822 |
| FIRE | 524 | \$ 25,243,167 | \$ 48,174 | \$ 140,025,635 | \$ 267,224 |



STATISTICS

ACTIVE MEMBERSHIP OF THE SYSTEM (AS OF JANUARY 1, 2007) INCLUDING DROP

| YEARS OF SERVICE | POLICE | FIRE | TOTAL |
|------------------|--------|-------|-------|
| FEWER THAN FIVE | 666 | 263 | 929 |
| 5-9 | 466 | 253 | 719 |
| 10-14 | 343 | 204 | 547 |
| 15-19 | 649 | 172 | 821 |
| 20-24 | 407 | 314 | 721 |
| 25-29 | 301 | 243 | 544 |
| 30 AND OVER | 224 | 234 | 458 |
| TOTAL | 3,056 | 1,683 | 4,739 |

The chart above reports the number of Active Members by Department according to years of service. The average age for all Active Members is 41.98, 41.03 for Police Officers and 43.69 for Firefighters. The average service is 15.78 years, 14.75 years of service for Police Officers and 17.66 for Firefighters. There were 4,739 Active Members as of January 1, 2007.

CHANGES IN BENEFIT RECIPIENTS DURING 2006

| | POLICE | FIRE | TOTAL |
|------------------------------------|--------|------|-------|
| SERVICE PENSIONS GRANTED | 74 | 51 | 125 |
| 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 |

ACTUARIAL SUMMARY INFORMATION

| ACTUARIAL VALUATION | JANUARY 1, 2005 | JANUARY 1, 2006 | JANUARY 1, 2007 |
|------------------------------|-----------------|-----------------|-----------------|
| UAAL ¹ | \$589,053,564 | \$582,084,793 | \$408,079,026 |
| ACTUARIAL VALUE ² | \$2,484,994,949 | 2,700,136,105 | \$2,962,488,333 |
| MARKET VALUE ³ | \$2,484,994,949 | 2,745,954,071 | \$3,131,265,222 |
| AAL RATIO ⁴ | 80.80% | 82.30% | 87.90% |
| YEARS TO FUND ⁵ | 29 | 20 | 15 |

¹ Unfunded Actuarial Accrued Liability

² Actuarial Value of Assets

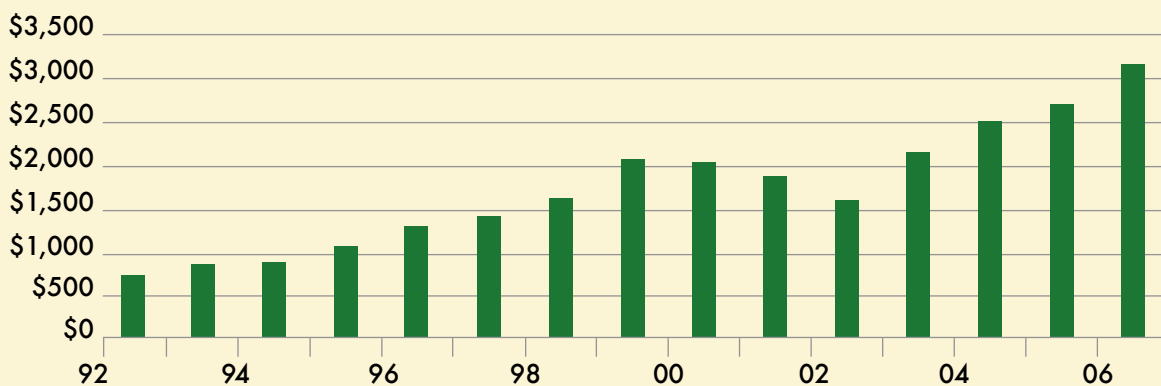
³ Market Value of Assets

⁴ Actuarial Accrued Liability (GASB 25)

⁵ Projected Years to Fund Level Funding (GASB 25)

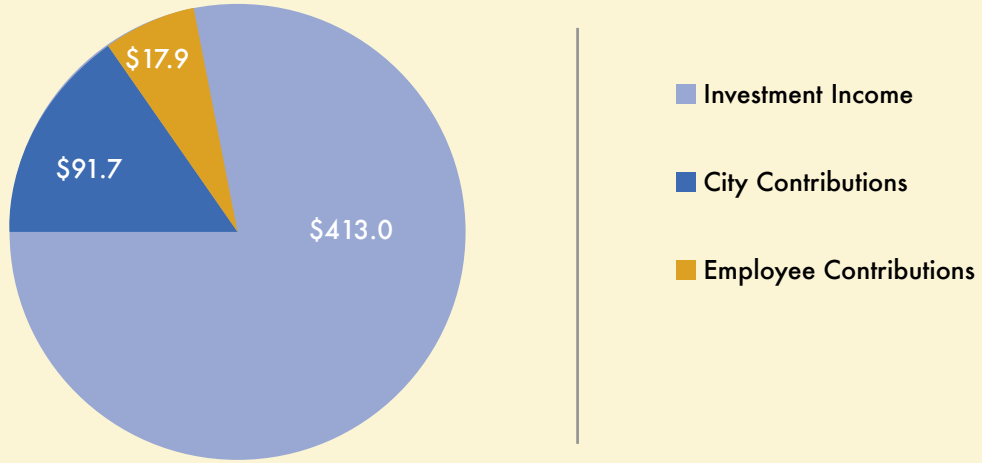
The above chart provides a summary of the principle results of actuarial valuations of the System over the last three years, demonstrating the funding progress made by the System over this period.

MARKET VALUE FISCAL YEARS 1992-2006 (MILLIONS)



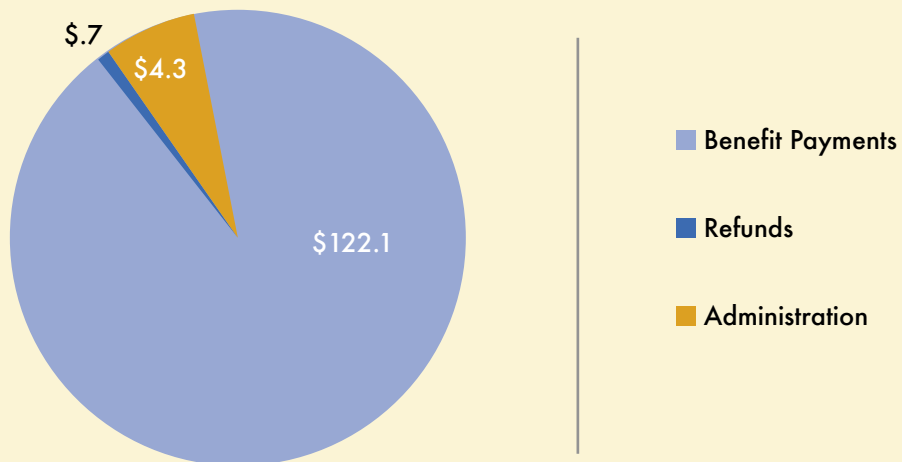
The graph above indicates the long-term growth in market value of the System's assets. The market value of System assets has grown from \$719 million in 1990 to over \$3.1 billion in 2006.

