



# 2007 ANNUAL REPORT



DALLAS  
POLICE & FIRE  
PENSION SYSTEM



SERVING THOSE WHO PROTECT  
THE DALLAS COMMUNITY

# 2007 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 = 4,909

Benefit Recipients = 3,294

Terminated Vested = 182

Total Participants = 8,385

### Service Retirements Added

Police = 73

Fire = 62

Total = 135

### Disability Retirements Added

Police = 1

Fire = 2

Total = 3

System Assets at Market Value = \$3,353,339,769

Benefits Paid =\* \$131,626,059

Member Contributions (Net of Refunds) = \$17,001,310

City Contributions = \$97,762,335

\*Includes DROP Distributions







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

for the Year Ending December 31, 2007

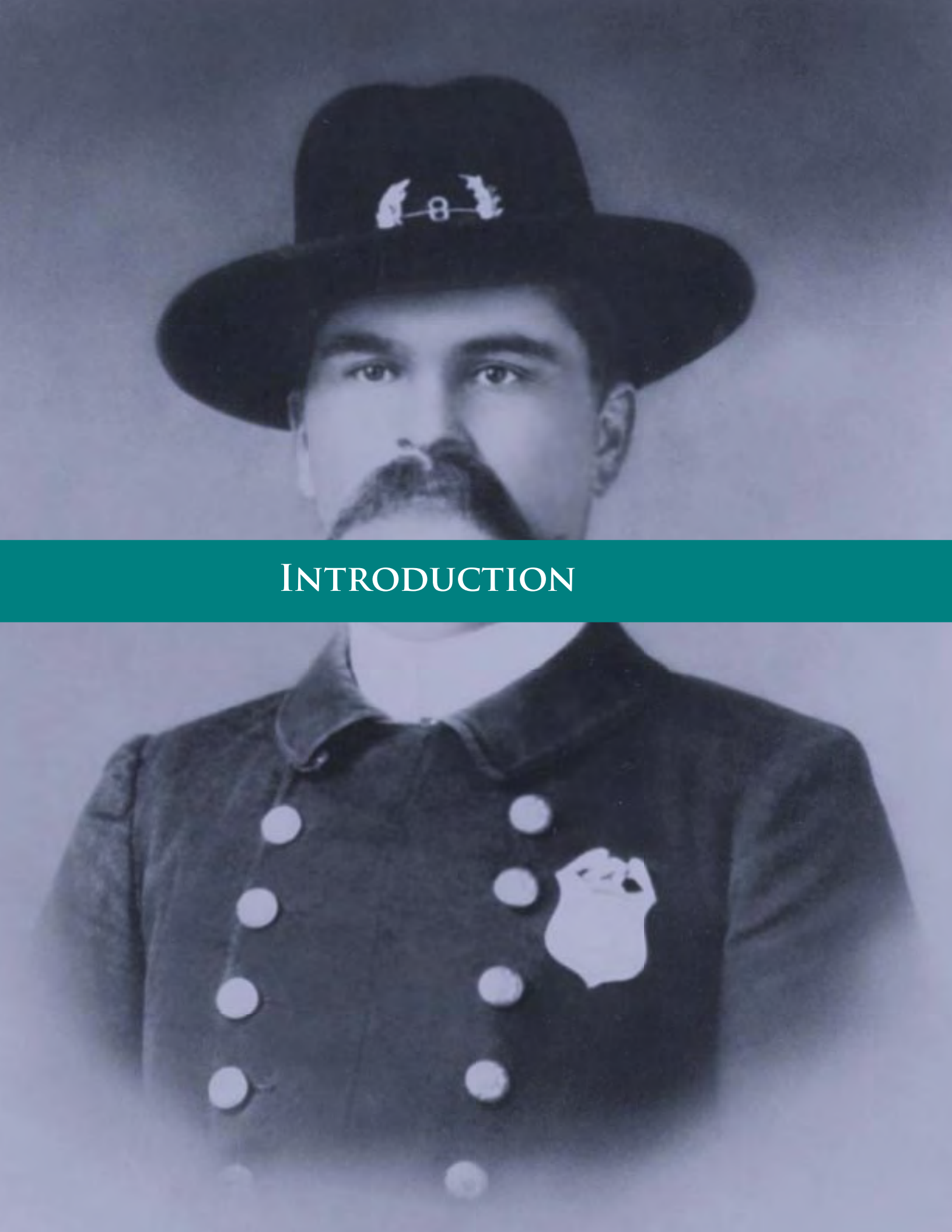
Richard L. Tettamant, Administrator  
Dallas Police and Fire Pension System  
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Dallas, Texas 75201  
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## INTRODUCTION





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

#### 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*, including also 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, 2007 (the annual report). Though the assets of System and Supplemental Plan are co-invested through a Group Trust, the two plans are maintained separately.

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 covering the combined assets of the System and Supplemental Plan.
- The **Actuarial Report** section 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 *2007 Actuarial Valuation* and the *2007 Financial Statements with Independent Auditor's Report* 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 report indicates that the financial statements are in accordance with Govern-

mental 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 89.4% funded and a funding period of 14 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, 2007, 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 fifth straight year, the System experienced a double digit investment return. The total rate of return on investments for the year was 10.3%. The System's investment performance ranked in the top 10% 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, 2007, 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. The employees and the city 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 provision of state law.

Plan A became effective September 15, 1969. 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 approved Plan B, created by the membership, effective March 1, 1973. Together, the three plans are referred to as the Combined Pension Plan. In 2007, the System celebrated its 91st 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.

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 pension-related associations, notably the National Conference on Public Employee Retirement Systems (NCPERS) and the Texas Association of Public Employee Retirement Systems (TEXPERS).

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

## PROFESSIONAL SERVICE PROVIDERS

### Investment Advisors

AllianceBernstein Institutional Investment Management  
Ashmore Investment Management Limited  
Bank of Ireland Asset Management  
BankCap Partners  
Brandywine Investment Management  
Bridgewater Associates, Inc.  
Capmark Investments LP  
CDK Realty Advisors  
Clay Finlay, Inc  
Criswell Radovan  
Crow Holdings Realty Partners  
Eagle Asset Management  
Forest Investment Associates  
Frank Russell Company  
GMO LLC  
Hancock Agricultural Investment Group  
Hearthstone Advisors  
Highland Capital Management  
W. R. Huff Asset Management  
INTECH  
INVESCO Real Estate  
JP Morgan Investment Management, Inc.  
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  
Mellon Capital Management  
Merit Energy  
The Mitchell Group  
Mondrian Investment Partners  
North Texas Opportunity Fund Capital Partners LP  
Oaktree Capital Management

Orleans Capital Management  
OFI Institutional Asset Management  
Olympus Real Estate Partners  
Pharos Capital Group  
Pyramis Global Advisors  
RMK Timberland Group  
RREEF  
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 Ronquillo, LLP

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.

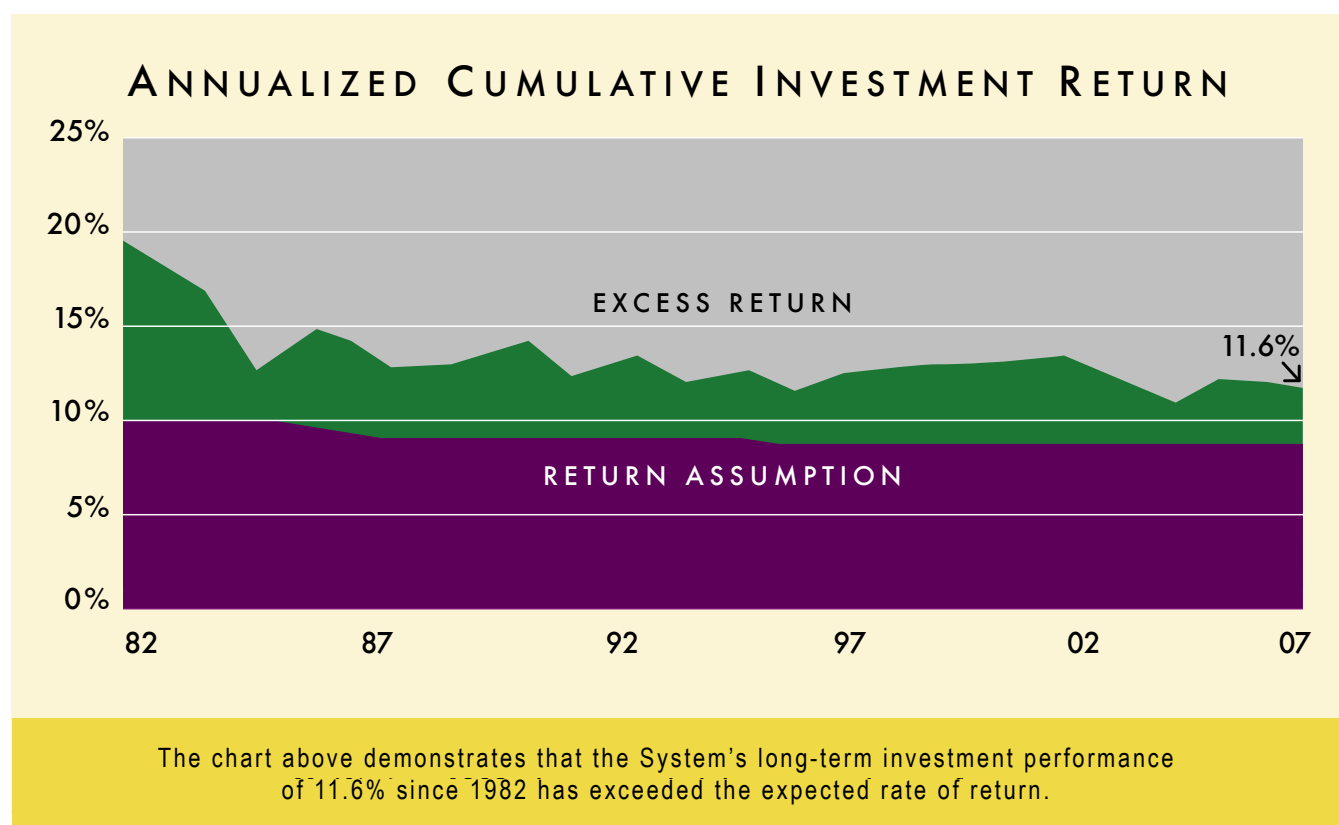
The administrative staff performs the day-to-day operations of the System. At year end, the staff consisted of 31 positions and included the Administrative, Benefits, Accounting, Investment, and Information Systems teams. The staff's main functions are (1) payment of benefits, (2) audit and control, (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 2007. For the fifth straight year, the System earned a double digit investment return, returning 10.3% on investments, and continues to perform among the top public pension funds in the country. Through diversification and prudent investment management, System assets, at market value, increased by \$224.6 million, reaching \$3.38 billion.

New England Pension Consultants (NEPC), the System's investment consultant, ranked the fund in the top 10% 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, 2007, the ICC public fund data base consisted of 189 public funds.



## MAJOR INITIATIVES

With the assistance of the investment consultants, the System adopted a new asset allocation and initiated several new investment ventures in 2007. The System expanded its real estate portfolio to 20%. The System also created a new asset class called Global Asset Allocation (GAA), allocated 5% to that class, and hired three new managers within this class: Bridgewater Associates, GMO LLC and Mellon Capital Management, each with a \$50 million allocation.

In addition, the System hired INTECH and T. Rowe Price Associates to manage a new Large Cap Growth mandate with \$68 million invested in each; allocated 5% to Global Equity hiring two new managers, AllianceBernstein and OFI, with \$81 million funded to each; and, expanded its private equity portfolio with a \$70 million capital commitment in infrastructure split between JP Morgan Infrastructure for \$20 million and RREEF North American Infrastructure for \$50 million; and a \$20 million capital commitments each to BankCap Partners, Creative Holdings and Pharos Capital.

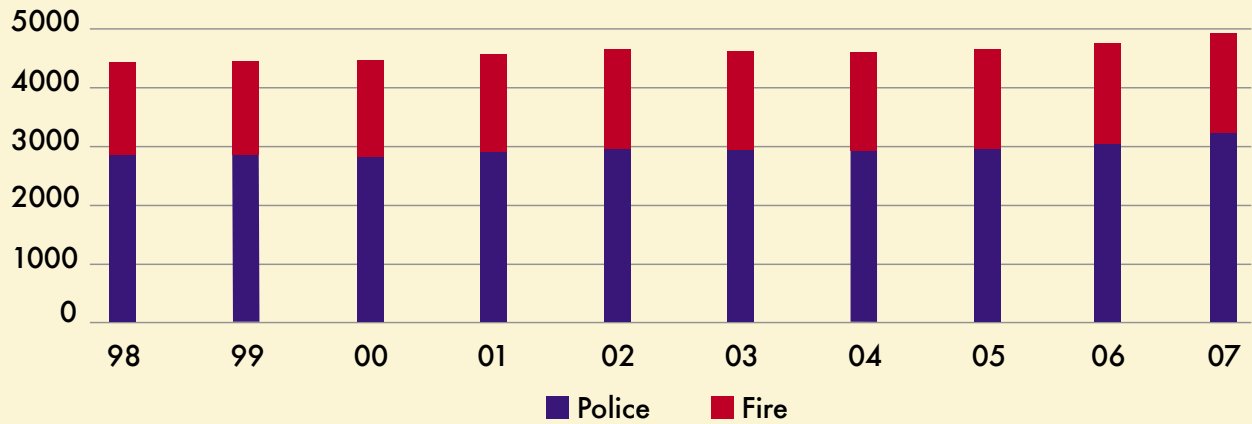
## PLAN MEMBERSHIP

The System provides comprehensive retirement, disability and survivor benefits for the City's 8,203 Police Officers, Firefighters, Pensioners, and their beneficiaries. As of December 31, 2007, 3,218 Police Officers and 1,691 Firefighters were active Members of the Pension System. The total of 4,909 active Members reflects an increase of 170 from last year's total of 4,739 (3,056 Police Officers and 1,683 Firefighters). The average Police Officer is 40.67 years of age with 14.26 years of pension service. The average Firefighter is 43.49 years of age and has 17.37 years of pension service with the City of Dallas.

The Deferred Retirement Option Plan continues to be a very attractive option for active Members. The number of DROP participants in active service reached 1,184 during 2007, an increase of 103 from the prior year. The average DROP participant in Active Service is 54.26 years of age with 28.53 years of pension service. The average age at which members enter DROP is 50.0 years of age.

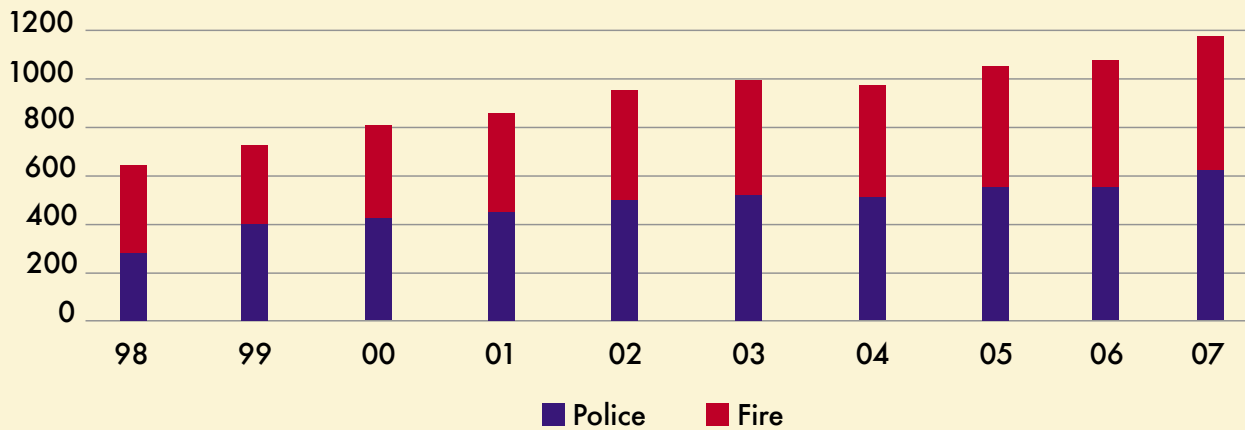
The Deferred Retirement Option Plan continues to be a very attractive option for active Members. The number of DROP participants in active service reached 1,184 during 2007, an increase of 103 from the prior year. The average DROP participant in Active Service is 54.26 years of age with 28.53 years of pension service. The average age at which members enter DROP is 50.0 years of age.

## ACTIVE MEMBERSHIP IN THE SYSTEM 1998 - 2007



Total active membership increased by 498 members over the last ten years from 4,411 to 4,909 members. This includes 3,218 police officers and 1,691 firefighters.