2006 REVENUES in Millions



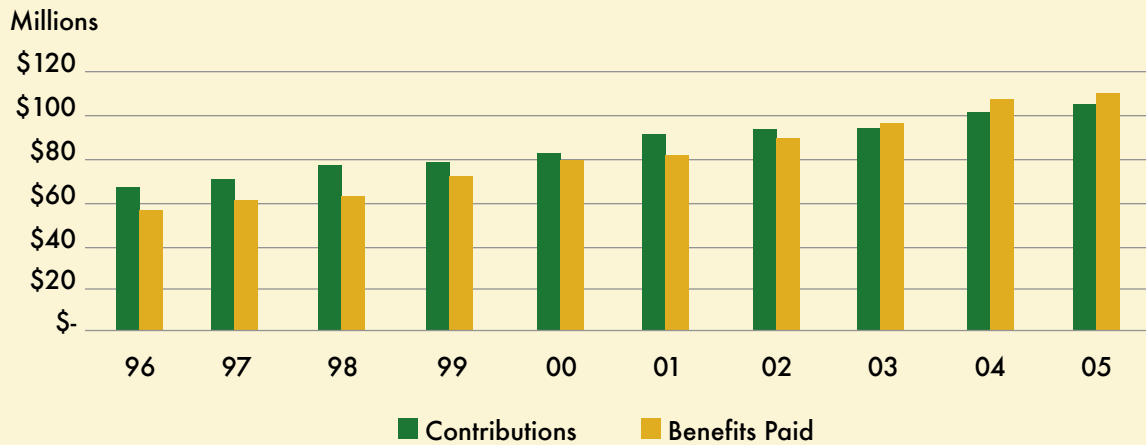
REVENUES TOTALED \$522.6 MILLION IN 2006

2006 EXPENSES in Millions



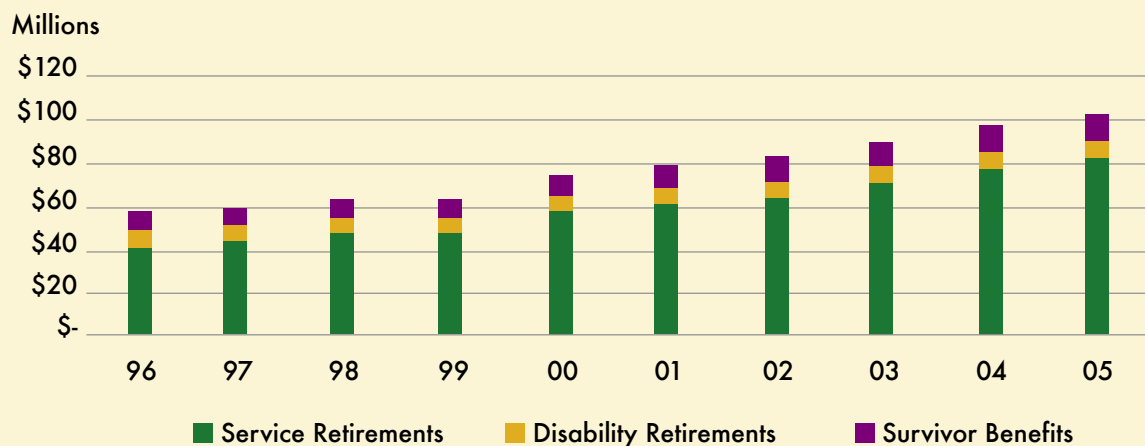
EXPENSES TOTALED \$127.1 MILLION IN 2006

CONTRIBUTIONS AND BENEFITS PAID 1997-2006

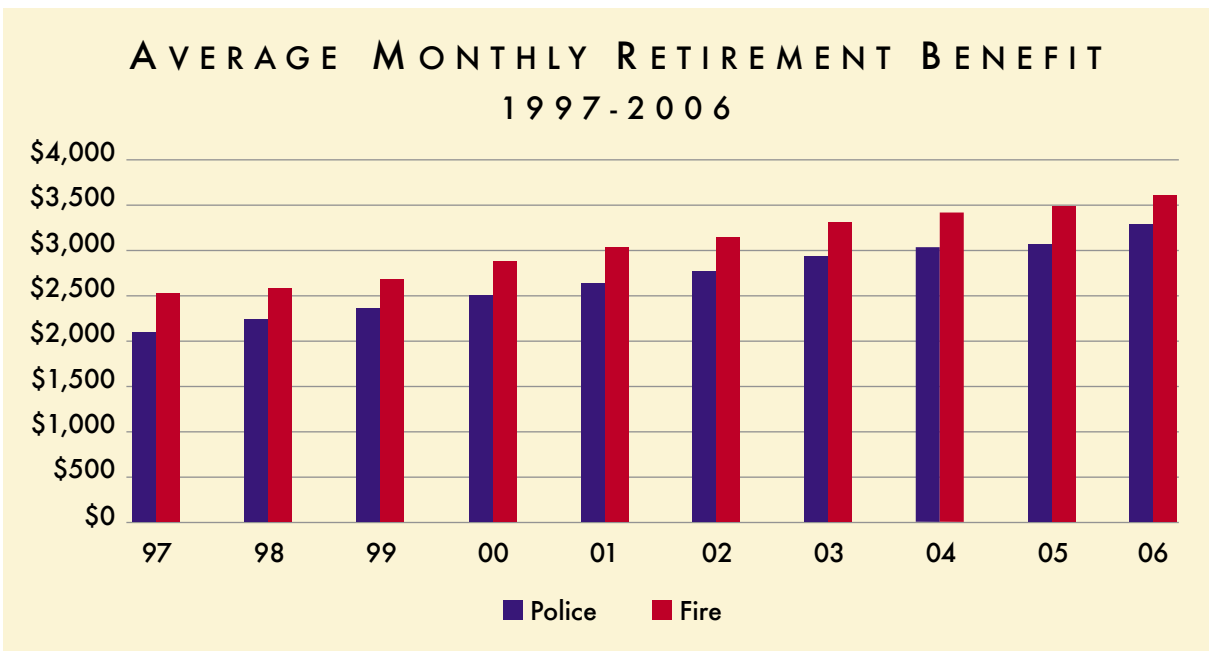


Total benefit payments have grown faster over the last ten years than contributions received. As is typical for a mature pension plan, investment income pays benefits not covered by contributions received.

TEN YEAR HISTORY OF BENEFIT PAYMENTS BY TYPE 1997-2006



Service retirement payments have increased sharply while disability survivor payments have increased only marginally.