## ACTIVE DROP MEMBERSHIP 1998 - 2007



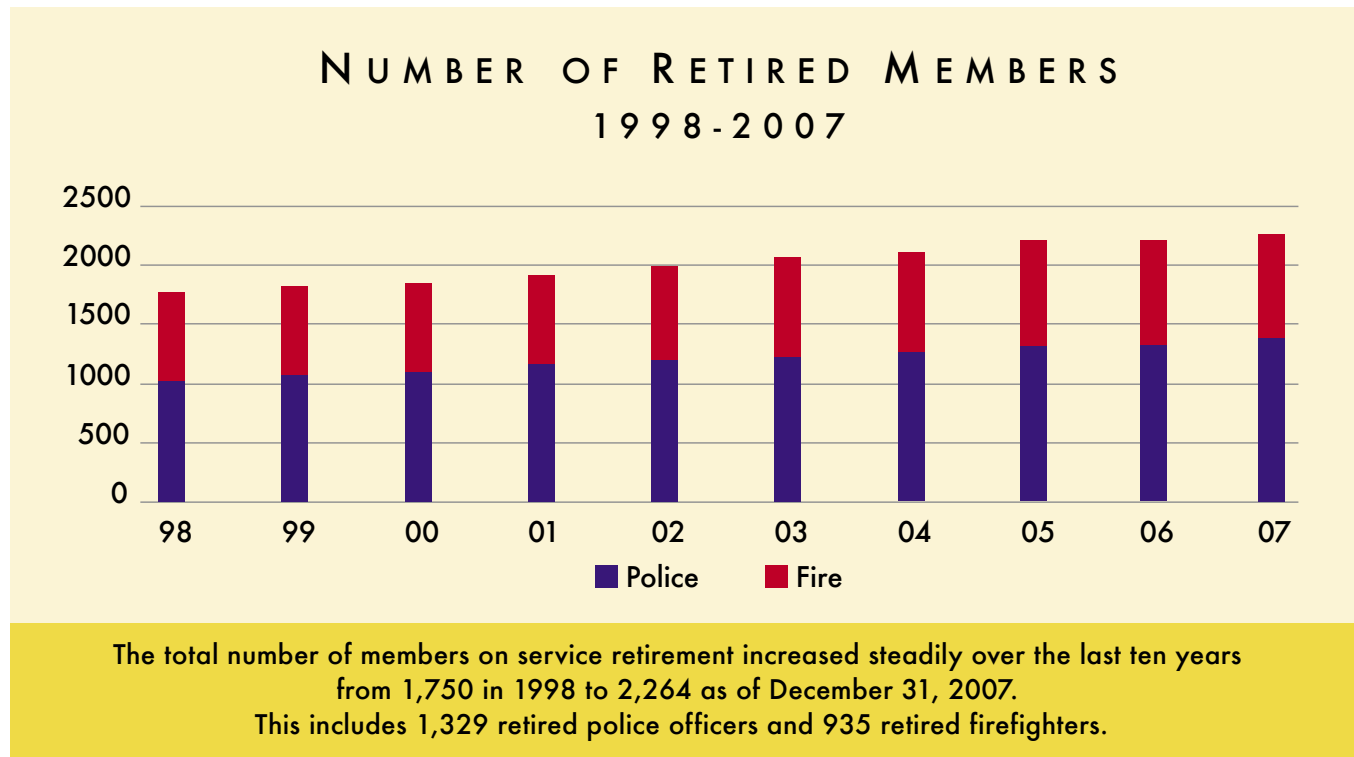
Active drop membership increased by 540 participants over the last ten years from 644 to 1,184 participants. This includes 625 police officers and 559 firefighters.



The System paid \$131,626,059 million in pension benefit payments recipients in 2007. At the end of the year benefit payments were being made to 2,264 service Pensioners, 194 disability Pensioners, and 836 beneficiaries.

These numbers taken together reflect an increase in the workforce, particularly the Police Department, with a corresponding decrease in average age and years of service because of the influx of new, younger members. Similarly, as DROP enrollment grows, average DROP participant age and years of service has declined slightly. System benefit payments continue to grow as the number of pensioners and beneficiaries grows and benefits are increased through the annual adjustment and benefit supplement provisions.

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](http://www.dpfp.org).



## PLAN AMENDMENTS

There were no changes to the Combined Pension Plan in 2007.

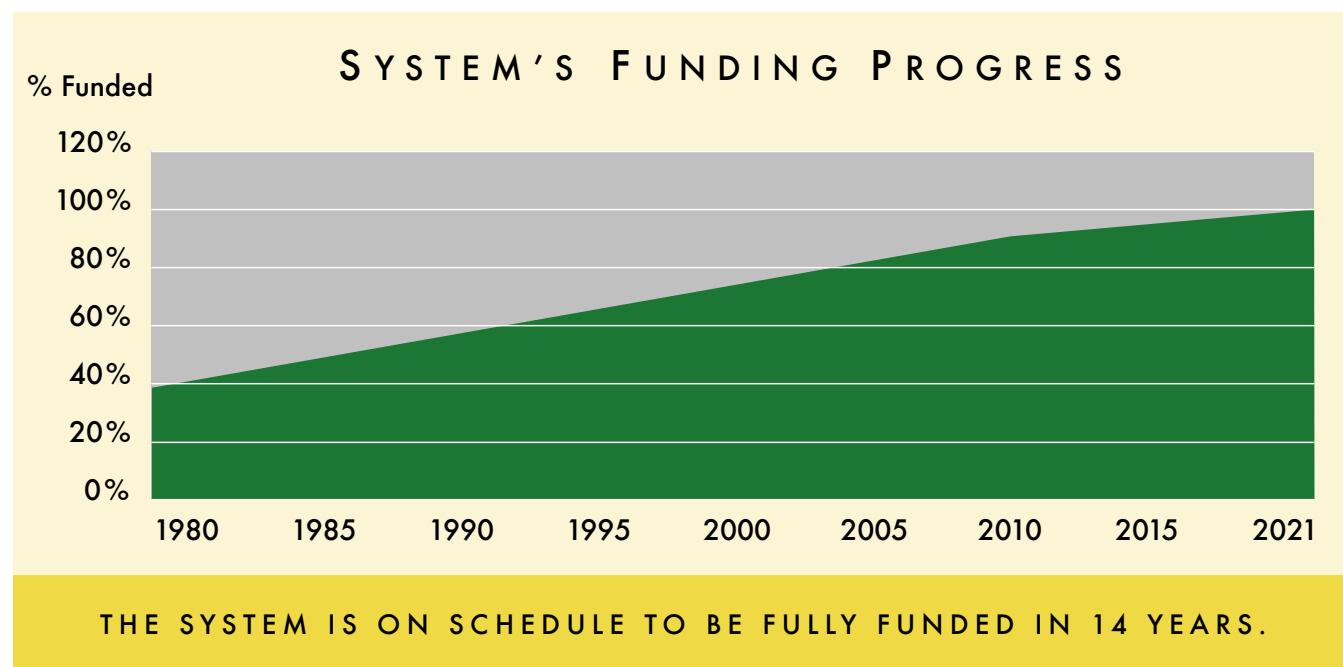
## LEGISLATION

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 2007, after needed clarification was received from Congress and the IRS, the System implemented provisions passed in the 2006 Pension Protection Act to eliminate the 10% early distribution tax on DROP distributions for Members who met certain requirements and to provide a \$3,000 tax credit to-

ward health care expenses for retirees. The System is working with other pension plans through national organizations to obtain further clarification on remaining details.

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.

## 2007 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*

# 2007 Administrative Staff



*Richard Tettamant  
Administrator*



*Brian Blake  
Asst. Administrator  
Investments*



*Don Rohan  
Asst. Administrator  
Operations*



*Everard Davenport  
General Counsel*



*Mike Taylor  
Chief Financial  
Officer*



*John Holt  
Information Technology  
Manager*



*Pat McGennis  
Benefits  
Manager*



*Linda Rickley  
Board Coordination  
Manager*



*Carol Turbeville  
Executive Secretary*



*Jerry Chandler  
Systems Analyst*



*Talal Elass  
Investment Analyst*



*Yvette Hall  
Assistant Pensioner  
Advocate*



*Aimee Jasper  
Asst. Benefits  
Counselor*



*Vickie Johnson  
Accounting  
Specialist*



*Kevin Killingsworth  
Communications  
Specialist*



*Ann Matthews  
Benefits Counselor*



*Barbara McCann  
Pensioner Liaison*



*Chang Men  
Admin. Assistant*



*Gale Paul  
Pensioner Advocate*



*Rosa Perez  
Receptionist*



*Erica Ramsey  
Benefits Counselor*



*Cynthia Reyes  
Admin. Assistant*



*David Richardson  
Accountant*



*Bill Scoggins, Jr.  
Senior Accountant*



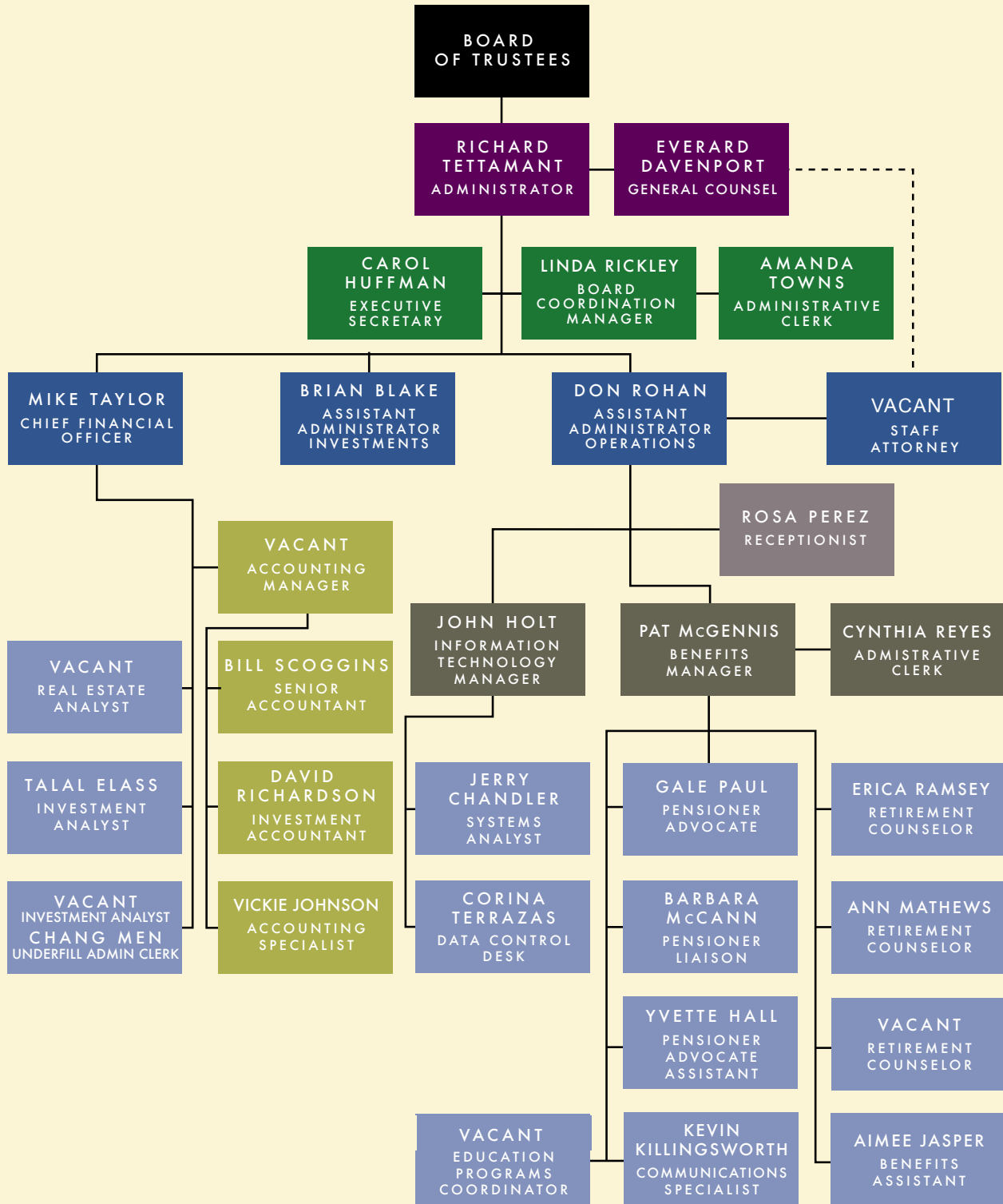
*Corina Terrazas  
Data Control Clerk*



*Amanda Towns  
Admin. Assistant*

## ORGANIZATIONAL CHART

*(as of 12.31.2007)*



## 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 System assets co-investing the assets of the System and the Supplemental Plan
- System assets totaled \$3.13 billion (12-31-06)

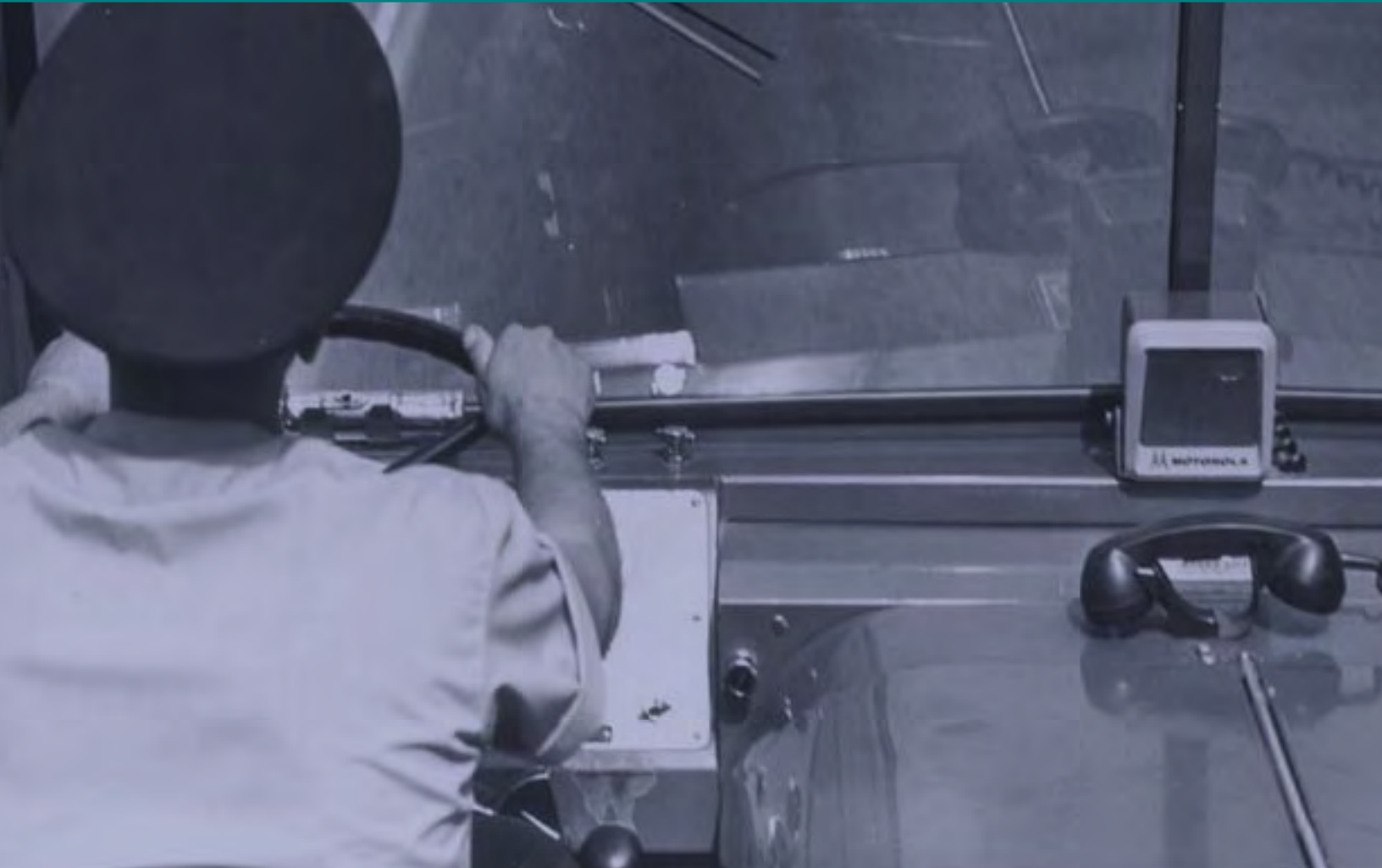
## 2007

- Implemented provisions of the federal Pension Protection Act of 2006
- System Assets totaled \$3.35 billion (12-31-07)





FINANCIALS





**DALLAS POLICE AND FIRE PENSION SYSTEM**

**Financial Statements  
and  
Required Supplemental Information**

**December 31, 2007 and 2006**  
*(With Independent Auditors' Report Thereon)*



## DALLAS POLICE AND FIRE PENSION SYSTEM

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Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of plan net assets of the Dallas Police and Fire Pension System (the System) as of December 31, 2007 and 2006, 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, 2007 and 2006, and the changes in its financial status for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

*Mir & Fox; Rodriguez*

October 22, 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, 2007 and 2006. 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 over time is an indication of whether the System's financial health is improving or deteriorating.

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

The required supplemental information consists of schedules of funding progress and employer 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>2007</u>	<u>2006</u>	<u>2005</u>
Assets	\$ 3,354,793	3,131,495	3,281,804
Liabilities	1,453	230	546,070
Net Assets Available for Benefits	3,353,340	3,131,265	2,735,734
Contributions	115,677	109,595	105,122
Investment and Other Income	245,028	413,041	252,204
Benefit Payments	131,626	122,120	111,331
Withdrawals and Refunds of Contributions	914	728	1,070
Administrative Expenses and Professional Fees	6,091	4,265	2,995

### FINANCIAL HIGHLIGHTS

- The System's plan net assets increased \$222.1 million in 2007 and by \$395.5 million in 2006. Plan net assets totaled \$3.35 billion in 2007 and \$3.13 billion in 2006. 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 2007 was 10.3%, net of fees, compared to a rate of return of 16.8% for 2006. The investment return reflects a positive financial market and the success of the System's asset allocation. Performance numbers are provided by the System's general investment consultant. The actuarial expected rate of return for both years was 8.5%.
- Liabilities totaled \$1.45 million as of December 31, 2007. Liabilities in 2006 totaled \$229.4 thousand. The increase in 2007 was due to timing of payments at year end between 2007 and 2006.
- The System received employee contributions of \$17.9 million in 2007 and \$17.9 million in 2006 and received employer contributions from the City of Dallas in the amounts of \$97.8 million and \$91.6 million in 2007 and 2006, 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 \$131.6 million in service retirement, disability retirement, survivor benefits and DROP disbursements during 2007, compared to payments of \$122.1 million benefits in 2006. The System refunded approximately \$913.5 thousand and \$728.3 thousand in contributions to former Members in 2007 and 2006, respectively. No changes to benefit provisions were implemented in 2007. The increase in benefit payments resulted both from an increase in the number of benefit recipients and annual adjustment increases to base benefits.
- The cost of administering the benefit programs of the System, including administrative costs and professional fees, was \$6.09 million in 2007 compared to \$4.3 million in 2006. The increase in 2007 reflects a change in classification of certain custodial and other expenses from investment fees and other expenses.