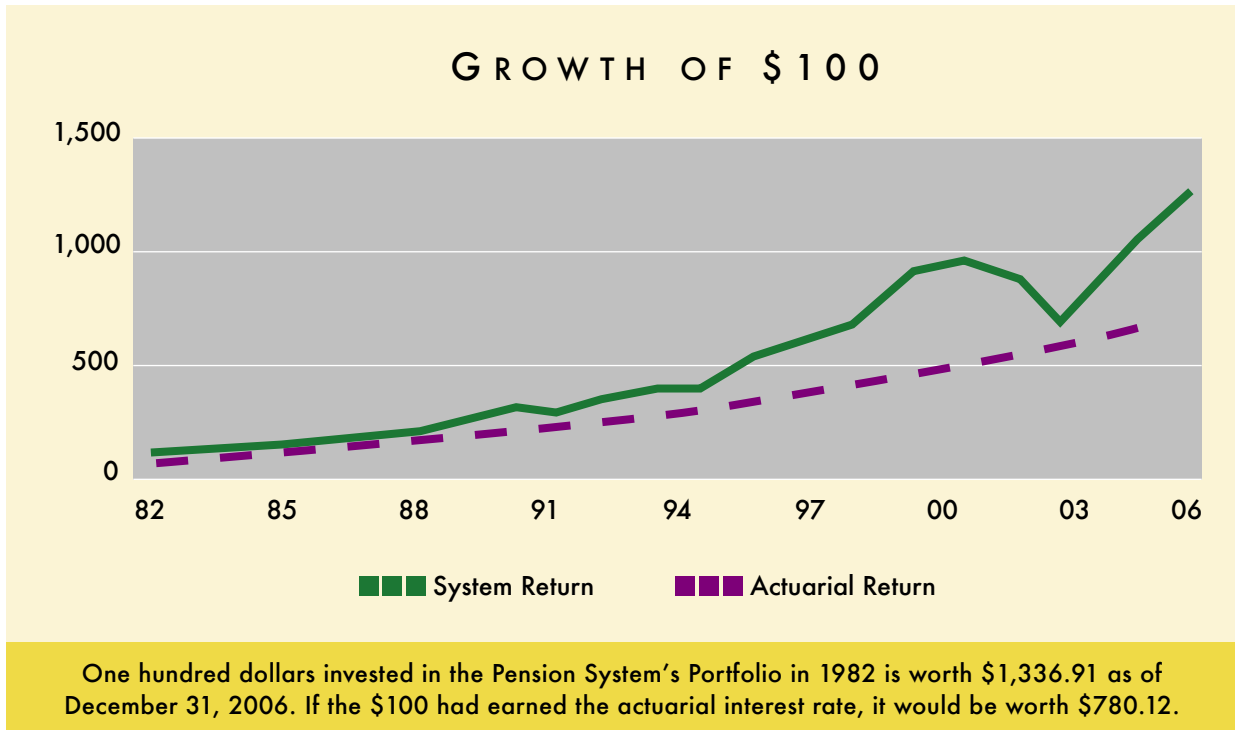


Benefit payments for both police and fire retired members have increased steadily over the last ten years.

EXAMPLES OF MONTHLY BENEFIT PAYMENTS BASED ON YEARS OF SERVICE AND FINAL AVERAGE COMPUTATION PAY

| | | YEARS OF PENSION SERVICE | | | | | |
|--------------------------|---------|--------------------------|---------|---------|---------|---------|---------|
| | | 5 | 10 | 15 | 20 | 25 | 30 |
| AVERAGE MONTHLY COMP PAY | \$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 | \$1,050 | \$3,150 | \$4,200 | \$5,250 | \$6,300 |

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





SUPPLEMENTAL PENSION PLAN



**DALLAS POLICE AND FIRE PENSION SYSTEM
SUPPLEMENTAL PLAN
ACTUARIAL VALUATION
AS OF JANUARY 1, 2007**



June 25, 2007

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

**Re: Dallas Police and Fire Pension System Supplemental Plan Actuarial Valuation as of
January 1, 2007**

Dear Mr. Tettamant:

We certify that the information contained in this report is accurate and fairly presents the actuarial position of the Dallas Police and Fire Pension System Supplemental Plan (the Plan) as of January 1, 2007.

Actuarial Valuation

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

Basis for Funding

The member contribution rates are established by statute. The City's contribution rate is intended to be sufficient to amortize the unfunded actuarial accrued liability over five years, including the normal cost. The contribution is also limited to be within \$100,000 of the previous year's contribution. However, in no event will the City's contribution be less than the amount necessary to satisfy GASB 27. For 2007, the contribution is \$1,340,414.

Funding Progress

As of January 1, 2007, the City's contribution rate needed in order to meet the funding goal is 154.79% of covered payroll. This amount is higher than the 140.13% employer rate calculated as of January 1, 2006. The current contribution rate of 154.79% of covered payroll covers the normal cost and the amortization of the Unfunded Actuarial Accrued Liability (UAAL).

14911 Quorum Drive, Suite 200 • Dallas, TX 75254-7534
972.628.6800 • 972.628.6801 (fax)



Mr. Richard Tettamant
June 25, 2007
Page 2

Benefit Provisions

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

Assumptions and Methods

The actuarial assumptions and methods used in the valuation are presented in Schedule C. The salary increase assumption was changed to a service-based table that better reflects the anticipated future salary increases. All other assumptions are consistent with 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, 2007, 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,

A handwritten signature in black ink, appearing to read "Richard A. Mackesey".

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

RAM:km
\\DPF\VAL\2007SPLAN.DOC

Enclosures

Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2007

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| Schedule C - Summary of Actuarial Methods and Assumptions | 16 |

Dallas Police and Fire Pension System Supplemental Plan
 Actuarial Valuation - January 1, 2007

Section 1

Summary of Principal Results

| | January 1, 2007 | January 1, 2006 |
|--|-----------------|-----------------|
| Membership | | |
| Active | 41 | 42 |
| Retired and terminated members and beneficiaries | 109 | 106 |
| Compensation | | |
| Total | \$ 865,975 | \$ 927,703 |
| Average | \$ 21,121 | \$ 22,088 |
| Assets | | |
| Market value | \$ 23,313,933* | \$ 19,960,748 |
| Valuation Results | | |
| Unfunded actuarial accrued liability (UAAL) | \$ 5,348,659 | \$ 6,409,421 |
| City's normal cost contribution | \$ 178,193 | \$ 187,872 |
| Funding Policy contribution | \$ 1,340,414 | \$ 1,300,000 |
| GASB No. 25 | | |
| Actuarial accrued liability (AAL) | \$ 28,662,592 | \$ 26,370,169 |
| Assets | \$ 23,313,933* | \$ 19,960,748 |
| GASB ratio | 81.3% | 75.7% |
| Unfunded AAL | \$ 5,348,933 | \$ 6,409,421 |

* Includes \$1,300,000 contribution for the 2006 plan year that was contributed in January 2007.

Comments on the Valuation

Overview

The current valuation indicates that a total contribution of \$1,340,414 should be contributed during 2007.

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

GASB Statements

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

Benefit Provisions

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

Actuarial Assumptions and Methods

The actuarial assumptions and methods used in the valuation are presented in Schedule C. The salary increase assumption was changed to a service-based table that better reflects the anticipated future salary increases. All other assumptions are consistent with the last actuarial valuation.

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

GASB Statement No. 27

Initially, under GASB Statement No. 27, employers were required to determine a pension expense based on a 40-year amortization of the UAAL for fiscal years beginning after June 15, 1996. After the 10-year transition period, the required amortization period is now 30 years. The amortization can assume payroll growth due to inflation, but no membership growth. 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 56.19% will be required for the City to avoid showing an accrued pension liability on its financial statements for the fiscal year beginning in 2007, 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. Additionally, the assets include the 2006 plan year contribution of \$1,300,000 that was contributed in January 2007.

Section 5 reconciles the Plan's assets between 2006 and 2007. The estimated rate of return for 2006 was 15.89%.

Membership Statistics

Data on active members and on retired members was supplied by the Administrator. The number of active members decreased over the last year. The active membership decreased from 42 members as of January 1, 2006, to 41 members as of January 1, 2007. The payroll decreased from January 1, 2006 to January 1, 2007 (\$927,703 for 2006 and \$865,975 for 2007). Schedule A shows a summary of the membership data.

Dallas Police and Fire Pension System Supplemental Plan
 Actuarial Valuation - January 1, 2007

Section 3

Actuarial Cost

| | <u>January 1, 2007</u> | <u>January 1, 2006</u> |
|--|------------------------|------------------------|
| 1. Covered Payroll | \$ 865,975 | \$ 927,703 |
| 2. Actuarial present value of future benefits | \$ 29,808,862 | \$ 27,604,587 |
| 3. Actuarial present value of future normal costs | \$ 1,146,270 | \$ 1,234,418 |
| 4. Actuarial accrued liability (2 - 3) | \$ 28,662,592 | \$ 26,370,169 |
| 5. Actuarial value of assets | \$ 23,313,933* | \$ 19,960,748 |
| 6. Unfunded actuarial accrued liability (UAAL) (4 - 5) | \$ 5,348,659 | \$ 6,409,421 |
| 7. City's normal cost contribution | \$ 178,193 | \$ 187,872 |
| 8. Funding Policy contribution | \$ 1,340,414 | \$ 1,300,000 |
| 9. Total contribution as a percentage of covered payroll (8 ÷ 1) | 154.79% | 140.13% |

* Includes \$1,300,000 contribution for the 2006 plan year that was contributed in January 2007.

Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2007

Section 3
(continued)

Analysis of Change in UAAL

| | |
|---|------------------|
| 1. UAAL as of January 1, 2006 | \$ 6,409,421 |
| 2. Changes due to: | |
| a. Expected decrease | \$ (661,858) |
| b. Actual contributions greater than expected | 0* |
| c. Liability experience | 1,232,315 |
| d. Asset experience | (1,481,849) |
| e. Assumption changes | <u>(149,370)</u> |
| f. Total Changes | \$ (1,060,762) |
| 3. UAAL as of January 1, 2007 | \$ 5,348,659* |

* Includes \$1,300,000 contribution for the 2006 plan year that was contributed in January 2007.

Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2007

Section 4

Historical Trend Information

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

| <u>Date</u> | <u>Actuarial Value of Assets</u> | <u>Actuarial Liability (AAL) Entry Age</u> | <u>Unfunded AAL (UAAL)</u> | <u>Funded Ratio</u> | <u>Covered Payroll</u> | <u>UAAL as a Percentage of Covered Payroll</u> |
|-----------------|--|--|------------------------------------|-------------------------|----------------------------|--|
| January 1, 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% |
| January 1, 2007 | 23.314 | 28.663 | 5.349 | 81.3% | 0.866 | 617.7% |

**GASB #25 Schedule of Employer Contributions
for Year Ending December 31, 2006**

| <u>Annual Required Contribution</u> | <u>Percentage Contributed</u> |
|---|-----------------------------------|
| \$1,300,000 | 100% |

Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2007

Section 4
(continued)

Summary of Accumulated Benefits
(FASB #35)

Accumulated Benefits at January 1, 2007

| | | |
|--|--|----------------|
| Vested benefits of participants and beneficiaries currently receiving payments | | \$ 21,148,086 |
| Other vested benefits | | 7,075,202 |
| Nonvested benefits | | <u>528,909</u> |
| Total benefits | | \$ 28,752,197 |

FASB #35 Reconciliation

| | | |
|---|-------------|---------------|
| Accumulated benefits at January 1, 2006 | | \$ 26,702,640 |
| Benefits accumulated and actuarial gains/losses | \$ 995,492 | |
| Interest | 2,221,135 | |
| Benefits paid | (1,167,070) | |
| Assumption changes | <u>0</u> | |
| Total change | | 2,049,557 |
| Accumulated benefits at January 1, 2007 | | \$ 28,752,197 |

Dallas Police and Fire Pension System Supplemental Plan
 Actuarial Valuation - January 1, 2007

Section 5

Reconciliation of Fund Assets

| | <u>Year Ending December 31, 2006</u> |
|---------------------------------------|--|
| 1. Value of fund at beginning of year | \$ 19,960,748 |
| 2. Contributions | |
| a. City | 1,300,000* |
| b. Member | <u>34,621</u> |
| c. Total | \$ 1,334,621 |
| 3. Benefit payments | (1,167,070) |
| 4. Refunds | 0 |
| 5. Earnings | 3,252,714 |
| 6. Expenses | (67,080) |
| 7. Value of assets at end of year | 23,313,933* |
| 8. Estimated rate of return | 15.89% |

* Contribution for the 2006 plan year that was contributed in January 2007.

Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2007

Schedule A

Membership Data

| | <u>January 1, 2007</u> | <u>January 1, 2006</u> |
|------------------------------------|------------------------|------------------------|
| 1. Active members (excluding DROP) | | |
| a. Number | 18 | 19 |
| b. Compensation | \$ 359,932 | \$ 297,807 |
| c. Average compensation | \$ 19,996 | \$ 15,674 |
| d. Average age | 47.00 | 46.37 |
| e. Average service (years) | 21.83 | 22.05 |
| 2. Active members (DROP only) | | |
| a. Number | 23 | 23 |
| b. Compensation | \$ 506,043 | \$ 629,896 |
| c. Average Compensation | \$ 22,002 | \$ 27,387 |
| d. Average age | 53.74 | 53.61 |
| e. Average total service | 30.35 | 28.61 |
| f. DROP account balance | \$ 1,422,068 | \$ 1,245,197 |
| 3. Inactive members | | |
| a. Number | 109 | 106 |
| b. Total annual benefit | \$ 1,510,941 | \$ 1,401,955 |
| c. Average annual benefit | \$ 13,862 | \$ 13,226 |

**Summary of Benefit Provisions
As of January 1, 2007
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.

Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2007

Schedule B
(continued)

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.

Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2007

Schedule B
(continued)

b. 20 years of Pension Service

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

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

Special Rule for Members of former Old Plan or Plan A

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

Disability Retirement Benefits

Service-Related Disability

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

Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2007

Schedule B
(continued)

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.

Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2007

Schedule B
(continued)

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

Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2007

Schedule B
(continued)

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.

Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2007

Schedule C

**Statement of Actuarial Methods and Assumptions
(Effective as of January 1, 2007)**

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

DROP balances are assumed to earn 9.00% per annum.

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

| Age | Annual Rate per 1,000 Members | | | | | | | |
|-----|-------------------------------|------|-----------------------|--------|-------------------|--------|------------|------|
| | Withdrawal | | Mortality - Disableds | | Mortality - Other | | Disability | |
| | Police | Fire | Male | Female | Male | Female | Police | Fire |
| 20 | 47.0 | 23.0 | 48.30 | 26.30 | .51 | .28 | .35 | .70 |
| 25 | 47.0 | 23.0 | 48.30 | 26.30 | .66 | .29 | .37 | .75 |
| 30 | 35.0 | 18.0 | 36.20 | 23.70 | .80 | .35 | .42 | .84 |
| 35 | 25.0 | 18.0 | 27.80 | 21.40 | .85 | .48 | .48 | .96 |
| 40 | 25.0 | 18.0 | 28.20 | 20.90 | 1.07 | .71 | .57 | 1.15 |
| 45 | 25.0 | 18.0 | 32.20 | 22.40 | 1.58 | .97 | .79 | 1.58 |
| 50 | NA | NA | 38.30 | 25.70 | 2.58 | 1.43 | NA | NA |
| 60 | NA | NA | 60.30 | 33.10 | 7.98 | 4.44 | NA | NA |
| 70 | NA | NA | 73.90 | 41.10 | 23.73 | 13.73 | NA | NA |
| 75 | NA | NA | 84.20 | 49.20 | 37.21 | 22.69 | NA | NA |

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

Dallas Police and Fire Pension System Supplemental Plan
 Actuarial Valuation - January 1, 2007

**Schedule C
 (continued)**

| Years of Service | Annual Rate of Salary Increase* |
|------------------|---------------------------------|
| 0 | 9.64% |
| 5 | 9.19 |
| 10 | 7.72 |
| 15 | 5.82 |
| 20 | 4.56 |
| 25 | 4.08 |
| 30 | 4.00 |

* Due to the revised compensation package adopted by the City Council in 2006, the inflationary component of this increase has been ignored for salary increases expected in 2007.

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

Overtime and other non-computation pay are assumed to be 11% of base pay. The city contribution rate is determined as a percentage of total pay. This assumption is based on the revised compensation package adopted by the city council in 2006.

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

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

Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2007

Schedule C
(continued)

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

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

DROP Election: Members are assumed to elect DROP at age 50 with five years. Any active members who satisfy this criteria and have not entered DROP are assumed to never join DROP.

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

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

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

**Financial Statements
and
Required Supplemental Information**

December 31, 2006 and 2005
(With Independent Auditors' Report Thereon)

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

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Member of the American Institute of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of plan net assets of the Supplemental Police and Fire Pension Plan of the City of Dallas (the Supplemental Plan) as of December 31, 2006 and 2005, 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, 2006 and 2005, 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 consisted 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.

April 28, 2008

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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 (the Supplemental Plan) financial position and performance provides an overview of the Supplemental Plan's financial activities for the fiscal year ended December 31, 2006 and 2005. The Supplemental Plan is a defined benefit pension plan under Section 401(a) of the Internal Revenue Code.

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

FINANCIAL STATEMENTS

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

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

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

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

CONDENSED FINANCIAL INFORMATION

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|---|---------------|-------------|-------------|
| Assets | \$ 21,169,910 | 19,960,276 | 18,883,128 |
| Liabilities | - | 207,969 | 162,974 |
| Net Assets Available for Benefits | 21,169,910 | 19,752,778 | 18,720,154 |
| Contributions | 1,333,399 | 1,229,869 | 1,130,145 |
| Investment Income | 1,402,176 | 1,080,964 | 1,743,013 |
| Benefit Payments | 1,251,364 | 1,232,776 | 1,046,124 |
| Administrative Expenses and Professional Fees | 67,080 | 45,432 | 56,884 |

FINANCIAL HIGHLIGHTS

- In 2006, the System initiated a program to co-invest the assets of the Supplemental Plan with Dallas Police and Fire Pension System (the System) assets. This program, called "unitization", was designed to simplify investment of all the assets under the control of the System and maximize the investment return of the Supplemental Plan by opening the Supplemental Plan to the economies of scale enjoyed by the System. The two plans are still maintained separately. Benefits and contributions are applied directly to each of the plans respectively and all general costs and investment income are allocated to each plan prorated to the amount of assets in each plan.
- The Supplemental Plan's net assets increased by \$1.4 million in 2006 to \$21.2 million. The Supplemental Plan's net assets increased by \$1.03 million in 2005 to \$19.9 million.
- The rate of return on Supplemental Plan investments for 2006 was 16.8% for the year, compared to an expected return (actuarial assumed investment rate of return) of 8.5%. The rate of return for 2005 was 4.66%.
- The Plan had no non-investment liabilities as of December 31, 2006, compared to \$207,969 in liabilities in of December 31, 2005. The difference in liabilities between the two years primarily is a result of a change in the methodology of recording assets under unitization. In the current method, investment liabilities are incorporated into the Group Trust and are reflected in total investment.
- The Supplemental Plan received employee contributions of \$33,399 in 2006 and \$29,869 in 2005. The Supplemental Plan had a receivable for employer contributions from the City of Dallas in the amount \$1.3 million for 2006. The funds were received in January 2007. The Supplemental Plan received employer contributions in the amount of \$1.2 million in 2005.
- The Supplemental Plan paid \$1,251,364 in service retirement, disability retirement and survivor benefits during 2006, compared to \$1,232,776 in 2005. No changes to benefit provisions were implemented during 2006 and 2005.
- The cost of administering the benefit programs of the Supplemental Plan, including administrative costs and professional fees, was \$67,080 compared to \$45,432 for 2005.
- The active membership of the Supplemental Plan decreased by one to 41 members as of the end of 2006. There were 42 active members in 2005. The number of retired, terminated vested and beneficiaries were 109 as of December 31, 2006 and 106 as of December 31, 2005.

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, 2007.

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 increased to 81% in 2006 compared to 6% in 2005.

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, 2007, the Supplemental Plan's UAAL was \$5,348,659, a decrease of \$1.06 million from a UAAL of \$6,409,421 as of January 1, 2006.

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 Supplemental Police and Fire Pension of the City of Dallas 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, 2006 and 2005**

| | <u>2006</u> | <u>2005</u> |
|--|-----------------------------|-----------------------------|
| <u>Assets</u> | | |
| Investments, at fair value (note 4): | | |
| Short-term investments | \$ | 76,237 |
| Commingled trust funds | | 19,884,039 |
| Plan interest in Group Master Trust, at fair value (note 4) | <u>19,869,445</u> | <u> </u> |
| Total investments | 19,869,445 | 19,960,276 |
| Accrued interest, dividends and employee contributions receivable | <u>1,300,465</u> | <u>472</u> |
| Total assets | 21,169,910 | 19,960,748 |
| <u>Liabilities and Plan Net Assets</u> | | |
| Administrative and benefit expenses payable | <u> </u> | <u>207,969</u> |
| Plan net assets held in trust for pension benefits (a schedule of funding progress is presented on page 26) | <u>\$ 21,169,910</u> | <u>19,752,779</u> |

See accompanying notes to basic financial statements.

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

**Statements of Changes in Plan Net Assets
Years Ended December 31, 2006 and 2005**

| | <u>2006</u> | <u>2005</u> |
|---|----------------------|-------------------|
| Additions: | | |
| Net investment income: | | |
| Net investment gain from the Group Master Trust | \$ 1,402,176 | |
| Interest and dividends | | 39,786 |
| Net appreciation in fair value of investments | | <u>1,041,178</u> |
| Total net investment income | <u>1,402,176</u> | <u>1,080,964</u> |
| Contributions: | | |
| Employer | 1,300,000 | 1,200,000 |
| Member | <u>33,399</u> | <u>29,869</u> |
| Total contributions | <u>1,333,399</u> | <u>1,229,869</u> |
| Total additions to plan net assets | <u>2,735,575</u> | <u>2,310,833</u> |
| Deductions: | | |
| Benefit payments | 1,251,364 | 1,232,776 |
| Administrative and professional fees | <u>67,080</u> | <u>45,432</u> |
| Total deductions from plan net assets | <u>1,318,444</u> | <u>1,278,208</u> |
| Net increase in plan net assets | 1,417,131 | 1,032,625 |
| Plan net assets held in trust for pension benefits: | | |
| Beginning of year | <u>19,752,779</u> | <u>18,720,154</u> |
| End of year | \$ <u>21,169,910</u> | <u>19,752,779</u> |

See accompanying notes to basic financial statements.

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

Notes to Basic Financial Statements
December 31, 2006 and 2005

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, 2006 and 2005, the Supplemental Plan membership consisted of:

| | <u>2006</u> | <u>2005</u> |
|---|-------------|-------------|
| Non-active members - pensioners and qualified survivors currently receiving benefits: | | |
| Firefighters | 45 | 44 |
| Police officers | <u>64</u> | <u>62</u> |
| Total non-active members | <u>109</u> | <u>106</u> |
| Current employees - vested: | | |
| Firefighters | 17 | 18 |
| Police officers | <u>24</u> | <u>24</u> |
| Total members | <u>41</u> | <u>42</u> |

In 1992, an amendment to Article 6243a-1 was approved by the Members of the Combined Pension 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 Pension 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 \$4,677,345 and \$3,798,715 for December 31, 2006 and 2005, respectively.

Continued

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

Pension benefits

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

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 Pension 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 Supplemental Plan, and one pensioner who has retired from the Police Department and one pensioner who has retired from the Fire Department and each are elected by pensioners from their respective departments.

Continued

**SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS****Notes to Basic Financial Statements, Continued**

Effective January 1, 2006, the Supplemental Plan's Board elected to establish a Group Master Trust (Group Trust) for investment unitization of the Supplemental Plan's investment and those of the Dallas Police and Fire Pension System (the System). The System's Board has investment oversight for the investment activities of the Group Trust.

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.

Basis of accounting

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

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

Reporting entity

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

Use of estimates

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

Continued

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

Cash and cash equivalents

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

Investments and Plan Interest in Group Trust

Beginning January 1, 2006, the Supplemental Plan's investments during 2006 were held in the Group Master Trust (Group Trust). JP Morgan Chase served as custodian for the year ended December 31, 2006. The fair value of the Supplemental Plan's interests in the Group Trust is based on the unitized interests that the Supplemental Plan has in the Group Trust. The Supplemental Plan's interest in the Group Trust was approximately 0.6309% at December 31, 2006. The allocation of income between the System and the Supplemental Plan is based on the number of units owned of the Group Trust. Benefits, contributions and administrative expenses are allocated to each plan directly.