### 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, 2008. 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 \$259.7 million during 2007 to \$3.39 billion as of January 1, 2008. The market value of assets as of January 1, 2007 was \$3.13 billion. During the same period, the actuarial value of the assets (AVA) increased \$296.1 million to a total of \$3.26 billion as of January 1, 2008. The actuarial value of the assets as of January 1, 2007 was \$2.96 billion.
- As of January 1, 2008, the actuarial accrued liability (AAL), or actuarial value of liabilities, increased during 2007 by \$273.2 million to \$3.64 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 89.4% during 2007. The ratio as of January 1, 2007 was 87.9%.

- 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, 2008, the System's UAAL was \$385 million, an improvement of \$24 million from a UAAL of \$408 million as of January 1, 2007.
- 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, 2008, the employer contribution rate of 27.5% covers the normal cost and the amortization of the UAAL over 14 years, compared to 15 years to fund as of the January 1, 2007 valuation. This decrease of 1 year in the number of years to fully fund the System further demonstrates the improvement in the System's funding status due primarily to excess investment return. To more conservatively reflect mortality of System members, the Board of Trustees adopted a change in the System's actuarial assumption to provide a one year set back for males and females effective with the January 1, 2008 actuarial valuation. This change in the mortality assumption increased the years to fund by 2 years and is reflected in the number above. Without the change, the years to fully fund would have been 12 years.

#### **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, 2007 and 2006

<u>Assets</u>	<u>2007</u>	<u>2006</u>
Plan interest in Group Master Trust, at fair value (notes 2, 3, 4, 6 and 7)	<u>3,352,843,319</u>	<u>3,129,921,814</u>
Receivables:		
Employer contributions (note 5)	1,653,009	1,330,581
Member contributions (note 5)	<u>296,754</u>	<u>242,187</u>
Total receivables	<u>1,949,763</u>	<u>1,572,768</u>
Total assets	<u>3,354,793,082</u>	<u>3,131,494,582</u>
<u>Liabilities and Net Assets</u>		
Administrative expense payable	<u>1,453,313</u>	<u>229,380</u>
Total liabilities	<u>1,453,313</u>	<u>229,360</u>
Net assets held in trust for pension benefits (a schedule of funding progress is included on page 27)	<u>\$ 3,353,339,769</u>	<u>3,131,265,222</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, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Additions to plan net assets:		
Investment income - net investment gain from the Group Master Trust	\$ <u>245,027,585</u>	<u>413,041,327</u>
Contributions:		
Employer	97,762,335	91,652,586
Employee	<u>17,914,832</u>	<u>17,942,807</u>
Total contributions	<u>115,677,167</u>	<u>109,595,393</u>
Total net additions to plan net assets	<u>360,704,752</u>	<u>522,636,720</u>
Deductions from plan net assets:		
Benefit payments	131,626,059	122,120,302
Withdrawal payments and refunds of contributions	913,522	728,338
Administrative expenses and professional fees	<u>6,090,624</u>	<u>4,258,715</u>
Total deductions from plan net assets	<u>138,630,205</u>	<u>127,105,355</u>
Net increase in plan net assets	<u>222,074,547</u>	<u>395,531,365</u>
Plan net assets held in trust for pension benefits:		
Beginning of year	<u>3,131,265,222</u>	<u>2,735,733,857</u>
End of year	<u>\$ 3,353,339,769</u>	<u>3,131,265,222</u>

See accompanying notes to basic financial statements.

## DALLAS POLICE AND FIRE PENSION SYSTEM

### Notes to Basic Financial Statements

December 31, 2007 and 2006

#### 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, 2007 and 2006, the System's membership consisted of:

	<u>2007</u>	<u>2006</u>
Non-active members:		
Pensioners and qualified survivors currently receiving benefits and terminated employees entitled to benefits but not yet receiving them:		
Firefighters	1,423	1,384
Police officers	1,870	1,814
Terminated vested members not yet receiving benefits	<u>183</u>	<u>158</u>
Total non-active members	<u>3,476</u>	<u>3,356</u>
Current employees:		
Vested:		
Firefighters	1,417	1,420
Police officers	<u>2,435</u>	<u>2,390</u>
Total vested current employees	<u>3,852</u>	<u>3,810</u>
Nonvested:		
Firefighters	274	263
Police officers	<u>783</u>	<u>666</u>
Total non-vested current employees	<u>1,057</u>	<u>929</u>
Total current employees	<u>4,909</u>	<u>4,739</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 \$597,764,805 and \$507,453,306 for December 31, 2007 and 2006, 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 2007 and 2006, 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). 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 99.2975% and 99.3691% at December 31, 2007 and 2006, respectively. The allocation of investment income and administrative expense between the System and the Supplemental Plan is based on the number of units owned of the Group Trust. Benefits and contributions 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 is 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 functional currency - United States dollars) are recorded by the Group Trust 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 structures foreign exchange contracts and enters into certain transactions to substantially mitigate the Group Trust's exposure to fluctuations in foreign exchange rates.

Investments and broker accounts denominated in foreign currencies outstanding at December 31, 2007 and 2006 were converted to the Group Trust's functional currency (United States dollars) at the foreign exchange rates quoted at December 31, 2007 and 2006. 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 approved by the Board.

Continued

## DALLAS POLICE AND FIRE PENSION SYSTEM

### Notes to Basic Financial Statements, Continued

#### New accounting pronouncements

*GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments.*

This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. By entering into these arrangements, governments receive and make payments based on market prices without actually entering into the related financial or commodity transactions. Derivative instruments associated with changing financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. Derivative instruments, however, also can expose governments to significant risks and liabilities. Common types of derivative instruments used by governments include interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009.

*GASB Statement No. 50, Pension Disclosures – an Amendment of GASB Statement No. 25 and No. 27.*

This statement enhances information discussed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this statement amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by Statement and Local Governmental Employers*.

In general, the GASB Statement No. 50 requires the financial statements to disclose the funded status of the plan as of the most recent actuarial valuation in the notes to financial statements instead of in the notes to the RSI. It also requires the notes to include a reference linking the funded status disclosure in the notes to financial statements to the required schedule of funding progress in the RSI. The statement is effective for periods beginning after June 15, 2007 and will be adopted with the System's 2008 financial statements.

#### **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 deposits may not be returned to it. The Group Trust's deposits are held by the Custodian, JP Morgan Chase. As of December 31, 2007 and 2006, the Group Trust had bank balances of \$5,840,577 and \$1,082,459, respectively, that are in demand deposit accounts subject to coverage by Federal deposit insurance, but not collateralized. The Group Trust does not have a deposit policy for custodial credit risk; however, the System's management believes that the Group Trust'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 the Group Master Trust as of and for the years ended December 31, 2007 and 2006.

The following summarizes the Group Trust as of December 31:

	<u>2007</u>	<u>2006</u>
Investments, at fair value (notes 2, 3 and 4):		
Cash and cash equivalents	\$ 288,681,823	270,728,342
United States government securities	10,879,558	58,045,080
United States government sponsored enterprises	20,496,465	8,980,840
Foreign government securities	204,014,254	194,261,708
Commingled funds	85,940,352	98,465,708
Domestic equities	1,045,749,584	1,103,204,010
International equities	990,822,594	741,591,982
Corporate securities	306,456,923	374,426,286
Investments, at appraised value - real estate equity funds	<u>943,189,733</u>	<u>767,991,320</u>
Total investments	<u>3,896,231,284</u>	<u>3,605,695,236</u>
Receivables:		
Accrued interest and dividends	11,956,730	13,467,610
Forward currency contracts (note 6)	166,741,241	79,787,702
Securities sold	<u>32,273,311</u>	<u>51,559,052</u>
Total receivables	<u>210,971,282</u>	<u>144,814,364</u>
Total assets	<u>4,107,202,566</u>	<u>3,750,509,600</u>
<u>Liabilities and Net Assets</u>		
Repurchase loan agreement (note 7)	32,572,000	35,710,000
Payable for securities purchased	31,691,181	56,554,085
Professional fees payable	4,769,636	2,920,525
Forward currency contracts (note 6)	166,352,773	79,787,702
Securities lending collateral (note 4)	218,371,133	221,286,049
Line of credit (note 8)	<u>276,850,000</u>	<u>204,460,000</u>
Total liabilities	<u>730,606,723</u>	<u>600,718,341</u>
Net assets in the Group Trust	\$ <u>3,376,595,843</u>	<u>3,149,791,259</u>

Continued

## DALLAS POLICE AND FIRE PENSION SYSTEM

## Notes to Basic Financial Statements, Continued

The following summarizes the net change in the Group Trust for the years ended December 31:

	<u>2007</u>	<u>2006</u>
Investment income:		
Interest	\$ 36,676,719	28,451,894
Dividends	35,347,457	30,426,918
Real estate income	44,149,704	19,095,242
Net appreciation in fair value of investments	148,254,082	353,315,891
Securities lending income	922,183	937,538
Less investment expenses:		
Custody fees	(289,847)	(420,106)
Investment services	<u>(17,533,373)</u>	<u>(17,363,973)</u>
Total investment income in Group Trust	<u>247,546,925</u>	<u>414,443,504</u>
Plan net assets held in trust for pension benefits:		
Beginning of year	3,149,791,259	2,754,257,210
Benefits payments in excess of contributions received for Combined and Supplemental Plan	<u>(20,742,341)</u>	<u>(18,909,455)</u>
End of year	\$ <u>3,376,595,843</u>	<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	\$ 3,352,843,319	3,129,921,814
Group Trust interest held by the Supplement Plan	<u>23,752,524</u>	<u>19,869,445</u>
Total nets assets of Group Trust	\$ <u>3,376,595,843</u>	<u>3,149,791,259</u>

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

The fair values of the Group Trust's investments at December 31, 2007 and 2006 are presented by type, as follows:

	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 288,681,823	270,728,342
United States government securities	10,879,556	58,045,060
U.S. government sponsored enterprises	20,496,465	8,980,840
Foreign government securities	204,014,254	194,261,708
Commingled funds	85,940,352	86,465,708
Domestic equities	1,045,749,584	1,103,204,010
International equities	990,822,594	741,591,982
Corporate securities	308,456,923	374,426,266
Investments, at appraised value - real estate equity funds	<u>943,189,733</u>	<u>767,991,320</u>
Total investments	\$ <u>3,896,231,284</u>	<u>3,605,695,236</u>

Continued



## DALLAS POLICE AND FIRE PENSION SYSTEM

## Notes to Basic Financial Statements, Continued

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

	<u>2007</u>	<u>2006</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	\$ <u>218,371,133</u>	<u>221,286,049</u>
Total investments greater than 5% of net assets	218,371,133	221,286,049
Investments less than 5% of net assets:		
At quoted market value	2,734,670,418	2,616,417,867
At appraised value	<u>943,189,733</u>	<u>767,991,320</u>
Total investments	\$ <u>3,896,231,284</u>	<u>3,605,695,236</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 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 are held by either the counterparty or the counterparty's trust department or agent but not in the Group Trust's name. At December 31, 2007 and 2006, the Group Trust's security investments that were not subject to custodial credit risk were the investments in fixed income and equity investments.

Continued

## DALLAS POLICE AND FIRE PENSION SYSTEM

### Notes to Basic Financial Statements, Continued

#### 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 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 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.
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.

Continued

## DALLAS POLICE AND FIRE PENSION SYSTEM

### Notes to Basic Financial Statements, Continued

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

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

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

Continued

## DALLAS POLICE AND FIRE PENSION SYSTEM

## Notes to Basic Financial Statements, Continued

At December 31, 2007, the following tables show the Group Trust's investments by type, time-to-maturity, fair value, and foreign currency fluctuation:

Type of Investment	Less Than 1 Year	1 - 5 Years	6 - 10 Years	More Than 10 Years	Total Fair Value
<b>Fixed maturity domestic:</b>					
U.S. Treasury securities	\$	8,861,606		2,027,951	10,879,556
U.S. Gov't agency securities				20,496,466	20,496,466
Municipal bonds				740,000	740,000
<b>Corporate securities:</b>					
Collateralized mortgage obligation				3,460,196	3,460,196
Corporate bonds	4,848,138	30,830,847	104,106,811	151,182,594	290,968,390
Commingled funds				85,940,352	85,940,352
Convertible bonds		3,276,638		1,116,344	4,392,982
Investment interests				126,584	126,584
<b>Total fixed maturity domestic</b>	<b>4,848,138</b>	<b>42,969,090</b>	<b>104,106,811</b>	<b>265,090,486</b>	<b>417,004,527</b>
<b>International government bonds:</b>					
Australian Dollar		4,452,661	10,979,651		15,432,212
Brazil Real		4,006,456		3,724,046	7,732,500
British Pound Sterling		8,757,099	13,258,921	2,579,261	24,595,281
Canadian Dollar		8,091,510			8,091,510
EURO Currency	2,793,430	17,075,802	14,524,169	8,180,966	42,574,366
Japanese Yen	10,757,093	22,609,070	4,556,510		37,922,673
Iceland Krona	1,777,775				1,777,775
Indonesian Rupiah		2,088,472			2,088,472
Malaysian Ringgit	108,728	2,671,942	3,091,258		5,871,928
Mexican New Peso		10,858,080		1,447,431	12,303,491
New Zealand Dollar		6,318,733			6,318,733
Norway Krone		7,697,637			7,697,637
Poland	10,140,790				10,140,790
Singapore Dollar	2,159,237	6,578,734			8,737,971
Swedish Krona	4,061,480	8,877,414			12,938,894
<b>Total international government bonds</b>	<b>31,788,533</b>	<b>109,883,589</b>	<b>46,410,429</b>	<b>15,931,702</b>	<b>204,014,253</b>
<b>International Corporate Bonds:</b>					
Philippines			1,168,000		1,168,000
South African Rand	627,176	4,773,594			5,600,770
<b>Total international corporate bonds</b>	<b>627,176</b>	<b>4,773,594</b>	<b>1,168,000</b>	<b>-</b>	<b>6,768,770</b>
<b>Total international fixed maturity</b>	<b>32,615,709</b>	<b>114,657,183</b>	<b>47,578,429</b>	<b>15,931,702</b>	<b>210,783,023</b>
<b>Total fixed maturity</b>	<b>\$ 37,463,847</b>	<b>157,616,273</b>	<b>151,685,240</b>	<b>281,022,190</b>	<b>627,787,550</b>

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, 2007 is as follows:

Type	Moody Rating	Amount	Percentage of Holdings	Moody Rating	Amount	Percentage of Holdings	
<b>Corporate securities:</b>							
<b>Convertible bonds:</b>							
	Ba2	\$ 1,118,344	0.18%	Mortgage bonds	Aaa	\$ 3,480,165	0.55%
	NR	3,279,636	0.52%	Total mortgage bonds		3,480,165	0.55%
Total convertible bonds		<u>4,397,980</u>	0.70%	Investment fund			
				Total investment fund	NR	<u>126,564</u>	0.02%
						<u>126,564</u>	0.02%
<b>Corporate bonds:</b>							
	A1	3,330,236	0.53%	Total corporate securities		<u>305,716,924</u>	48.70%
	A2	412,091	0.07%	Government sponsored enterprises:			
	Aa2	1,516,334	0.24%		Aaa	5,741,577	0.91%
	B1	46,365,493	7.23%		NR	<u>14,754,888</u>	2.35%
	B2	16,505,668	2.47%	Foreign government securities:			
	B3	27,067,825	4.32%		A1	38,281,864	6.00%
	B3a	1,168,000	0.18%		A2	20,318,062	3.24%
	Ba1	4,100,925	0.65%		A3	9,574,069	1.53%
	Ba2	21,136,022	3.37%		Aa1	3,478,428	0.55%
	Ba3	20,621,310	3.28%		Aa2	691,033	0.14%
	Baa1	2,185,451	0.35%		Aa3	4,027,669	0.64%
	Baa2	5,845,323	0.90%		Aaa	86,645,270	13.80%
	Baa3	3,004,471	0.48%		Ba1	3,724,046	0.59%
	Ca	342,950	0.06%		Baa1	16,388,215	2.61%
	Caa1	28,685,967	4.57%		Baa2	2,047,850	0.33%
	Caa2	12,866,916	2.06%		Ca	499,044	0.08%
	Caa3	3,169,363	0.50%		NR	12,179,032	1.94%
	NR	101,576,116	16.15%		WR	<u>5,071,652</u>	0.80%
Total corporate bonds		<u>297,737,160</u>	47.43%	Total foreign government securities:		<u>204,014,253</u>	32.50%
				United States government securities:			
				Treasury note	Aaa	<u>10,879,556</u>	1.73%
				Total U.S. government securities		<u>10,879,556</u>	1.73%
				Municipal bonds	Baa2	<u>740,000</u>	0.12%
				Commingled	NR	<u>85,840,352</u>	13.69%
				Total credit risk debt securities	\$	<u>627,767,550</u>	100.00%

**4. Securities Lending**

The Board has authorized the Group Trust to enter into an agreement with JP Morgan Chase (JP Morgan) for the lending of certain of the Group Trust'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 2007 and 2006, JP Morgan lent, on behalf of the Group Trust, securities held by JP Morgan as the Group Trust's custodian, 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 2007 and 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 years 2007 and 2006. Moreover, there were no losses during the 2007 and 2006 fiscal years 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 2007 and 2006, 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, 2007 and 2006, the Group Trust had no credit risk exposure to borrowers. The market value of securities on loan and collateral held for the Group Trust were \$218,371,133 and \$221,286,049 at December 31, 2007 and 2006, respectively.

Disclosure of securities lending revenue is shown gross with the associated reductions for investment expenses on the face of the Group Trust's 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 Group Trust as of December 31, 2007 and 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 14 years as of January 1, 2008 compared to 15 years as of January 1, 2007.

The required contribution rate of the City, pursuant to an actuarial study effective January 1, 2008, consists of 18.47% of covered members' salaries to pay normal costs, 6.34% of covered members' salaries to amortize its funding deficit over 14 years, and 2.69% 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 2007 and 2006, 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 2007 and 2006, 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 27 through 29. 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 2007 and 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, 2007 and 2006.