Investments valuation and income recognition

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

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Short-term investments are government and corporate bonds with a maturity of less than one year 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. The Supplemental Plan's interest in the Group Master Trust is based on the fair value of the unitized interest held by the Supplemental Plan. The underlying investments included in the Group Master Trust are reported at fair value based on quoted market prices, when quoted market prices are not available, investment are based on independent appraisals and recent financial results, or if not established market then they are reported at their estimated fair values.

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

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

Continued

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

Notes to Basic Financial Statements, Continued

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.

Foreign currency transactions

The Group Trust and the Supplemental Plan are 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 Group Trust's and the Supplemental Plan's functional currency - United States dollars) are recorded by the Group Trust and the Supplemental Plan 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 Group Trust and the Supplemental Plan structure foreign exchange contracts and enter into certain transactions to substantially mitigate the Group Trust's and the Supplemental Plan's exposure to fluctuations in foreign exchange rates.

Investments and broker accounts denominated in foreign currencies outstanding at December 31, 2006 and 2005 were converted to the Group Trust's and the Supplemental Plan's functional currency (United States dollars) at the foreign exchange rates quoted at December 31, 2006 and 2005, respectively. 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.

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 Group Trust's and the Supplemental Plan's deposits may not be returned to it. The Group Trust's and the Supplemental Plan's deposits are held by the Custodian, JP Morgan Chase. As of December 31, 2006, the Group Trust had bank balances of \$1,082,459 that are in demand deposit accounts subject to coverage by Federal deposit insurance, but not collateralized. The Group Trust and the Supplemental Plan does not have a deposit policy for custodial credit risk; however, the Group Trust's and the Supplemental Plan's credit risk exposure is mitigated by the financial strength of the banking institution in which the deposits are held.

Continued

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

Notes to Basic Financial Statements, Continued

3. Investments and Plan Interest in Group Trust

The following disclosures on investments and plan interest in Group Master Trust are made for both the Group Master Trust as of and for the year ended December 31, 2006 and for the Supplemental Plan as of and for the year ended December 31, 2005.

The following summarizes the fair value of investments for the Group Trust as of December 31, 2006:

| | |
|--|-------------------------|
| Investments, at fair value (notes 2, 3 and 4): | |
| Cash and cash equivalents | \$ 270,728,342 |
| United States government securities | 58,045,060 |
| United States government sponsored enterprises | 8,980,840 |
| Foreign government securities | 194,261,708 |
| Commingled funds | 86,465,708 |
| Domestic equities | 1,103,204,010 |
| International equities | 741,591,982 |
| Corporate securities | 374,426,266 |
| Investments, at appraised value - real estate equity funds | <u>767,991,320</u> |
| Total investments | <u>3,605,695,236</u> |
| Receivables: | |
| Accrued interest and dividends | 13,467,610 |
| Forward currency contracts (note 6) | 79,787,702 |
| Securities sold | <u>51,559,052</u> |
| Total receivables | <u>144,814,364</u> |
| Total assets | <u>3,750,509,600</u> |
| <u>Liabilities and Net Assets</u> | |
| Repurchase loan agreement (note 7) | 35,710,000 |
| Payable for securities purchased | 56,554,065 |
| Professional fees payable | 2,920,525 |
| Forward currency contracts (note 6) | 79,787,702 |
| Securities lending collateral (note 4) | 221,296,049 |
| Line of credit (note 8) | <u>204,460,000</u> |
| Total liabilities | <u>600,718,341</u> |
| Net assets in the Group Trust | <u>\$ 3,149,791,259</u> |

Continued

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

Notes to Basic Financial Statements, Continued

The following summarizes the net change in the Group Trust for the year ended December 31, 2006:

| | |
|---|---------------------|
| Investment income: | |
| Interest | \$ 28,451,894 |
| Dividends | 30,426,918 |
| Real estate income | 19,095,242 |
| Net appreciation in fair value of investments | 353,315,991 |
| Securities lending income | 937,538 |
| Less investment expenses: | |
| Securities lending borrower rebates | |
| Custody fees | (420,106) |
| Investment services | <u>(17,363,973)</u> |
| Total investment income in Group Trust | <u>414,443,504</u> |

| | |
|---|-------------------------|
| Plan net assets held in trust for pension benefits: | |
| Beginning of year | - |
| Transfer of investments by the Supplemental Plan and the System | <u>2,735,347,755</u> |
| End of year | <u>\$ 3,149,791,259</u> |

The following is a break out of interest held in the Group Trust:

| | |
|--|-------------------------|
| Group Trust interest held by the System | \$ 3,129,921,814 |
| Group Trust interest held by the Supplement Plan | <u>21,169,910</u> |
| Total nets assets of Group Trust | <u>\$ 3,149,791,259</u> |

Portions of the Group Trust's and 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, limited partnerships, real estate trusts, and loans and mortgages are investments that are evidenced by contracts rather than securities.

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

Notes to Basic Financial Statements, Continued

The fair values of the Group Trust's investments at December 31, 2006 and the Supplemental Plan's investments at December 31, 2005 are presented by type, as follows:

| | Group Trust <u>2006</u> | Supplemental Plan <u>2005</u> |
|---|----------------------------|-------------------------------------|
| Cash and cash equivalents | \$ 270,728,342 | 76,237 |
| United States government securities | 58,045,060 | |
| U.S. government sponsored enterprises | 8,980,840 | |
| Foreign government securities | 194,261,708 | |
| Commingled funds | 86,465,708 | 19,884,039 |
| Domestic equities | 1,103,204,010 | |
| International equities | 741,591,982 | |
| Corporate securities | 374,426,266 | |
| Investments, at appraised value - real estate equity funds | <u>767,991,320</u> | <u> </u> |
| Total investments | \$ 3,605,695,236 | 19,960,276 |

The Board has contracted with investment managers to manage the investment portfolio of the Group Trust and the Supplemental Plan, subject to the policies and guidelines established by the System. 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.

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:

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

Notes to Basic Financial Statements, Continued

| | <u>Group Trust</u> <u>2006</u> | <u>Supplemental Plan</u> <u>2005</u> |
|--|-----------------------------------|---|
| | <u>Fair value</u> | <u>Fair value</u> |
| Investments greater than 5% of net assets, at quoted market value: | | |
| Securities lending - | | |
| Global Securities Lending | | |
| JP Morgan | 221,286,049 | |
| S&P 500 Index Commingled | | |
| Equity Trust Fund State Street | | |
| Global Advisors | | 7,970,790 |
| Commingled Bond Index | | |
| Trust Fund State Street | | |
| Global Advisors | | 7,824,464 |
| Commingled EAFE | | |
| Provisional Index Trust | | |
| Fund State Street | | |
| Global Advisors | <u> </u> | <u>4,088,785</u> |
| Total investments greater than 5% of net assets | 221,286,049 | 19,884,039 |
| Investments less than 5% of net assets: | | |
| At quoted market value | 2,616,417,867 | 76,237 |
| At appraised value | <u>767,991,320</u> | <u> </u> |
| Total investments | <u>\$ 3,605,695,236</u> | <u>19,960,276</u> |

Custodial credit risk

For an investment, custodial credit is the risk that, in the event of the failure of the counterparty, the Group Trust and the Supplemental Plan 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 Group Trust and the Supplemental Plan, and are held by either the counterparty or the counterparty's trust department or agent but not in the Group Trust's or the Supplemental Plan's name. At December 31, 2006 and 2005, the Group Trust's and the Supplemental Plan's security investments that were not subject to custodial credit risk were the investments in fixed income and equity investments.