During 2007 and 2006, the Group Trust recognized net realized losses on foreign currency forward contracts of \$388,468 and \$1,984,102, respectively. At December 31, 2007 and 2006, the Group Trust had net unrealized loss on forward currency contracts reflected in the accompanying Group Trust summary information of approximately \$5,941,188 and \$2,068,373, 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 2007 and 2006 related to these agreements was \$32,572,000 and \$35,710,000, respectively 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, 2007 and 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 30 day float at December 31, 2007, payable quarterly and 5.75% at December 31, 2006, payable monthly. At December 31, 2007 and 2006, the Group Trust had borrowed \$276,850,000 and \$204,460,000, respectively, related to the revolving credit line which provides for a maximum borrowing of \$350,000,000 and \$234,000,000, respectively. 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 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 \$68,310 and \$336,027 related to the System's overall administrative costs during the years ended December 31, 2007 and 2006, respectively.

Group Trust investment related expenses for the years ended December 31, 2007 and 2006 also include \$17,533,373 and \$12,622,475, respectively, in asset management fees for the Group Trust.

#### 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, 2007 and 2006, aggregate contributions from active members of the System with less than five years of service were \$6,763,187.36 and \$7,445,067, respectively.

The Group Trust had outstanding investment commitments to various limited partnerships and international investment advisors of \$566,176,827 and \$501,151,919 at December 31, 2007 and 2006, respectively.

Continued



**DALLAS POLICE AND FIRE PENSION SYSTEM**

**Notes to Basic Financial Statements, Continued**

**12. Deferred Compensation Plans**

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

The System also offers its employees a money purchase pension plan (MPP) created in accordance with Internal Revenue code Section 401. The plan is available to employees of the System that are not considered an employee of the City. Participation in the plan is with the performance of one hour of service and termination from the plan is upon employment termination. Employees are allowed to make after tax contributions, not to exceed IRS Code limitations. System contributions equal a percentage of the employee's compensation that is equal to the contributed amount the City makes on behalf of a System participant. During 2007 and 2006, the System contributed \$256,281 and \$225,638, 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 invests in various investments securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such changes, could materially affect the amounts reported in the statements of plan net assets.

The System contribution rates and the actuarial information included in the schedule of contributions, page 27, and schedule of funding progress, page 26, 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 management believes will be due if the police officers' and firefighters' claims are successful. The ultimate outcome of these lawsuits cannot be determined at this time and, accordingly, no amounts related to these claims have been accrued in the System's basic financial statements as of December 31, 2007 and 2006.

**14. Subsequent Events**

Recent events in the financial markets include a devaluation of some assets including certain mortgages and derivative assets. The U.S. banking system and credit markets has required intervention by the Federal Reserve and the U. S. Treasury Department. In addition, the public equity markets have seen large price declines on a year to date basis. As a result, future investment returns could be adversely impacted in certain asset classes. In response to recent events, the System's management is assessing the likely impact on future investment returns and developing risk mitigation strategies.

Continued

**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)
1/1/1999	\$ 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
1/1/2008	3,259	3,644	385	89.4	321	119.9

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

Analysis of the dollar amounts of actuarial value of assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one indication of the 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>
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%
2007	97,762	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, 2008 and 2007 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 2008 actuary report and range 4.3% to 9.64% in 2007 actuary report
Actuarial cost method	Entry age normal cost method
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	14 years in 2008 actuary report and 15 years in 2007 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 2007 and 2006 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, 2008 and 2007, and are not materially different from what they would have been had they been calculated on December 31, 2007 and 2006, 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.

\* Includes inflation rate of 4% and net of all expenses

\*\* Includes inflation of 4%.





## 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

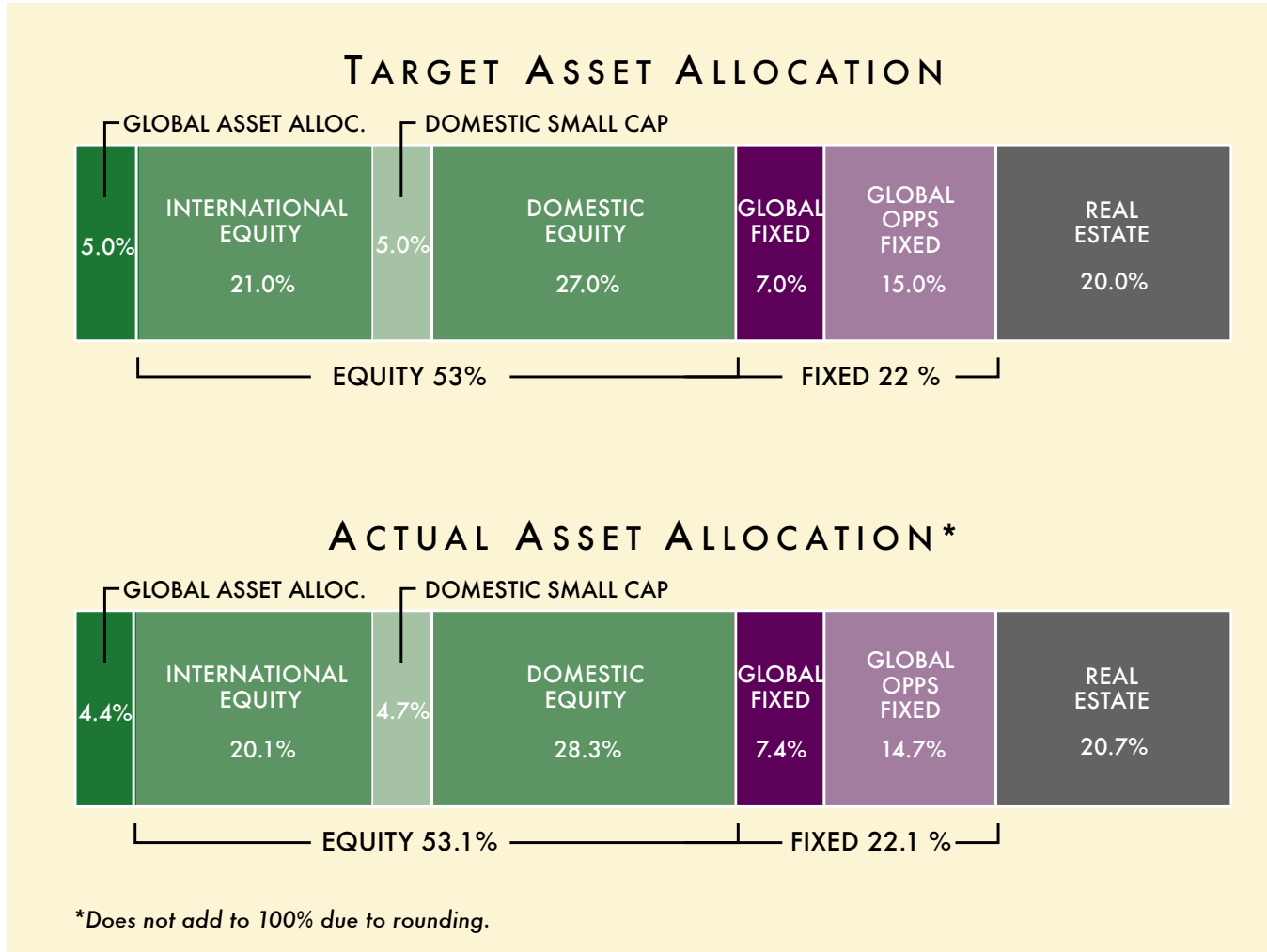
The general investment goals of the System are broad in nature to encompass the purpose of the System and its investments. They articulate the philosophy by which the Board will manage the System’s assets within the applicable regulatory constraints.

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 the 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 the target allocation.

## 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 \$224.6 million in 2007, resulting in a year-end total asset valuation of \$3.38 billion. The System had a good year returning 10.3% for the year 2007. 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, 2007

INVESTMENT CATEGORY	RATE OF RETURN	BENCHMARK COMPARISON	
DOMESTIC EQUITY	7.7%	5.5%	S&P 500 INDEX
INTERNATIONAL EQUITY	14.0%	11.2%	EAFE INDEX
GLOBAL BONDS	10.6%	9.5%	LEHMAN GLOBAL AGGREGATE
DOMESTIC HIGH YIELD BONDS	1.9%	1.8%	CITIGROUP COMP. HIGH YIELD
GLOBAL OPPORTUNISTIC FIXED	4.2%	3.4%	CUSTOM BOND INDEX
REAL ESTATE	14.7%	15.8%	NCREIF PROPERTY INDEX
CASH EQUIVALENT	5.33%	5.00%	91-DAY TREASURY BILL
TOTAL PORTFOLIO	10.3%	8.5%	ACTUARIAL ASSUMPTION

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

The System's use of multiple investment strategies, asset diversification, and asset rebalancing, has served the System well over many market cycles, resulting in a continued ranking among the best performing public pension plans in the nation. New England Pension Consultants (NEPC), the System's investment consultant, ranked the fund in the top 10% 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 in 2007 as measured by Russell Investments. The Russell 1000 Value Index returned -0.2% versus the Russell 1000 Growth Index which returned 11.8%. Over the last five years, large value stocks tracked by Russell outperformed growth stocks on an annualized basis by 2.5%, while the S&P 500 Index returned 5.5% for the year.

The System's public domestic equity portfolio represents approximately 23.7% of the total investment portfolio. The domestic equity composite for the System returned 7.7% in 2007. Mitchell Group, a North American Energy advisor, returned an impressive 42.1% for the year, outperforming the S&P Energy Index by 8.2%. Eagle Asset Management, managing a domestic small cap strategy for the System, returned 11.0% for the year while the Russell 2000 Index returned -1.5% over the same period on an annualized basis.

The System's private equity portfolio represents approximately 9.3% of the total investment portfolio. Private equity investments made during 2007 include commitments to BankCap Partners, JPMorgan IIF Tax Exempt LP (Infrastructure), and two co-investments through Pharos Capital Partners.

### TOP TEN DOMESTIC EQUITY HOLDINGS

	SECURITY DESCRIPTION	MARKET VALUE
1	MICROSOFT CORP	\$13,908,920.00
2	CHEVRON/TEXACO CORP	\$13,710,177.00
3	EXXON MOBIL CORP COM	\$13,528,836.00
4	AT&T INC	\$12,606,685.72
5	GENERAL ELECTRIC COMPANY	\$11,632,566.00
6	J P MORGAN CHASE & CO COM	\$11,493,045.00
7	CITIGROUP INC	\$10,462,976.00
8	BANK AMER CORP	\$10,430,734.30
9	CONOCOPHILLIPS	\$10,148,495.60
10	PFIZER INCORPORATED	\$9,717,075.00

## 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 11.2% for the year in comparison to the S&P 500 Index that returned 5.5% for the year.

The System's international equity portfolio represents approximately 20.1% of the total assets of the fund and returned 14.0% as a composite group in 2007. The System's international growth manager, Clay Finlay, returned 21.2% for the year. Pyramis Global Advisors manages a risk controlled international equity portfolio and that portfolio returned 17.0% for the year. Pyramis Global Advisors' five year annualized performance of 24.1% outperformed the MSCI EAFE Index over the same period by 2.50%.

### TOP TEN INTERNATIONAL EQUITY HOLDINGS

	SECURITY DESCRIPTION	MARKET VALUE
1	VODAFONE GROUP	\$12,289,738.97
2	BG GROUP ORD GBP	\$11,189,013.48
3	ROCHE HOLDINGS AG	\$10,174,689.92
4	NESTLE SA	\$10,081,702.95
5	CREDITO ITALIANO	\$9,026,965.65
6	TELEFONICA CA	\$8,549,994.78
7	BAYER AG	\$8,019,991.34
8	VEBA AG	\$7,793,658.64
9	SIEMENS AG	\$7,583,381.17
10	NINTENDO CO	\$7,365,796.89

## Fixed Income Portfolio

The System's fixed income investments represent approximately 22.1 % of the total portfolio, divided among three categories: Domestic High Yield, Global Quality, and Global Opportunistic.

The Domestic High Yield portfolio is approximately 2.7% of the total portfolio for the System. The System's high yield investment manager, W. R. Huff Asset Management, returned 1.9% for the year, which is slightly higher than the comparable benchmark of 1.8%.

The Global Quality bond portfolio comprises approximately 7.4% of the total fund and returned a 10.6% for the year. Brandywine Asset Management returned 10.5% for the year which is 1.0% higher than the Lehman Global Aggregate benchmark.

The Global Opportunistic represents approximately 12% 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 9.3% annualized for the last three years and returned 17.1% annualized for the last five years. Loomis Sayles exceeded their custom benchmark for the three years annualized and five year annualized by 2.8% and 5.99% respectively.

### TOP TEN FIXED INCOME HOLDINGS

	SECURITY DESCRIPTION	MARKET VALUE
1	POLAND GOVT BOND	\$10,140,790.25
2	FREEMPORT-MCMORAN COPPER & GOLD	\$9,384,375.00
3	SWEDEN (KINGDOM OF) BDS 01/D	\$8,877,414.27
4	U S TREASURY	\$8,418,030.06
5	CANADA TREASURY BILL	\$8,240,375.97
6	MEXICO (UTD MEX ST) BDS	\$8,101,802.22
7	CANADA GOVT	\$8,091,510.46
8	JAPAN GOVT 10-YR	\$7,991,354.79
9	NORWAY (KINGDOM OF)	\$7,597,637.12
10	NEW SOUTH WALES TREASURY CORP	\$6,320,953.98

## Real Estate Portfolio

The real estate portfolio is approximately 20.7% of the investment portfolio. The gross return for the real estate portfolio in 2007 was 14.65%. The System's real estate portfolio returned 12.68%, 16.63%, and 16.25% annualized net of fees respectively for one year, three years, and five years periods.

The private real estate portfolio represents approximately 94.5% of the total real estate portfolio, 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. The location of the private assets covers 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 CDK Realty Advisors returning 21.3% for the year. In addition, L&B Realty Advisors returned 17.57% net of fees for 2007. The private real estate portfolio performed well in the fourth quarter, boosting net annual returns to 14.40% for 2007. The performance history for the System's private real estate is impressive having returned net annualized numbers of 15.83%, and 14.78% respectively for three years, and five years ending 2007.

The timber portfolio is managed by Forest Investment Associates and RMK Timberland Group. As of the year ending 2007, timber investments represented approximately 11.5% of the real estate assets and returned 27.13%. Longer term performance for the timber portfolio has provided 18.54%, and 14.98% for the three year, and five year period ending 2007.

The agricultural portfolio represents approximately 9.0% of the real estate portfolio and is managed by the Hancock Agricultural Investment 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 2007 return for the agricultural investments was 18.13% net of fees. Hancock has produced annualized returns of 28.23% and 24.50% net of fees for the three year and five year period ending 2007.

The public real estate portfolio consists of investments in Real Estate Investment Trusts (REITs) totaling approximately 5.4% of the System's real estate assets. The REIT portfolio managed by RREEF provided outstanding results with a return of 21.16% net of fees for five years ending 2007.

## INFLATION

Inflation as measured by the Consumer Price Index for all Urban Consumers (CPI-U) increased 4.1% for the year 2007 according to the U.S. Department of Labor.







## ACTUARIAL REPORT





DALLAS POLICE AND FIRE PENSION SYSTEM  
ACTUARIAL VALUATION  
AS OF JANUARY 1, 2008



May 16, 2008

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, 2008**

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, 2008.

***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, 2008, 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 24.81%. This amount is less than the 25.85% employer contribution rate calculated as of January 1, 2007. 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 14 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***

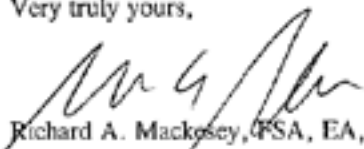
The actuarial assumptions and methods used in the valuation are presented in Schedule C. The mortality assumption was changed to the 1994 Group Annuity Mortality Table for males and females, set back one year for males and females. All other assumptions are consistent with the last actuarial valuation.

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, 2008 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. Mackosey, FSA, EA, MAAA  
Principal, Consulting Actuary

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Enclosures

Dallas Police and Fire Pension System  
 Actuarial Valuation - January 1, 2008

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Dallas Police and Fire Pension System  
Actuarial Valuation - January 1, 2008

## Section I

**Summary of Principal Results**

	January 1, 2008	January 1, 2007
<b>Membership</b>		
Active	4,909	4,739
Terminated with deferred benefits	182	158
Retired members and beneficiaries	3,294	3,198
<b>Compensation</b>		
Total	\$ 321,491,941	\$ 305,610,668
Average	\$ 65,490	\$ 64,488
<b>Assets</b>		
Market value	\$ 3,390,974,909	\$ 3,131,265,222
Actuarial value	\$ 3,258,627,218	\$ 2,962,488,333
<b>Valuation Results</b>		
Unfunded actuarial accrued liability	\$ 385,091,924	\$ 408,079,026
Funding period	14	15
<b>GASB No. 25</b>		
Actuarial accrued liability (AAL)	\$ 3,643,719,142	\$ 3,370,567,359
Assets (actuarial)	\$ 3,258,627,218	\$ 2,962,488,333
GASB ratio	89.4%	87.9%
Unfunded AAL	\$ 385,091,924	\$ 408,079,026

---

## 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 14 years from 15 years. This decrease was primarily due to a gain on the actuarial value of assets partially offset by a change in mortality assumption.

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 24.81% compared with the City's actual contribution rate of 27.50% and with the 30-year funding cost in 2007 of 25.85%. Section 3 shows a reconciliation of the changes between the 2007 and 2008 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, 2007, the current contribution rate is sufficient to pay the normal cost and amortize the UAAL over 14 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 2007 and 2008.

### *GASB Statements*

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

***Benefit Provisions***

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

***Actuarial Assumptions and Methods***

The actuarial assumptions and methods used in the valuation are presented in Schedule C. The mortality assumption was changed to the 1994 Group Annuity Mortality Table for males and females, set back one year for males and females. 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 24.81% will be required for the City to avoid showing an accrued pension liability on its financial statements for the fiscal year beginning in 2008. 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 2007 and 2008 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

Dallas Police and Fire Pension System  
Actuarial Valuation - January 1, 2008

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 2008 valuation, 20% of the asset gain for 2007, 40% of the asset gain for 2006, and 60% asset gain for 2005 is reflected in the actuarial value of assets. The estimated rate of return for 2007 is 8.85% for the market value of assets, and 10.58% 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 4,739 members as of January 1, 2007 to 4,909 members as of January 1, 2008. The total active payroll increased from \$305,610,668 to \$321,491,941 over the same period, a 5.2% increase. Schedule A shows a summary of the membership data.

#### *Experience*

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

**Actuarial Cost, Margin and Funding Period**

	<u>January 1, 2008</u>	<u>January 1, 2007</u>
1. Covered Payroll		
a. Active members excluding DROP	215,828,664	213,880,363
b. DROP members	<u>105,663,277</u>	<u>91,730,305</u>
c. Total	321,491,941	305,610,668
2. Actuarial value of future pay		
a. Active members excluding DROP	1,805,865,500	1,635,073,500
b. DROP members	<u>1,309,538,600</u>	<u>1,194,116,000</u>
c. Total	3,115,404,100	2,829,189,500
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	4,460,198,126	4,128,898,566
5. Actuarial present value of future normal costs		
a. Total	816,478,984	758,331,207
b. Member (3b x 2a)	153,498,571	138,981,250
c. City (5a - 5b)	662,980,413	619,349,957
6. Actuarial accrued liability (4 - 5a)	3,643,719,142	3,370,567,359
7. Actuarial value of assets	3,258,627,218	2,962,488,333
8. Unfunded actuarial accrued liability (UAAL) (6 - 7)	385,091,924	408,079,026
9. Normal cost		
a. Normal cost percentage (5a ÷ 2c)	26.21%	26.80%
b. Total normal cost (1c x 9a)	84,263,038	81,903,659
c. Member normal cost (1a x 3b)	18,345,436	18,179,831
d. City normal cost (9b - 9c)	65,917,602	63,723,828
e. City normal rate (9d ÷ [1c x 1.11])	18.47%	18.78%

Dallas Police and Fire Pension System  
Actuarial Valuation - January 1, 2008

Section 3  
(continued)

### Actuarial Cost, Margin and Funding Period

	<u>January 1, 2008</u>	<u>January 1, 2007</u>
10. 30-year funding cost*		
a. City normal cost rate**	18.47%	18.78%
b. Amortization rate	<u>6.34%</u>	<u>7.07%</u>
c. Total	24.81%	25.85%
11. Margin over/(under) 30-year cost* (3a - 10c)	2.69%	1.65%
12. Funding period to amortize UAAL	14	15

\* 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 14 years.

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

### Analysis of Change in UAAL

1. UAAL as of January 1, 2007	\$ 408,079,026
2. Changes due to:	
a. Expected increase (negative amortization)	\$ 3,224,381
b. Actual contributions greater than expected	(3,995,680)
c. Liability experience	(4,603,053)
d. Asset experience	(61,561,042)
e. Assumption Change	<u>43,948,292</u>
f. Total changes	\$ (22,987,102)
3. UAAL as of January 1, 2008	\$ 385,091,924

Dallas Police and Fire Pension System  
Actuarial Valuation - January 1, 2008

Section 3  
(continued)

### Analysis of Change in Funding Cost

1. 30-year funding cost* as of January 1, 2007	25.85 %
2. Changes due to:	
a. Resetting of amortization from prior year	(0.22)
b. Actual contributions greater than expected	(0.06)
c. Liability experience	(0.64)
d. Asset experience	(1.01)
e. Assumption Change	<u>0.89</u>
f. Total	(1.04)
3. 30-year funding cost* as of January 1, 2008	24.81 %

\* 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 14 years.



**Analysis of Change in UAAL**

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Dallas Police and Fire Pension System  
Actuarial Valuation - January 1, 2008

Section 3  
(continued)

### Analysis of Change in Funding Cost

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Dallas Police and Fire Pension System  
Actuarial Valuation - January 1, 2008

Section 3  
(continued)

### Analysis of Change in UAAL

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Dallas Police and Fire Pension System  
Actuarial Valuation - January 1, 2008

Section 3  
(continued)

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Dallas Police and Fire Pension System  
Actuarial Valuation - January 1, 2008

Section 3  
(continued)

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Dallas Police and Fire Pension System  
 Actuarial Valuation - January 1, 2008

Section 3  
 (continued)

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Dallas Police and Fire Pension System  
Actuarial Valuation - January 1, 2008

Section 3  
(continued)

### Analysis of Change in UAAL

1. UAAL as of January 1, 2007	\$ 408,079,026
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a. Expected increase (negative amortization)	\$ 3,224,381
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Dallas Police and Fire Pension System  
Actuarial Valuation - January 1, 2008

Section 3  
(continued)

### Analysis of Change in Funding Cost

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2. Changes due to:	
a. Resetting of amortization from prior year	(0.22)
b. Actual contributions greater than expected	(0.06)
c. Liability experience	(0.64)
d. Asset experience	(1.01)
e. Assumption Change	<u>0.89</u>
f. Total	(1.04)
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Dallas Police and Fire Pension System  
Actuarial Valuation - January 1, 2008

Section 3  
(continued)

### Analysis of Change in UAAL

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e. Assumption Change	<u>43,948,292</u>
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Dallas Police and Fire Pension System  
 Actuarial Valuation - January 1, 2008

Section 3  
 (continued)

### Analysis of Change in Funding Cost

1. 30-year funding cost* as of January 1, 2007	25.85%
2. Changes due to:	
a. Resetting of amortization from prior year	(0.22)
b. Actual contributions greater than expected	(0.06)
c. Liability experience	(0.64)
d. Asset experience	(1.01)
e. Assumption Change	<u>0.89</u>
f. Total	(1.04)
3. 30-year funding cost* as of January 1, 2008	24.81%

\* 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 14 years.

Dallas Police and Fire Pension System  
Actuarial Valuation - January 1, 2008

Section 3  
(continued)

### Analysis of Change in Funding Period

1. Funding period as of January 1, 2007	15
2. Changes due to:	
a. Passage of time	(1)
b. Actual contributions greater than expected	0
c. Liability experience	0
d. Assumption Change	2
e. Asset experience	<u>(2)</u>
f. Total	(1)
3. Funding period as of January 1, 2008	14

Dallas Police and Fire Pension System  
Actuarial Valuation - January 1, 2008

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, 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%
January 1, 2008	3,259	3,644	385	89.4%	321	119.9%

### GASB #25 Schedule of Employer Contributions for Year Ending December 31, 2007

<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, 2008

Section 4  
(continued)

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

**Accumulated Benefits at January 1, 2008**

Vested benefits of participants and beneficiaries currently receiving payments		\$ 1,690,978,483
Other vested benefits		1,738,614,733
Nonvested benefits		<u>144,415,828</u>
Total benefits		\$ 3,574,009,044

**FASB #35 Reconciliation**

<b>Accumulated benefits at January 1, 2007</b>		\$ 3,285,109,191
Benefits accumulated	\$ 102,278,536	
Interest	273,745,702	
Benefits paid	(131,831,368)	
Assumption change	44,706,983	
Plan amendments	<u>0</u>	
<b>Total Change</b>		<u>288,899,853</u>
<b>Accumulated benefits at January 1, 2008</b>		\$ 3,574,009,044

Dallas Police and Fire Pension System  
 Actuarial Valuation - January 1, 2008

Section 5

### Reconciliation of Fund Assets

	Year Ending December 31, 2007
1. Value of fund at beginning of year	\$ 3,131,265,222
2. Contributions	
a. City	97,440,007
b. Member	<u>17,860,267</u>
c. Total	\$ 115,300,274
3. Benefit payments	(130,995,067)
4. Refunds	(836,301)
5. Earnings	282,273,573
6. Expenses	(6,032,792)
7. Value of assets at end of year	\$ 3,390,974,909
8. Estimated rate of return	8.85%

Dallas Police and Fire Pension System  
Actuarial Valuation - January 1, 2008

Section 5  
(continued)

### Determination of Excess Earnings To Be Deferred

	Year Ending December 31, 2007
1. Market value at beginning of year	\$ 3,131,265,222
2. Net new investments	
a. Contributions	\$ 115,300,274
b. Benefit payments	(130,995,067)
c. Refunds	<u>(836,301)</u>
d. Total	\$ (16,531,094)
3. Market value at end of year	\$ 3,390,974,909
4. Yield (3 - 1 - 2d)	\$ 276,240,781
5. Average balance $[1 + \frac{1}{2} \times (2d)]$	3,122,999,675
6. Assumed investment return rate	8.50%
7. Expected net return (5 x 6)	\$ 265,454,972
8. Gains/(losses) subject to deferral (4 - 7)	\$ 10,785,809

Dallas Police and Fire Pension System  
Actuarial Valuation - January 1, 2008

Section 5  
(continued)

### Calculation of Actuarial Value of Assets

1.	Market value of assets as of January 1, 2008			\$3,390,974,909	
2.	Deferral amounts*				
		<u>Year</u>	<u>Total Gain/(Loss)</u>	<u>Percent Deferred</u>	<u>Deferral Amount</u>
a.		2007	\$ 10,785,809	80%	\$ 8,628,647
b.		2006	168,016,769	60%	100,810,061
c.		2005	57,272,457	40%	22,908,983
d.		N/A	N/A	20%	N/A
e.		Total			\$ 132,347,691
3.	Preliminary actuarial value of assets (1 - 2e)			3,258,627,218	
4.	80% of Market value			2,712,779,927	
5.	120% of Market value			4,069,169,891	
6.	Actuarial value of assets (3, not less than 4 or more than 5)			3,258,627,218	
7.	Rate of return on actuarial value of assets			10.58%	

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



Dallas Police and Fire Pension System  
Actuarial Valuation - January 1, 2008

Schedule A

Membership Data

	<u>January 1, 2008</u>	<u>January 1, 2007</u>
1. Active members (excluding DROP)		
a. Police and Fire		
1. Number	3,725	3,658
2. Covered payroll	\$215,828,664	\$213,880,363
3. Average annual pay	\$ 57,941	\$ 58,469
4. Average age	37.63	38.28
5. Average service (years)	11.14	11.89
b. Police		
1. Number	2,593	2,499
2. Covered payroll	\$149,560,273	\$145,442,908
3. Average annual pay	\$ 57,678	\$ 58,200
4. Average age	37.42	38.06
5. Average service (years)	10.92	11.68
c. Fire		
1. Number	1,132	1,159
2. Covered payroll	\$ 66,268,391	\$ 68,437,455
3. Average annual pay	\$ 58,541	\$ 59,049
4. Average age	38.11	38.76
5. Average service (years)	11.64	12.35

Dallas Police and Fire Pension System  
Actuarial Valuation - January 1, 2008

Schedule A  
(continued)

**Membership Data**  
(continued)

	<u>January 1, 2008</u>	<u>January 1, 2007</u>
2. Active members (DROP only)		
a. Police and Fire		
1. Number	1,184	1,081
2. Covered payroll	\$105,663,277	\$ 91,730,305
3. Average annual pay	\$ 89,243	\$ 84,857
4. Average age	54.26	54.48
5. Average total service (years)	28.53	28.95
6. Average time in DROP (years)	4.38	4.48
7. DROP account balance	\$296,459,343	\$264,694,334
b. Police		
1. Number	625	557
2. Covered payroll	\$ 56,602,051	\$ 47,794,446
3. Average annual pay	\$ 90,563	\$ 85,807
4. Average age	54.15	54.37
5. Average total service (years)	28.12	28.53
6. Average time in DROP (years)	4.15	4.26
7. DROP account balance	\$145,084,578	\$124,668,697
c. Fire		
1. Number	559	524
2. Covered payroll	\$ 49,061,226	\$ 43,935,859
3. Average annual pay	\$ 87,766	\$ 83,847
4. Average age	54.38	54.59
5. Average service (years)	28.98	29.40
6. Average time in DROP (years)	4.63	4.71
7. DROP account balance	\$151,374,765	\$140,025,637

Dallas Police and Fire Pension System  
Actuarial Valuation - January 1, 2008

Schedule A  
(continued)

**Membership Data**  
(continued)

	<u>January 1, 2008</u>	<u>January 1, 2007</u>
3. Active members (including DROP)		
a. Police and Fire		
1. Number	4,909	4,739
2. Covered payroll	\$321,491,941	\$305,610,668
3. Average annual pay	\$ 65,490	\$ 64,488
4. Average age	41.64	41.98
5. Average service (years)	15.33	15.78
6. DROP account balance	\$296,459,343	\$264,694,334
b. Police		
1. Number	3,218	3,056
2. Covered payroll	\$206,162,324	\$193,237,354
3. Average annual pay	\$ 64,065	\$ 63,232
4. Average age	40.67	41.03
5. Average service (years)	14.26	14.75
6. DROP account balance	\$145,084,578	\$124,668,697
c. Fire		
1. Number	1,691	1,683
2. Covered payroll	\$115,329,617	\$112,373,314
3. Average annual pay	\$ 68,202	\$ 66,770
4. Average age	43.49	43.69
5. Average service (years)	17.37	17.66
6. DROP account balance	\$151,374,765	\$140,025,637

Dallas Police and Fire Pension System  
Actuarial Valuation - January 1, 2008

Schedule A  
(continued)

**Membership Data**  
(continued)

	<u>January 1, 2008</u>	<u>January 1, 2007</u>
4. Inactive members		
a. Retired members	2,458	2,380
b. Beneficiaries	836	818
c. Number entitled to deferred benefits	<u>182</u>	<u>158</u>
d. Total number of inactive members	3,476	3,356
e. Total annual benefit	\$ 121,360,391	\$ 113,184,975
f. Average annual benefit	\$ 34,914	\$ 33,726

**Summary of Benefit Provisions  
As of January 1, 2008  
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, 2008

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, 2008

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 2/3 of 1% per month of retirement prior to age 50.

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

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

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

*Disability Retirement Benefits*

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

Annual Amount of Pension

Greater of I or II:

I. Same as Normal Retirement Pension (I).

Dallas Police and Fire Pension System  
Actuarial Valuation - January 1, 2008

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, 2008

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, 2008

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, 2008

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, 2008

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, 2008

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 &amp; 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, 2008

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, 2008

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, 2007 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, 2008

**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, 2008

Schedule C

**Statement of Actuarial Methods and Assumptions  
(Effective as of January 1, 2008)**

*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	.48	.28	.35	.70
25	47.0	23.0	48.30	26.30	.62	.29	.37	.75
30	35.0	18.0	36.20	23.70	.78	.33	.42	.84
35	25.0	18.0	27.80	21.40	.85	.45	.48	.96
40	25.0	18.0	28.20	20.90	1.00	.65	.57	1.15
45	25.0	18.0	32.20	22.40	1.46	.92	.79	1.58
50	NA	NA	38.30	25.70	2.33	1.31	NA	NA
60	NA	NA	60.30	33.10	7.09	3.86	NA	NA
70	NA	NA	73.90	41.10	21.73	12.71	NA	NA
75	NA	NA	84.20	49.20	34.05	20.38	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, 2008

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

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 2007.

**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.

**Postretirement Mortality:** According to the 1994 Group Annuity Mortality Table for males and females, set back one year for males and females.

Dallas Police and Fire Pension System  
Actuarial Valuation - January 1, 2008

Schedule C  
(continued)

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

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

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

***Valuation Method:*** The method used to determine Normal Cost and Accrued Actuarial Liability is the Entry Age Normal Cost Method. Under the Entry Age Normal Cost Method, an annual Normal Cost is determined for each covered active Member which is the contribution required to provide all the projected pension benefits assuming this contribution is payable over a period ending on the date of retirement (separation from active service) and expressed as a level percentage of compensation. The Actuarial Accrued Liability is determined as the excess of the total present value of all pension benefits over the total present value of future Normal Costs. The Unfunded Actuarial Accrued Liability as of the valuation date is determined as the excess of the Actuarial Accrued Liability over the assets of the Fund.

Dallas Police and Fire Pension System  
Actuarial Valuation - January 1, 2008

Schedule C  
(continued)

The Normal Cost and Accrued Actuarial Liability are derived by making certain assumptions as to the rates of interest, mortality, turnover, etc., which are assumed to reflect experience for many years into the future. Since actual experience will differ from the assumptions, the costs determined must be regarded as estimates of the true costs of the Plan. The effects of any actuarial gains or losses are immediately reflected in the Unfunded Actuarial Accrued Liability and the Normal Cost.

**Actuarial Value of Assets:** The actuarial value of assets is 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)<sub>i</sub> = the asset gain or (loss) (i.e., actual return on assets less expected return on assets) for the i-th year preceding the valuation date.

This method is being phased in effective January 1, 2005. Asset gains or losses prior to January 1, 2005, are fully reflected in the calculation of the Actuarial Value of Assets. In no event is the actuarial value of assets less than 80% nor more than 120% of the market value of assets.

## Comparison of Actual Experience and Actuarial Expectations

### Demographic Assumptions

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

<b>Terminations Prior to Retirement</b>			
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, 2007 shows that during this period there have been about 24% more terminations than expected.			
January 1, 2004 through December 31, 2007			
	<u>Actual</u>	<u>Expected</u>	<u>Actual/Expected</u>
Termination Prior to Retirement	375	302	124%

<b>Disability</b>			
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, 2003 through December 31, 2007 shows that during this period there have been about 45% more of disability retirements as expected. Since the actual number of disablements is so small, we do not feel that any change in this assumption is necessary at this time.			
January 1, 2003 through December 31, 2007			
	<u>Actual</u>	<u>Expected</u>	<u>Actual/Expected</u>
Disability Retirements	16	11	145%

Dallas Police and Fire Pension System  
Actuarial Valuation - January 1, 2008

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, 2007 shows that during this period there have been about 16% less retirements than expected.

January 1, 2004 through December 31, 2007

	<u>Actual</u>	<u>Expected</u>	<u>Actual/Expected</u>
Retirement	463	554	84%

#### Death

This assumption has been updated for the current valuation 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, 2007 through December 31, 2007 shows that during this period there have been 8% more deaths than expected. It is generally desirable to have some margin in this assumption for mortality improvement.

January 1, 2007 through December 31, 2007

	<u>Actual</u>	<u>Expected</u>	<u>Actual/Expected</u>
Death	98	91	108%

#### 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, 2007

	<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, 2008

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.