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

Notes to Basic Financial Statements, Continued

Concentration of credit risk

The allocations of assets among various asset classes are set by the System Board with the objective of optimizing the investment return of the Group Trust and the Supplemental Plan 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 Group Trust and the Supplemental Plan will further diversify by employing investment managers who implement the strategies selected by the System Board.

Significant guidelines are as follows:

Public market investments

1. Specific guidelines are developed cooperatively by the System 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.

Continued

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

Notes to Basic Financial Statements, Continued

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:
 - 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 Group Trust and the Supplemental Plan 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.

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

Notes to Basic Financial Statements, Continued

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, 2006, the following tables show the Group Trust's investments by type, time-to-maturity, fair value, and foreign currency fluctuation:

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

Notes to Basic Financial Statements, Continued

The following tables provide information as of December 31, 2006, concerning the fair value of investments, interest rate risk, and foreign currency risk:

| <u>Type of investment</u> | <u>Less than 1 Year</u> | <u>1-5 Years</u> | <u>6-10 Years</u> | <u>More than 10 Years</u> | <u>Total Fair Value</u> |
|---|-----------------------------|---------------------------|---------------------------|-------------------------------|-----------------------------|
| Fixed maturity domestic: | | | | | |
| U.S. Treasury securities | \$ 9,668,599 | 8,526,780 | 3,312,690 | 36,536,991 | 58,045,060 |
| U.S. Government Agency Securities | | | | 8,980,840 | 8,980,840 |
| Corporate Securities: | | | | | |
| Asset backed securities | | | 4,120,107 | 1,217,354 | 5,337,461 |
| Collateralized mortgage obligation | | | 3,069,824 | | 3,069,824 |
| Corporate bonds | 5,331,009 | 43,796,474 | 96,088,901 | 84,576,598 | 229,792,982 |
| Commingled funds | | | | 86,465,708 | 86,465,708 |
| Convertible bonds | 1,911,000 | 25,770,975 | 2,090,737 | 2,076,962 | 31,849,674 |
| Investment interests | | | | <u>68,155,759</u> | <u>68,155,759</u> |
| Total fixed maturity domestic | <u>16,910,608</u> | <u>78,094,229</u> | <u>108,682,259</u> | <u>288,010,212</u> | <u>491,697,308</u> |
| International government bonds: | | | | | |
| Australian Dollar AUD | | 3,739,340 | 7,840,577 | | 11,579,917 |
| Argentina | | 1,363,229 | | | 1,363,229 |
| British Pound Sterling | | 5,738,851 | 11,737,218 | | 17,476,069 |
| Canadian dollar | | 8,617,075 | 2,240,399 | | 10,857,474 |
| EURO Currency | 2,250,611 | 34,689,933 | 5,031,530 | 10,191,794 | 52,163,868 |
| Japanese Yen | 14,090,758 | 8,704,649 | 13,226,971 | | 36,022,378 |
| Mexican New Peso | | 9,397,369 | 218,065 | 1,203,035 | 10,818,469 |
| New Zealand Dollar | | | 3,245,872 | | 3,245,872 |
| Poland | | 3,644,188 | 8,066,824 | 6,071,669 | 18,002,681 |
| Peru | | | 1,432,512 | | 1,432,512 |
| Singapore Dollar | 8,020,427 | 5,634,599 | | | 13,655,026 |
| South African Rand | | 3,750,625 | 3,455,376 | | 7,206,001 |
| Swedish Krona | | <u>10,438,212</u> | | | <u>10,438,212</u> |
| Total international government bonds | <u>24,361,796</u> | <u>95,918,070</u> | <u>56,515,344</u> | <u>17,466,498</u> | <u>194,261,708</u> |
| International corporate bonds: | | | | | |
| Australian Dollar | | | 1,356,499 | | 1,356,499 |
| British Pound Sterling | | 6,144,216 | 4,932,938 | | 11,077,152 |
| EURO Currency | 5,060,182 | 5,365,982 | 5,048,916 | 1,187,073 | 16,662,153 |
| Indonesian Rupiah | | 2,001,362 | | | 2,001,362 |
| Thai Bat | | <u>5,123,400</u> | | | <u>5,123,400</u> |
| Total international corporate bonds | <u>5,060,182</u> | <u>18,634,960</u> | <u>11,338,351</u> | <u>1,187,073</u> | <u>36,220,566</u> |
| Pooled international fixed maturity | <u>-</u> | <u>4,832,149</u> | <u>1,247,205</u> | <u>68,155,759</u> | <u>74,235,113</u> |
| Total international fixed maturity | <u>29,421,978</u> | <u>119,385,179</u> | <u>69,100,900</u> | <u>86,809,330</u> | <u>304,717,387</u> |
| Total fixed maturity | <u>\$ 46,332,586</u> | <u>192,647,259</u> | <u>176,535,964</u> | <u>308,663,783</u> | <u>722,179,582</u> |

Continued

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

Notes to Basic Financial Statements, Continued

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Group Trust does not have a formal policy limiting investment credit risk, but rather mandates such limits within the Investment Management Services Contract. The Group Trust's exposure to investment credit risk in fixed income securities as of December 31, 2006 is as follows:

| Type | Moody Rating | Amount | Percentage of Holdings | Moody Rating | Amount | Percentage of Holdings |
|---|--------------|--------------------|------------------------|--------------|--------|------------------------|
| Corporate securities: | | | | | | |
| Asset backed securities | | | | | | |
| | B2 | \$ 247,977 | 0.03% | | | |
| | Ba1 | 54,483 | 0.01% | | | |
| | Ba2 | 868,654 | 0.12% | | | |
| | Ba2 | 587,364 | 0.08% | | | |
| | WR | 3,578,983 | 0.50% | | | |
| | | <u>5,337,461</u> | 0.74% | | | |
| Total asset backed securities | | | | | | |
| Convertible bonds | | | | | | |
| | B2 | 429,463 | 0.06% | | | |
| | B3 | 1,427,063 | 0.20% | | | |
| | Ba2 | 915,800 | 0.13% | | | |
| | Caa2 | 2,821,138 | 0.39% | | | |
| | Caa3 | 1,728,350 | 0.24% | | | |
| | NR | 24,291,810 | 3.36% | | | |
| | WR | 236,250 | 0.03% | | | |
| | | <u>31,849,874</u> | 4.41% | | | |
| Total convertible bonds | | | | | | |
| Corporate bonds | | | | | | |
| | A1 | 1,782,581 | 0.24% | | | |
| | A2 | 4,575,496 | 0.63% | | | |
| | A3 | 2,484,853 | 0.34% | | | |
| | Aa1 | 6,023,899 | 0.83% | | | |
| | Aa3 | 2,370,726 | 0.33% | | | |
| | Aaa | 9,350,907 | 1.29% | | | |
| | B1 | 54,728,837 | 7.58% | | | |
| | B1e | 1,218,000 | 0.17% | | | |
| | B2 | 38,797,013 | 5.37% | | | |
| | B3 | 29,375,498 | 4.07% | | | |
| | B3e | 715,850 | 0.10% | | | |
| | Ba1 | 8,418,019 | 1.17% | | | |
| | Ba2 | 20,483,300 | 2.84% | | | |
| | Ba3 | 18,644,791 | 2.58% | | | |
| | Baa1 | 6,204,504 | 0.86% | | | |
| | Baa2 | 2,910,887 | 0.40% | | | |
| | Baa3 | 9,013,981 | 1.25% | | | |
| | Caa1 | 25,019,321 | 3.48% | | | |
| | Caa2 | 1,517,000 | 0.21% | | | |
| | P1 | 150,628 | 0.02% | | | |
| | NR | 3,902,298 | 0.54% | | | |
| | WR | <u>18,347,149</u> | 2.54% | | | |
| Total corporate bonds | | | | | | |
| | | <u>286,013,548</u> | 36.83% | | | |
| Mortgage bonds | | | | | | |
| | B3 | \$ 1,247,206 | 0.17% | | | |
| | WR | <u>1,822,619</u> | 0.25% | | | |
| | | <u>3,069,824</u> | 0.43% | | | |
| Total mortgage bonds | | | | | | |
| Investment fund | | | | | | |
| | NR | <u>98,155,759</u> | 9.44% | | | |
| Total investment fund | | | | | | |
| | | <u>98,155,759</u> | 9.44% | | | |
| Total corporate securities: | | | | | | |
| | | <u>374,428,287</u> | 51.86% | | | |
| Government sponsored enterprises - | | | | | | |
| | Aaa | 8,960,840 | 1.24% | | | |
| Foreign government securities- | | | | | | |
| Government bonds | | | | | | |
| | A2 | 57,388,872 | 7.96% | | | |
| | A3 | 2,730,854 | 0.38% | | | |
| | Aa1 | 2,240,399 | 0.31% | | | |
| | Aa2 | 2,355,339 | 0.33% | | | |
| | Aaa | 106,414,386 | 14.74% | | | |
| | Ba3 | 1,432,512 | 0.20% | | | |
| | Baa1 | 10,818,469 | 1.50% | | | |
| | NR | <u>10,892,876</u> | 1.51% | | | |
| | | <u>194,281,728</u> | 26.90% | | | |
| Total foreign government securities: | | | | | | |
| United States government securities: | | | | | | |
| | P-1 | 4,990,250 | 0.69% | | | |
| | Aaa | 38,536,991 | 5.08% | | | |
| | Aaa | <u>16,517,818</u> | 2.23% | | | |
| | | <u>59,045,060</u> | 8.04% | | | |
| Total U.S. government securities | | | | | | |
| Commingled | | | | | | |
| | NR | <u>88,685,708</u> | 11.97% | | | |
| Total credit risk debt securities | | | | | | |
| | | <u>722,179,582</u> | 100.00% | | | |