<b>Inflation</b>			
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, 2007 has been 3.71%. 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, 2007			
	<u>Actual</u>	<u>Expected</u>	<u>Actual/Expected</u>
Inflation	3.71%	4.00%	93%

<b>Salary Increases</b>			
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, 2007 follows.			
January 1, 2006 through December 31, 2007			
	<u>Actual</u>	<u>Expected</u>	<u>Actual/Expected</u>
Valuation Compensation	\$597,360,017	\$597,400,740	100%

Dallas Police and Fire Pension System  
Actuarial Valuation - January 1, 2008

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, 2007 follows.

Period			Annualized Rate of Return
10/1/1988	through	9/30/1989	25.40%
10/1/1989	through	9/30/1990	(6.53)
10/1/1990	through	12/31/1991	20.73
1/1/1992	through	12/31/1992	2.94
1/1/1993	through	12/31/1993	14.06
1/1/1994	through	12/31/1994	2.78
1/1/1995	through	12/31/1995	24.33
1/1/1996	through	12/31/1996	16.69
1/1/1997	through	12/31/1997	13.84
1/1/1998	through	12/31/1998	13.68
1/1/1999	through	12/31/1999	24.39
1/1/2000	through	12/31/2000	(1.52)
1/1/2001	through	12/31/2001	(7.76)
1/1/2002	through	12/31/2002	(12.26)
1/1/2003	through	12/31/2003	31.65
1/1/2004	through	12/31/2004	13.96
1/1/2005	through	12/31/2005	10.81
1/1/2006	through	12/31/2006	14.64
1/1/2007	through	12/31/2007	8.85
10/1/1988	through	12/31/2007	10.79%



TABLE 1  
 THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE  
 (excluding DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE  
 AS OF JANUARY 1, 2008

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	104	45,167	61	43,711	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	117	41,408	223	44,755	73	50,686	0	0	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	47	41,411	102	47,482	222	52,438	48	57,644	0	0	0	0	0	0	0	0	0	0	0	0
35 to 39	21	41,292	59	44,903	148	52,760	157	60,164	115	67,053	0	0	0	0	0	0	0	0	0	0
40 to 44	7	41,089	17	48,725	39	52,194	84	60,552	315	68,355	93	72,845	0	0	0	0	0	0	0	0
45 to 49	5	41,108	11	46,198	20	54,029	30	61,719	146	68,372	171	73,967	104	74,378	0	0	0	0	0	0
50 to 54	1	42,682	1	43,980	3	49,729	2	64,918	11	69,646	2	75,261	9	69,473	1	64,918	0	0	0	0
55 to 59	2	41,486	3	62,626	1	53,511	0	0	3	67,561	0	0	2	70,471	0	0	0	0	0	0
60 to 64	0	0	1	70,998	1	49,572	0	0	1	68,319	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, 2008**

**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	22	41,323	10	43,318	1	39,606	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	39	41,448	63	44,861	25	50,991	2	44,991	0	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	17	41,476	71	45,163	140	52,787	22	57,451	1	50,944	0	0	0	0	0	0	0	0	0	0	0
35 to 39	7	41,639	25	45,515	90	53,113	06	62,350	17	68,049	0	0	0	0	0	0	0	0	0	0	0
40 to 44	1	39,606	9	47,296	27	52,083	42	61,303	74	69,916	77	73,866	0	0	0	0	0	0	0	0	0
45 to 49	0	0	8	44,313	2	49,571	16	61,591	41	68,755	133	72,902	39	74,596	1	70,785	0	0	0	0	0
50 to 54	1	43,437	0	0	0	0	1	61,343	4	68,135	3	66,841	2	81,766	0	0	0	0	0	0	0
55 to 59	1	39,606	0	0	0	0	0	0	1	68,535	0	0	0	0	1	72,015	0	0	0	0	0
60 to 64	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
65 to 69	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

**TABLE 1**  
**THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE**  
**(excluding DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE**  
**AS OF JANUARY 1, 2008**

**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	126	44,495	71	43,656	1	39,605	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	156	41,618	285	44,778	98	50,754	2	44,991	0	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	61	41,428	173	46,530	362	52,573	70	57,583	1	50,944	0	0	0	0	0	0	0	0	0	0	0
35 to 39	28	41,379	84	45,085	238	52,893	263	60,954	132	67,182	0	0	0	0	0	0	0	0	0	0	0
40 to 44	8	40,903	25	48,230	66	52,149	126	60,802	389	68,481	170	73,307	0	0	0	0	0	0	0	0	0
45 to 49	5	41,108	19	45,604	22	53,624	46	61,674	187	68,456	304	73,501	143	74,546	1	70,785	0	0	0	0	0
50 to 54	2	43,888	1	43,980	3	49,729	3	63,726	15	69,249	5	70,209	11	71,708	1	64,018	0	0	0	0	0
55 to 59	3	40,859	3	62,626	1	53,511	0	0	4	67,804	0	0	2	70,471	1	72,015	0	0	0	0	0
60 to 64	0	0	1	76,958	1	49,572	0	0	1	68,319	0	0	0	0	0	0	0	0	0	0	0
65 to 69	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

**TABLE 2**  
**THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE**  
**(including DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE**  
**AS OF JANUARY 1, 2008**

**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		
Under 25	104	43,107	61	43,711	0	0	0	0	0	0	0	0	0	0	0	0	0	
25 to 29	117	41,408	223	44,255	73	50,696	0	0	0	0	0	0	0	0	0	0	0	
30 to 34	47	41,411	102	47,482	222	52,438	48	57,644	0	0	0	0	0	0	0	0	0	
35 to 39	21	41,292	59	44,903	148	52,700	167	60,164	115	67,053	0	0	0	0	0	0	0	
40 to 44	7	41,089	17	46,725	39	52,194	84	60,552	315	68,355	95	73,310	0	0	0	0	0	
45 to 49	5	41,108	11	46,198	20	54,029	31	62,542	148	68,489	207	74,073	135	77,975	1	84,694	0	0
50 to 54	1	42,682	1	43,980	4	51,205	6	65,800	38	79,164	65	89,217	135	89,876	30	98,941	19	94,272
55 to 59	2	41,486	3	62,626	1	53,511	0	0	15	82,316	24	94,794	42	83,571	72	97,191	48	86,080
60 to 64	0	0	1	75,998	1	49,572	0	0	4	74,833	3	87,141	10	88,183	12	87,195	21	89,400
65 to 69	0	0	0	0	0	0	0	0	0	0	0	0	1	180,223	0	0	2	76,498
70 & up	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, 2008

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	22	41,323	10	43,318	1	39,606	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	39	41,448	63	44,861	25	50,971	2	44,991	0	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	17	41,476	71	45,163	140	52,787	22	57,451	1	50,944	0	0	0	0	0	0	0	0	0	0	0
35 to 39	7	41,639	25	45,515	90	53,113	96	62,330	17	68,049	0	0	0	0	0	0	0	0	0	0	0
40 to 44	1	39,606	9	47,296	27	52,083	42	61,303	74	69,016	83	74,973	0	0	0	0	0	0	0	0	0
45 to 49	0	0	8	44,313	2	49,574	17	60,297	43	68,011	161	73,540	60	77,839	1	70,783	0	0	0	0	0
50 to 54	1	43,437	0	0	0	0	2	63,478	16	78,267	74	87,810	172	89,478	46	88,157	5	92,020	0	0	0
55 to 59	1	39,606	0	0	1	64,720	1	109,275	3	69,893	8	82,497	46	84,135	86	93,043	54	83,347	0	0	0
60 to 64	0	0	0	0	0	0	0	0	0	0	0	4	93,234	14	87,429	20	83,309	6	118,209	0	0
65 to 69	0	0	0	0	0	0	0	0	0	0	0	0	0	1	114,415	0	0	1	130,711	0	0
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	104,271	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, 2008**

**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	126	44,495	71	43,656	1	30,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	156	41,418	286	44,778	98	50,764	2	44,991	0	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	64	41,428	173	46,530	362	52,573	70	57,583	1	50,944	0	0	0	0	0	0	0	0	0	0	0
35 to 39	28	41,379	84	45,685	238	52,853	203	60,958	132	67,182	0	0	0	0	0	0	0	0	0	0	0
40 to 44	8	40,903	26	48,230	66	52,149	126	60,802	389	68,481	179	74,081	0	0	0	0	0	0	0	0	0
45 to 49	5	41,808	19	45,404	22	53,034	48	61,747	191	68,381	368	74,909	195	77,940	2	77,740	0	0	0	0	0
50 to 54	2	43,040	1	43,980	4	51,206	8	64,604	51	78,898	140	88,473	257	89,687	116	94,663	15	91,573	0	0	0
55 to 59	3	40,859	3	62,626	2	59,119	1	105,275	20	79,210	32	91,720	88	83,865	138	93,301	102	87,386	0	0	0
60 to 64	0	0	1	76,998	1	49,572	0	0	4	74,833	3	87,141	14	89,632	26	87,371	41	89,311	8	180,737	0
65 to 69	0	0	0	0	0	0	0	0	0	0	0	0	0	2	112,334	0	0	0	0	3	94,569
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	104,271

TABLE 3

THE NUMBER AND ANNUAL RETIREMENT  
ALLOWANCE OF RETIRED MEMBERS  
BY AGE AS OF JANUARY 1, 2008

## POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
44	1	\$ 28,984	\$ 28,984
45	6	122,208	20,368
46	4	104,351	26,088
47	5	140,438	28,088
48	15	430,565	28,704
49	9	343,152	38,128
50	13	446,607	34,354
51	18	489,334	27,185
52	20	761,232	38,062
53	24	1,063,507	44,313
54	23	857,106	37,265
55	37	1,920,791	51,913
56	63	3,149,585	49,993
57	57	2,747,662	48,205
58	97	4,908,487	50,603
59	105	4,704,592	44,806
60	135	6,028,920	44,659
61	131	5,957,875	45,480
62	95	4,183,251	44,034
63	82	3,504,197	42,734
64	88	4,058,149	46,115
65	111	4,848,794	43,683
66	69	3,228,068	46,784
67	97	4,203,442	43,334
68	78	3,628,069	46,514
69	88	4,055,038	46,080
70	71	3,325,126	46,833
71	62	2,605,489	42,024
72	59	2,505,886	42,473
73	65	2,558,829	39,367
74	62	2,342,796	37,787
75	60	2,521,244	42,021
76	61	2,183,113	35,789
77	54	1,921,761	35,588

TABLE 3  
 THE NUMBER AND ANNUAL RETIREMENT  
 ALLOWANCE OF RETIRED MEMBERS  
 BY AGE AS OF JANUARY 1, 2008  
 CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
78	52	\$ 1,824,054	\$ 35,078
79	47	1,710,503	36,394
80	38	1,441,477	37,934
81	24	884,378	36,849
82	22	743,207	33,782
83	30	1,073,790	35,793
84	22	789,946	35,907
85	9	323,495	35,944
86	11	359,958	32,723
87	16	576,595	36,037
88	13	432,332	33,256
89	3	111,681	37,227
90	7	230,648	32,950
91	3	108,725	36,242
92	1	33,842	33,842
94	1	30,514	30,514
TOTAL	2,264	\$ 96,553,793	\$ 42,647
POLICE	1,329	\$ 54,321,106	\$ 40,874
FIRE	935	\$ 42,232,687	\$ 45,169



TABLE 4

THE NUMBER AND ANNUAL RETIREMENT  
ALLOWANCE OF DISABLED MEMBERS  
BY AGE AS OF JANUARY 1, 2008

## POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
31	1	\$ 27,523	\$ 27,523
35	2	62,089	31,045
36	1	33,924	33,924
37	1	25,668	25,668
39	1	28,405	28,405
40	3	96,622	32,207
41	1	29,664	29,664
42	1	35,277	35,277
43	2	60,179	30,090
44	3	86,915	28,972
45	3	92,747	30,916
46	2	50,365	25,183
47	3	84,095	28,032
48	2	72,796	36,398
50	2	62,259	31,130
51	4	117,514	29,379
52	3	87,243	29,081
53	5	154,228	30,846
54	2	60,887	30,444
55	1	32,557	32,557
56	6	226,599	37,767
57	6	211,222	35,204
58	6	271,344	45,224
59	6	196,970	32,828
60	7	263,640	37,663
61	4	107,127	26,782
62	2	43,478	21,739
63	6	202,742	33,790
64	2	76,211	38,106
65	4	161,708	40,427
66	3	96,286	32,095
67	7	284,776	40,682
68	12	537,025	44,752
69	6	246,672	41,112

TABLE 4  
 THE NUMBER AND ANNUAL RETIREMENT  
 ALLOWANCE OF DISABLED MEMBERS  
 BY AGE AS OF JANUARY 1, 2008  
 CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
70	5	\$ 186,068	\$ 37,214
71	6	189,329	31,555
72	5	204,467	40,893
73	5	199,170	39,834
74	4	133,964	33,491
75	4	141,890	35,473
76	3	96,985	32,328
77	5	222,167	44,433
78	5	173,499	34,700
79	3	110,124	36,708
80	3	101,377	33,792
81	6	202,433	33,739
82	3	101,525	33,842
83	5	178,888	35,778
84	3	95,058	31,686
85	4	121,752	30,438
86	2	61,167	30,584
87	2	67,584	33,792
90	1	33,372	33,372
TOTAL	194	\$ 6,847,576	\$ 35,297
POLICE	71	\$ 2,203,888	\$ 31,041
FIRE	123	\$ 4,643,688	\$ 37,754

TABLE 5

THE NUMBER AND ANNUAL RETIREMENT  
ALLOWANCE OF BENEFICIARIES  
BY AGE AS OF JANUARY 1, 2008

## POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
4	1	\$ 4,916	\$ 4,916
5	1	4,400	4,400
7	2	21,728	10,864
8	3	22,383	7,461
9	4	34,581	8,645
10	5	28,437	5,687
11	7	42,040	6,006
13	4	35,747	8,937
14	2	32,131	16,066
15	4	38,238	9,560
16	8	114,458	14,307
17	3	68,006	22,669
18	7	133,289	19,041
19	4	66,255	16,564
24	1	13,200	13,200
33	1	14,400	14,400
34	2	30,417	15,209
36	3	50,043	16,681
37	1	15,389	15,389
38	3	36,132	12,044
39	1	15,451	15,451
40	3	47,487	15,829
41	2	27,600	13,800
42	1	14,400	14,400
43	3	47,868	15,956
45	2	72,396	36,198
46	4	67,186	16,797
47	7	139,860	19,980
48	7	126,300	18,043
49	5	97,433	19,487
50	5	97,158	19,432
51	3	47,849	15,950
52	7	111,987	15,998
53	11	206,413	18,765

TABLE 5  
 THE NUMBER AND ANNUAL RETIREMENT  
 ALLOWANCE OF BENEFICIARIES  
 BY AGE AS OF JANUARY 1, 2008  
 CONTINUED

## POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
54	9	\$ 189,842	\$ 21,094
55	6	101,001	16,834
56	12	230,652	19,221
57	12	290,166	24,181
58	14	247,653	17,690
59	19	369,925	19,470
60	15	334,172	22,278
61	24	478,854	19,952
62	18	339,351	18,853
63	12	226,901	18,908
64	20	455,573	22,779
65	16	339,828	21,239
66	19	387,316	20,385
67	20	349,221	17,461
68	30	659,544	21,985
69	21	485,610	23,124
70	21	570,246	27,155
71	16	366,655	22,916
72	24	494,936	20,622
73	23	454,041	19,741
74	20	342,783	17,139
75	26	458,592	17,638
76	19	409,767	21,567
77	23	403,016	17,522
78	20	352,278	17,614
79	31	584,737	18,862
80	24	420,189	17,508
81	30	554,258	18,475
82	17	316,676	18,628
83	27	462,484	17,129
84	22	435,851	19,811
85	15	290,184	19,346
86	17	313,236	18,426
87	9	154,800	17,200

TABLE 5  
 THE NUMBER AND ANNUAL RETIREMENT  
 ALLOWANCE OF BENEFICIARIES  
 BY AGE AS OF JANUARY 1, 2008  
 CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
88	12	\$ 203,173	\$ 16,931
89	13	218,965	16,843
90	8	132,756	16,595
91	7	117,384	16,769
92	6	145,422	24,237
93	5	84,431	16,886
94	1	16,911	16,911
95	2	32,604	16,302
96	2	34,680	17,340
97	1	17,352	17,352
98	1	17,364	17,364
TOTAL	836	\$ 15,816,958	\$ 18,920
POLICE	471	\$ 8,650,189	\$ 18,366
FIRE	365	\$ 7,166,769	\$ 19,635

**TABLE 6**  
**THE NUMBER AND ANNUAL RETIREMENT**  
**ALLOWANCE OF RETIRED MEMBERS,**  
**DISABLED MEMBERS AND BENEFICIARIES**  
**BY AGE AS OF JANUARY 1, 2008**

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
4	1	\$ 4,916	\$ 4,916
5	1	4,400	4,400
7	2	21,728	10,864
8	3	22,383	7,461
9	4	34,581	8,645
10	5	28,437	5,687
11	7	42,040	6,006
13	4	35,747	8,937
14	2	32,131	16,066
15	4	38,238	9,560
16	8	114,458	14,307
17	3	68,006	22,669
18	7	133,289	19,041
19	4	66,255	16,564
24	1	13,200	13,200
31	1	27,523	27,523
33	1	14,400	14,400
34	2	30,417	15,209
35	2	62,089	31,045
36	4	83,967	20,992
37	2	41,057	20,529
38	3	36,132	12,044
39	2	43,856	21,928
40	6	144,109	24,018
41	3	57,264	19,088
42	2	49,677	24,839
43	5	108,047	21,609
44	4	115,899	28,975
45	11	287,351	26,123
46	10	221,902	22,190
47	15	364,393	24,293
48	24	629,661	26,236
49	14	440,585	31,470
50	20	606,024	30,301

**TABLE 6**  
**THE NUMBER AND ANNUAL RETIREMENT**  
**ALLOWANCE OF RETIRED MEMBERS,**  
**DISABLED MEMBERS AND BENEFICIARIES**  
**BY AGE AS OF JANUARY 1, 2008**  
**CONTINUED**

**POLICE AND FIRE**

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
51	25	\$ 654,697	\$ 26,188
52	30	960,462	32,015
53	40	1,424,148	35,604
54	34	1,107,835	32,583
55	44	2,054,349	46,690
56	81	3,606,836	44,529
57	75	3,249,050	43,321
58	117	5,427,484	46,389
59	130	5,271,487	40,550
60	157	6,626,732	42,208
61	159	6,543,856	41,156
62	115	4,566,080	39,705
63	100	3,933,840	39,338
64	110	4,589,933	41,727
65	131	5,350,330	40,842
66	91	3,711,670	40,788
67	124	4,837,439	39,012
68	120	4,824,638	40,205
69	115	4,787,320	41,629
70	97	4,081,440	42,077
71	84	3,161,473	37,637
72	88	3,205,289	36,424
73	93	3,212,040	34,538
74	86	2,819,543	32,785
75	90	3,121,726	34,686
76	83	2,689,865	32,408
77	82	2,546,944	31,060
78	77	2,349,831	30,517
79	81	2,405,364	29,696
80	65	1,963,043	30,201
81	60	1,641,069	27,351
82	42	1,161,408	27,653
83	62	1,715,162	27,664
84	47	1,320,855	28,103

TABLE 6  
 THE NUMBER AND ANNUAL RETIREMENT  
 ALLOWANCE OF RETIRED MEMBERS,  
 DISABLED MEMBERS AND BENEFICIARIES  
 BY AGE AS OF JANUARY 1, 2008  
 CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
85	28	\$ 735,431	\$ 26,265
86	30	734,361	24,479
87	27	798,979	29,592
88	25	635,505	25,420
89	16	330,646	20,665
90	16	396,776	24,799
91	10	226,109	22,611
92	7	179,264	25,609
93	5	84,431	16,886
94	2	47,425	23,713
95	2	32,604	16,302
96	2	34,680	17,340
97	1	17,352	17,352
98	1	17,364	17,364
TOTAL	3,294	\$ 119,218,327	\$ 36,193
POLICE	1,871	\$ 65,175,183	\$ 34,834
FIRE	1,423	\$ 54,043,144	\$ 37,978



TABLE 7  
 THE NUMBER AND FUTURE ANNUAL  
 ALLOWANCE OF TERMINATED MEMBERS  
 ENTITLED TO A FUTURE BENEFIT  
 BY AGE AS OF JANUARY 1, 2008

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
25	4	\$ 2,472	\$ 618
26	2	811	406
27	3	2,239	746
28	3	9,721	3,240
29	2	184	92
30	6	32,231	5,372
31	6	33,622	5,604
32	2	12,301	6,151
33	4	33,868	8,467
34	4	40,224	10,056
35	6	44,218	7,370
36	6	37,543	6,257
37	8	84,563	10,570
38	13	144,986	11,153
39	9	113,540	12,616
40	9	150,509	16,723
41	7	60,546	8,649
42	15	197,506	13,167
43	11	195,228	17,748
44	10	142,787	14,279
45	14	258,074	18,434
46	9	84,432	9,381
47	10	178,361	17,836
48	6	112,479	18,747
49	5	72,699	14,540
50	4	40,743	10,186
52	1	11,095	11,095
53	1	18,825	18,825
54	1	21,260	21,260
58	1	4,997	4,997
<b>TOTAL</b>	<b>182</b>	<b>\$ 2,142,064</b>	<b>\$ 11,770</b>
<b>POLICE</b>	<b>150</b>	<b>\$ 1,791,592</b>	<b>\$ 11,944</b>
<b>FIRE</b>	<b>32</b>	<b>\$ 350,472</b>	<b>\$ 10,952</b>

TABLE 8  
 THE NUMBER, ANNUAL RETIREMENT  
 ALLOWANCE AND ACCOUNT BALANCE  
 OF DROP MEMBERS  
 BY AGE AS OF JANUARY 1, 2008

POLICE AND FIRE  
 DROP

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT	ACCOUNT BALANCE	AVERAGE ACCOUNT BALANCE
42	2	\$ 56,299	\$ 28,150	\$ 18,809	\$ 9,405
43	3	93,289	31,096	146,174	48,725
44	3	82,713	27,571	94,148	31,383
45	2	55,712	27,856	97,838	48,919
46	4	123,880	30,970	130,994	32,749
47	6	110,276	18,379	317,645	52,941
48	31	1,239,997	40,000	905,676	29,215
49	62	2,826,031	45,581	2,476,402	39,942
50	86	3,938,179	45,793	3,423,308	39,806
51	126	6,305,438	50,043	8,973,441	71,218
52	97	4,956,238	51,095	11,541,438	118,984
53	117	6,027,343	51,516	20,888,007	178,530
54	107	5,442,438	50,864	23,834,857	222,756
55	101	5,446,239	53,923	30,132,228	298,339
56	111	5,789,356	52,156	38,247,181	344,569
57	91	4,255,054	46,759	32,377,112	355,792
58	67	3,122,969	46,611	28,655,356	427,692
59	46	1,998,292	43,441	20,838,096	453,002
60	45	1,953,256	43,406	24,288,045	539,734
61	32	1,281,677	40,052	16,958,823	529,963
62	16	740,437	46,277	10,639,004	664,938
63	11	505,650	45,968	7,589,637	689,967
64	10	418,465	41,847	6,968,144	696,814
65	5	248,274	49,655	4,034,751	806,950
67	1	56,547	56,547	1,361,720	1,361,720
68	1	32,614	32,614	698,084	698,084
72	1	90,030	90,030	822,425	822,425
<b>TOTAL</b>	<b>1,184</b>	<b>\$ 57,196,693</b>	<b>\$ 48,308</b>	<b>\$ 296,459,343</b>	<b>\$ 250,388</b>
<b>POLICE</b>	<b>625</b>	<b>\$ 30,156,028</b>	<b>\$ 48,250</b>	<b>\$ 145,084,578</b>	<b>\$ 232,135</b>
<b>FIRE</b>	<b>559</b>	<b>\$ 27,040,665</b>	<b>\$ 48,373</b>	<b>\$ 151,374,765</b>	<b>\$ 270,796</b>





# STATISTICS



## ACTIVE MEMBERSHIP OF THE SYSTEM (AS OF JANUARY 1, 2008) INCLUDING DROP

YEARS OF SERVICE	POLICE	FIRE	TOTAL
FEWER THAN FIVE	782	274	1,056
5-9	508	286	794
10-14	336	182	518
15-19	635	156	791
20-24	396	326	722
25-29	322	232	554
30 AND OVER	239	235	474
TOTAL	3,218	1,691	4,909

The chart above reports the number of Active Members by Department according to years of service. The average age for all Active Members is 41.64, 40.67 for Police Officers and 43.49 for Firefighters. The average service is 15.33 years, 14.26 years of service for Police Officers and 17.37 for Firefighters. There were 4,909 Active Members as of January 1, 2008.

## CHANGES IN BENEFIT RECIPIENTS DURING 2007

	POLICE	FIRE	TOTAL
SERVICE PENSIONS GRANTED	73	62	135
DISABILITY PENSIONS GRANTED	1	2	3
PENSIONS DISCONTINUED DUE TO DEATH	27	19	46
SURVIVOR PENSIONS GRANTED	23	15	38
SURVIVOR PENSIONS DISCONTINUED	8	6	14
NEW HIRES	321	89	410

## ACTUARIAL SUMMARY INFORMATION

ACTUARIAL VALUATION	JANUARY 1, 2006	JANUARY 1, 2007	JANUARY 1, 2008
UAAL <sup>1</sup>	\$582,084,793	\$408,079,026	\$385,091,924
ACTUARIAL VALUE <sup>2</sup>	\$2,700,136,105	2,962,488,333	\$3,258,627,218
MARKET VALUE <sup>3</sup>	\$2,745,954,071	3,131,265,222	\$3,390,974,909
AAL RATIO <sup>4</sup>	82.30%	87.90%	89.40%
YEARS TO FUND <sup>5</sup>	20	15	14

<sup>1</sup> Unfunded Actuarial Accrued Liability

<sup>2</sup> Actuarial Value of Assets

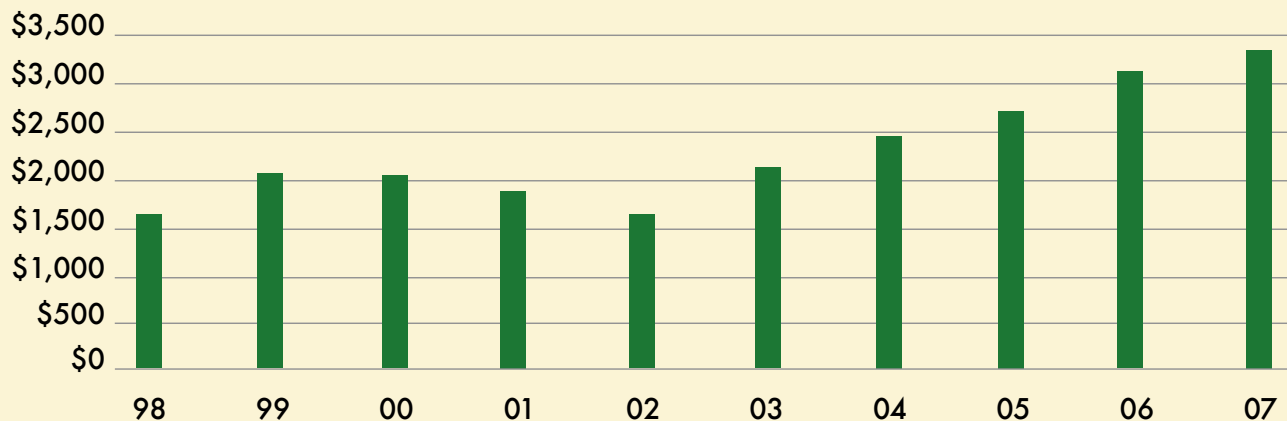
<sup>3</sup> Market Value of Assets

<sup>4</sup> Actuarial Accrued Liability (GASB 25)

<sup>5</sup> Projected Years to Fund Level Funding (GASB 25)

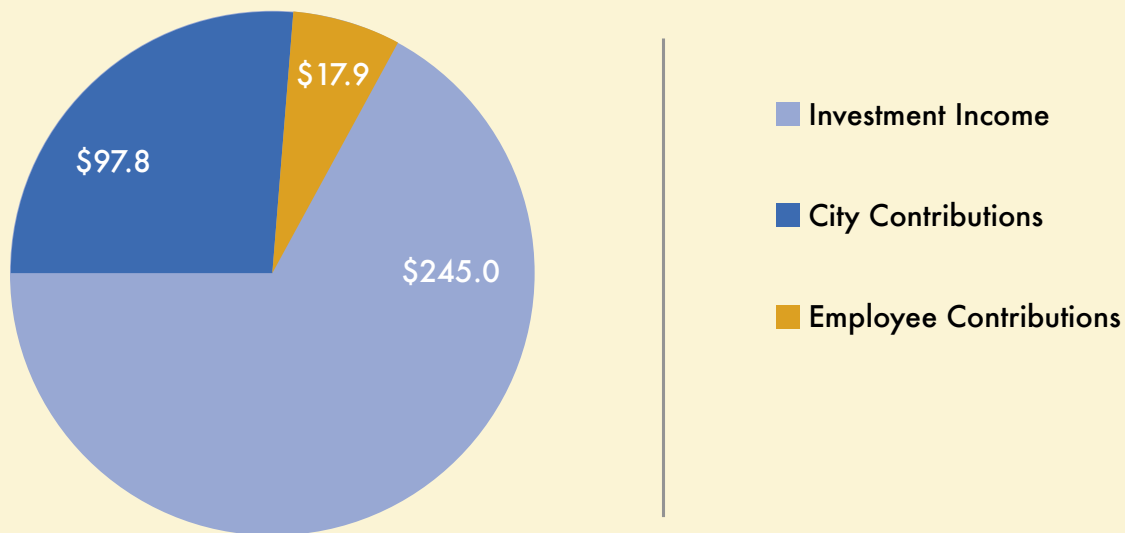
The above chart provides a summary of the principle results of actuarial valuations of the System over the last three years, demonstrating the funding progress made by the System over this period.

## MARKET VALUE FISCAL YEARS 1998-2007 (MILLIONS)



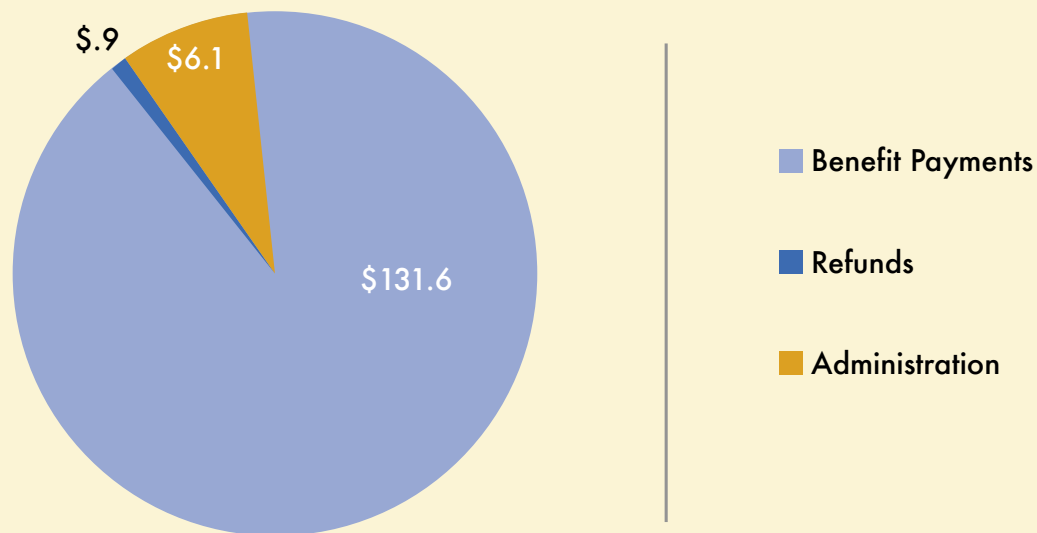
The graph above indicates the long-term growth in market value of the System's assets. The market value of System assets has grown from \$1.6 billion in 1998 to over \$3.35 billion in 2007.