For the years ended December 31, 2006 and 2005, the Supplemental Plan's investments, including investments bought, sold, as well as held during the year, appreciated in value as follows:

| | 2006 | 2005 |
|--|------|------------------|
| Investments, at quoted market value: | | |
| S&P 500 Index Commingled Equity Trust Fund | \$ | 364,659 |
| Commingled Bond Index Trust Fund | | 180,003 |
| Commingled EAFE Provisional Index Trust Fund | | <u>496,516</u> |
| | \$ | <u>1,041,178</u> |

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

Notes to Basic Financial Statements, Continued

4. Securities Lending

The System Board has authorized the Group Trust and the System to enter into an agreement with JP Morgan Chase (JP Morgan) for the lending of certain of the Group Trust's and the Supplemental Plan'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 2006, JP Morgan lent, on behalf of the Group Trust and the Supplemental Plan, securities held by JP Morgan as the Group Trust's and the Supplemental Plan'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 System Board did not impose any restrictions during 2006 on the amount of the loans that JP Morgan made on its behalf. There were no failures by any borrowers to return the loaned securities or pay distributions thereon during the fiscal year 2006. Moreover, there were no losses during the 2006 fiscal year resulting from a default of the borrower, JP Morgan indemnifies the Group Trust in respect of any loan related to any non-cash distribution and return of securities.

During 2006, the System 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 System 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, 2006, the Group Trust and the Supplemental Plan had no credit risk exposure to borrowers. The market value of securities on loan and collateral held for the Group Trust were \$221,286,049 at December 31, 2006.

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 Group Trust information as of December 31, 2006.

Continued

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

Notes to Basic Financial Statements, Continued

5. Contributions Required and Contributions Made

Funding policy

The City is required by ordinance to contribute amounts, as determined by an actuary, necessary to maintain the Supplemental Plan. The City's contribution rate is intended to be sufficient to amortize the unfunded actuarial liability over five years as of January 1, 2007 and 2006. The contribution is also limited to be within \$100,000 the previous year's contribution.

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.

The required contribution rate of the City, pursuant to an actuarial study effective January 1, 2007, consists of 154.79% of covered members' salaries, increased by 10.46% of covered members' salaries of 140.13% as of January 1, 2006.

Historical trend information

Historical trend information is provided as supplemental information on pages 26 through 28. This information is intended to demonstrate progress the Supplemental Plan has made in accumulating sufficient assets to pay benefits when due and the related actuarial assumptions used in determining the actuarially determined amounts.

The Supplemental Plan'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.

Continued

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

Notes to Basic Financial Statements, Continued

6. Forward Contracts

During fiscal year 2006, the Group Trust 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 Group Trust records the unrealized currency translation gain or loss based on the applicable forward exchange rates. Such matching existed at December 31, 2006.

During 2006, the Group Trust recognized net realized losses on foreign currency forward contracts of \$1,964,102. At December 31, 2006, the Group Trust had net unrealized loss on forward currency contracts reflected in the accompanying Group Trust summary information and the basic financial statements of approximately \$2,068,373.

7. Obligation Under Reverse Repurchase Agreements

State statutes permit the Supplemental Plan to enter into reverse repurchase agreements. The credit exposure at year end 2006 related to these agreements was \$35,710,000 in the Group Trust. 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 December 31, 2006.

8. Line of Credit

The Group Trust has a credit agreement with a commercial bank which provides for a revolving line of credit bearing interest of 5.75% at December 31, 2006, payable quarterly. At December 31, 2006, the Group Trust had borrowed approximately \$204,460,000 related to the revolving credit line which provides for a maximum borrowing of \$234,000,000. The revolving credit line was opened in November 1, 2006, and expires on September 13, 2008. The interest rate is based on LIBOR plus 40 basis points. The Group Trust pays a quarterly fee on the unused portion of the line of credit.

9. 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.

Continued

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

Notes to Basic Financial Statements, Continued

10. Administrative Expenses

The Supplemental Plan's plan 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, \$67,080 and \$45,432 was reimbursed to the System by the Supplemental Plan during the years ended December 31, 2006 and 2005, respectively.

11. 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, 2006 and 2005, aggregate contributions from active members of the Supplemental Plan with less than five years of service were \$8,650 and \$8,112, respectively.

The Group Trust had outstanding investment commitments to various limited partnerships and international investment advisors of \$501,151,919 at December 31, 2006.

12. Risks and Uncertainties

The Group Trust and 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 contributions, page 27, and schedule of funding progress, page 28, 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, 2006 and 2005.

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) |
|--------------------------------|---|--|------------------------------------|--------------------------|---------------------------|--|
| 1/1/1998 | 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 |
| 1/1/2007 | 23,314 | 28,663 | 5,349 | 81 | 866 | 618 |

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.

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:

Schedule of Contributions

| <u>Year ended December 31,</u> | <u>Annual required contribution</u> | <u>Percentage contributed</u> |
|------------------------------------|---|-----------------------------------|
| 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 % |
| 2006 | 1,300,000 | 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.

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 accompanying schedules of required supplemental information were determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation date of January 1, 2007 and 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 4.00% to 9.6% per 2007 actuary report and range 4.3% to 10% per 2006 actuary report |
| 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 | 5 years in 2007 and 2006 |
| DROP account returns | 9% per annum |
| Post retirement marketing | 1994 Group Annuity Mortality Table |

- * 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 11% of base pay per the 2007 actuary report and 7% of base pay per the 2006 actuary report.

The actuarial information presented was determined by the actuarial firm Buck Consultants, Inc. for 2006 and 2005 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, 2007 and 2006, and are not materially different from what they would have been had they been calculated on December 31, 2006 and 2005, 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.