### 2007 REVENUES in Millions



REVENUES TOTALED \$360.7 MILLION IN 2007

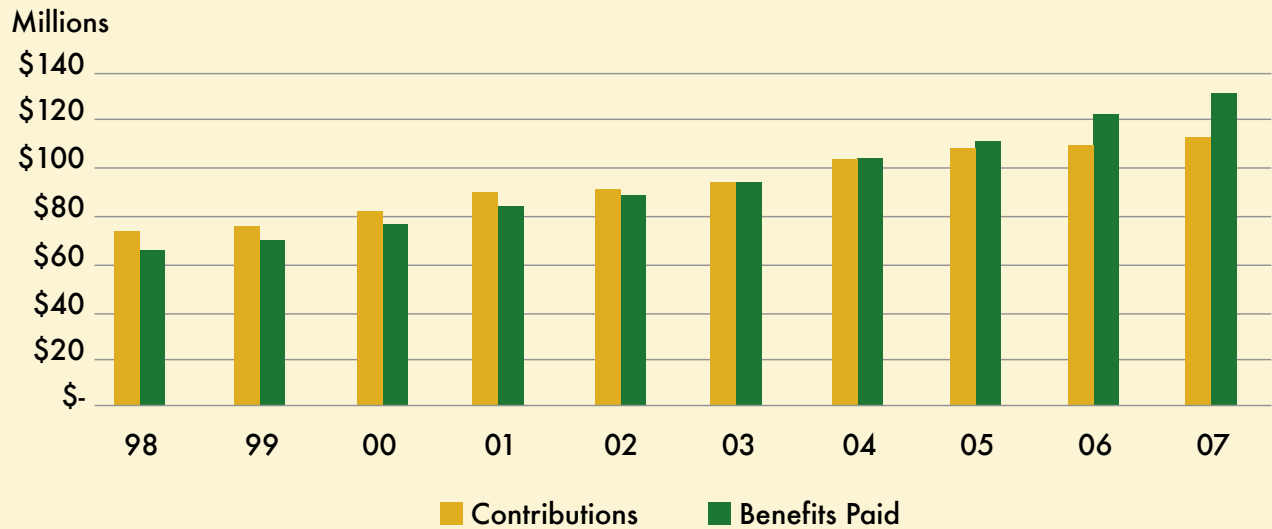
### 2007 EXPENSES in Millions



EXPENSES TOTALED \$138.6 MILLION IN 2007

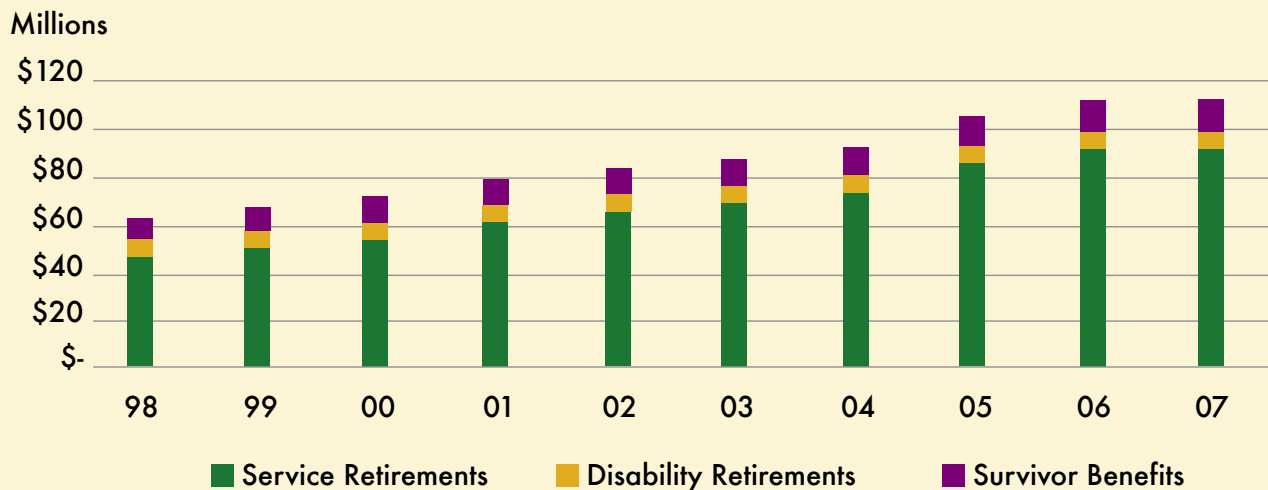


## CONTRIBUTIONS AND BENEFITS PAID 1998-2007



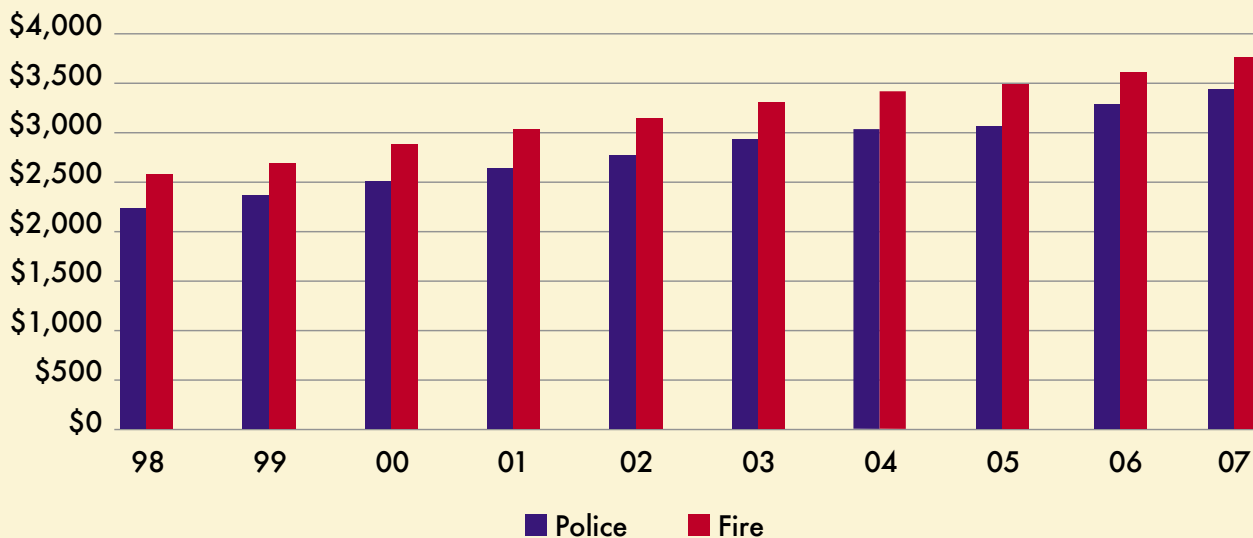
Total benefit payments have grown faster over the last ten years than contributions received. As is typical for a mature pension plan, investment income pays benefits not covered by contributions received.

## TEN YEAR HISTORY OF BENEFIT PAYMENTS BY TYPE 1998-2007



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

## AVERAGE MONTHLY RETIREMENT BENEFIT 1998-2007

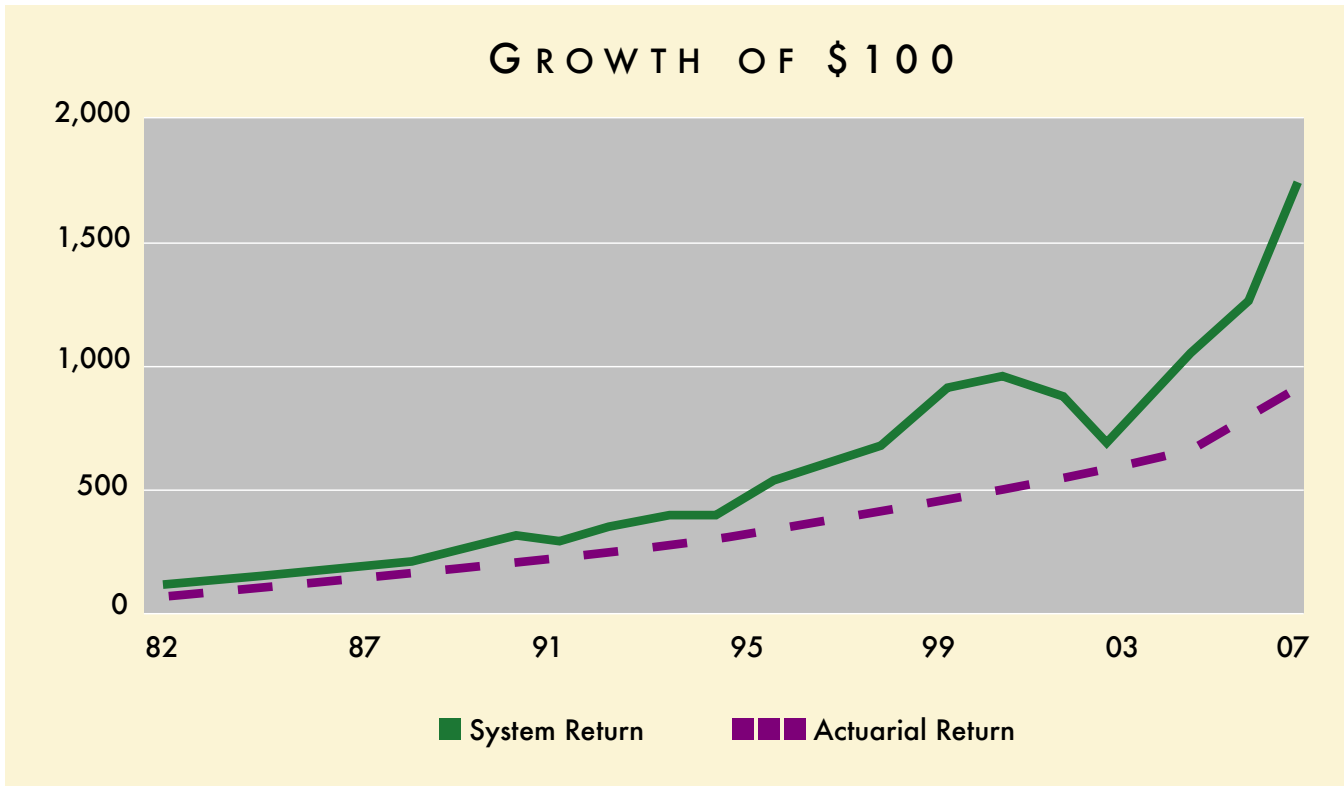


Benefit payments for both Police and Fire Retired members have increased steadily over the last ten years. For 2007 the average monthly benefit of retired Police Officers was \$3,406 and of Firefighters was \$3,764. On average, Firefighters have more service at retirement than Police Officers.

## 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	\$3,500	\$525	\$1,050	\$1,575	\$2,100	\$2,625	\$3,150
	\$4,000	\$600	\$1,200	\$1,800	\$2,400	\$3,000	\$3,600
	\$4,500	\$675	\$1,350	\$2,025	\$2,700	\$3,375	\$4,050
	\$5,000	\$750	\$1,500	\$2,250	\$3,000	\$3,750	\$4,500
	\$5,500	\$825	\$1,650	\$2,475	\$3,300	\$4,125	\$4,950
	\$6,000	\$900	\$1,800	\$2,700	\$3,600	\$4,500	\$5,400
	\$6,500	\$975	\$1,950	\$2,925	\$3,900	\$4,875	\$5,850
	\$7,000	\$1,050	\$2,100	\$3,150	\$4,200	\$5,250	\$6,300
	\$7,500	\$1,125	\$2,250	\$3,375	\$4,500	\$5,625	\$6,750

For an estimate of your benefits, 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.



One hundred dollars invested in the pension system's Portfolio in 1982 is worth \$1,722.34 as of December 31, 2007. If the \$100 had earned the actuarial interest rate, it would be worth \$918.37.







## SUPPLEMENTAL PENSION PLAN





**DALLAS POLICE AND FIRE PENSION SYSTEM  
SUPPLEMENTAL PLAN  
ACTUARIAL VALUATION  
AS OF JANUARY 1, 2008**





May 16, 2008

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, 2008**

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, 2008.

***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 2008, the contribution is \$1,243,717.

***Funding Progress***

As of January 1, 2008, the City's contribution rate needed in order to meet the funding goal is 132.57% of covered payroll. This amount is lower than the 154.79% employer rate calculated as of January 1, 2007. The current contribution rate of 132.57% 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  
May 16, 2008  
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***

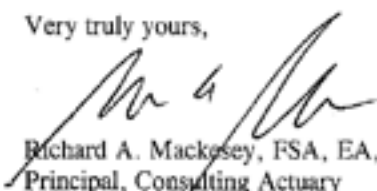
The actuarial assumptions and methods used in the valuation are presented in Schedule C. The mortality assumption was changed to the 1994 Group Annuity Mortality Table for males and females, set back one year for males and females. All other assumptions are consistent with the last actuarial valuation.

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, 2008, 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, FSA, EA, MAAA  
Principal, Consulting Actuary

RAM:km  
IDPPVAL0208PLAN.DOC

Enclosures

Dallas Police and Fire Pension System Supplemental Plan  
Actuarial Valuation - January 1, 2008

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Section 2 - Comments on the Valuation .....	2
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Dallas Police and Fire Pension System Supplemental Plan  
Actuarial Valuation - January 1, 2008

## Section I

### Summary of Principal Results

	January 1, 2008	January 1, 2007
<b>Membership</b>		
Active	40	41
Retired and terminated members and beneficiaries	111	109
<b>Compensation</b>		
Total	\$ 938,160	\$ 865,975
Average	\$ 23,454	\$ 21,121
<b>Assets</b>		
Market value	\$ 25,254,016	\$ 23,313,933*
<b>Valuation Results</b>		
Unfunded actuarial accrued liability (UAAL)	\$ 4,843,565	\$ 5,348,659
City's normal cost contribution	\$ 191,249	\$ 178,193
Funding Policy contribution	\$ 1,243,717	\$ 1,340,414
<b>GASB No. 25</b>		
Actuarial accrued liability (AAL)	\$ 30,097,581	\$ 28,662,592
Assets	\$ 25,254,016	\$ 23,313,933*
GASB ratio	83.9%	81.3%
Unfunded AAL	\$ 4,843,565	\$ 5,348,933

\* 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 \$1,243,717 should be contributed during 2008.

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 mortality assumption was changed to the 1994 Group Annuity Mortality Table for males and females, set back one year for males and females. All other assumptions are consistent with the last actuarial valuation.

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

Dallas Police and Fire Pension System Supplemental Plan  
Actuarial Valuation - January 1, 2008

Section 2  
(continued)

***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 50.16% will be required for the City to avoid showing an accrued pension liability on its financial statements for the fiscal year beginning in 2008, assuming no other changes are made. Under the current funding arrangement, the City would not be required to show an accrued but unpaid pension liability for the Supplemental Plan.

***Financial Data***

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

Section 5 reconciles the Plan's assets between 2007 and 2008. The estimated rate of return for 2007 was 8.04%.

***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 41 members as of January 1, 2007, to 40 members as of January 1, 2008. The payroll increased from January 1, 2007 to January 1, 2008 (\$865,975 for 2007 and \$938,160 for 2008). Schedule A shows a summary of the membership data.

Dallas Police and Fire Pension System Supplemental Plan  
 Actuarial Valuation - January 1, 2008

## Section 3

**Actuarial Cost**

	<u>January 1, 2008</u>	<u>January 1, 2007</u>
1. Covered Payroll	\$ 938,160	\$ 865,975
2. Actuarial present value of future benefits	\$ 31,344,735	\$ 29,808,862
3. Actuarial present value of future normal costs	\$ 1,247,154	\$ 1,146,270
4. Actuarial accrued liability (2 - 3)	\$ 30,097,581	\$ 28,662,592
5. Actuarial value of assets	\$ 25,254,016	\$ 23,313,933*
6. Unfunded actuarial accrued liability (UAAL) (4 - 5)	\$ 4,843,565	\$ 5,348,659
7. City's normal cost contribution	\$ 191,249	\$ 178,193
8. Funding Policy contribution	\$ 1,243,717	\$ 1,340,414
9. Total contribution as a percentage of covered payroll (8 ÷ 1)	132.57%	154.79%

\* 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, 2008

Section 3  
 (continued)

**Analysis of Change in UAAL**

1. UAAL as of January 1, 2007	\$ 5,348,659
2. Changes due to:	
a. Expected decrease	\$ (806,374)
b. Actual contributions greater than expected	0
c. Liability experience	(183,715)
d. Asset experience	107,072
e. Assumption changes	<u>377,923</u>
f. Total Changes	\$ (505,094)
3. UAAL as of January 1, 2008	\$ 4,843,565



Dallas Police and Fire Pension System Supplemental Plan  
Actuarial Valuation - January 1, 2008

## 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, 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%
January 1, 2008	25.254	30.098	4.844	83.9%	0.938	516.4%

**GASB #25 Schedule of Employer Contributions  
for Year Ending December 31, 2007**

<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
\$1,340,414	100%

Dallas Police and Fire Pension System Supplemental Plan  
 Actuarial Valuation - January 1, 2008

Section 4  
 (continued)

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

**Accumulated Benefits at January 1, 2008**

Vested benefits of participants and beneficiaries currently receiving payments		\$ 21,983,188
Other vested benefits		8,145,294
Nonvested benefits		<u>180,517</u>
Total benefits		\$ 30,308,999

**FASB #35 Reconciliation**

Accumulated benefits at January 1, 2007		\$ 28,752,197
Benefits accumulated and actuarial gains/losses	\$ 99,598	
Interest	2,389,193	
Benefits paid	(1,314,911)	
Assumption changes	<u>382,922</u>	
Total change	1,556,802	
Accumulated benefits at January 1, 2008		\$ 30,308,999

### Reconciliation of Fund Assets

	Year Ending December 31, 2007
1. Value of fund at beginning of year	\$ 23,313,933*
2. Contributions	
a. City	1,340,414
b. Member	<u>37,299</u>
c. Total	\$ 1,377,713
3. Benefit payments	(1,314,911)
4. Refunds	0
5. Earnings	1,919,808
6. Expenses	(42,527)
7. Value of assets at end of year	25,254,016
8. Estimated rate of return	8.04%

\* 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, 2008

Schedule A

### Membership Data

	<u>January 1, 2008</u>	<u>January 1, 2007</u>
1. Active members (excluding DROP)		
a. Number	17	18
b. Compensation	\$ 334,922	\$ 359,932
c. Average compensation	\$ 19,701	\$ 19,996
d. Average age	46.24	47.00
e. Average service (years)	22.06	21.83
2. Active members (DROP only)		
a. Number	23	23
b. Compensation	\$ 603,238	\$ 506,043
c. Average Compensation	\$ 26,228	\$ 22,002
d. Average age	54.78	53.74
e. Average total service	30.39	30.35
f. DROP account balance	\$ 1,778,725	\$ 1,422,068
3. Inactive members		
a. Number	111	109
b. Total annual benefit	\$ 1,549,559	\$ 1,510,941
c. Average annual benefit	\$ 13,960	\$ 13,862

**Summary of Benefit Provisions  
As of January 1, 2008  
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.

Dallas Police and Fire Pension System Supplemental Plan  
Actuarial Valuation - January 1, 2008

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 the Member terminated his employment.

Contribution Rates

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

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

Service Retirement Benefits

Annual Normal Retirement Pension

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

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

Early Retirement Pension

Condition for Retirement:

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

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

Dallas Police and Fire Pension System Supplemental Plan  
 Actuarial Valuation - January 1, 2008

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 &amp; 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, 2008

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, 2008

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, 2008

**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, 2008

Schedule C

**Statement of Actuarial Methods and Assumptions  
(Effective as of January 1, 2008)**

**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	.48	.28	.35	.70
25	47.0	23.0	48.30	26.30	.62	.29	.37	.75
30	35.0	18.0	36.20	23.70	.78	.33	.42	.84
35	25.0	18.0	27.80	21.40	.85	.45	.48	.96
40	25.0	18.0	28.20	20.90	1.00	.65	.57	1.15
45	25.0	18.0	32.20	22.40	1.46	.92	.79	1.58
50	NA	NA	38.30	25.70	2.33	1.31	NA	NA
60	NA	NA	60.30	33.10	7.09	3.86	NA	NA
70	NA	NA	73.90	41.10	21.73	12.71	NA	NA
75	NA	NA	84.20	49.20	34.05	20.38	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, 2008

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

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 2007.

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

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

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

Dallas Police and Fire Pension System Supplemental Plan  
Actuarial Valuation - January 1, 2008

Schedule C  
(continued)

**Postretirement Mortality:** According to the 1994 Group Annuity Mortality Table for males and females, set back one year 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. Since there are currently no members hired after January 1, 2007, the amendment lifting the automatic increase for members hired on or after January 1, 2007 was not reflected in this valuation.

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

**Valuation Method:** The method used to determine Normal Cost and Accrued Actuarial Liability is the Entry Age Normal Cost Method. Under the Entry Age Normal Cost Method, an annual Normal Cost is determined for each covered active Member which is the contribution required to provide all the projected pension benefits assuming this contribution is payable over a period ending on the date of retirement (separation from active service) and expressed as a level percentage of compensation. The Actuarial Accrued Liability is determined as the excess of the total present value of all pension benefits over the total present value of future Normal Costs. The Unfunded Actuarial Accrued Liability as of the valuation date is determined as the excess of the Actuarial Accrued Liability over the assets of the Fund.

Dallas Police and Fire Pension System Supplemental Plan  
Actuarial Valuation - January 1, 2008

Schedule C  
(continued)

The Normal Cost and Accrued Actuarial Liability are derived by making certain assumptions as to the rates of interest, mortality, turnover, etc., which are assumed to reflect experience for many years into the future. Since actual experience will differ from the assumptions, the costs determined must be regarded as estimates of the true costs of the Plan. The effects of any actuarial gains or losses are immediately reflected in the Unfunded Actuarial Accrued Liability and the Normal Cost.

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



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

**Financial Statements  
and  
Required Supplemental Information**

**December 31, 2007 and 2006**  
*(With Independent Auditors' Report Thereon)*



**SUPPLEMENTAL POLICE AND FIRE PENSION  
PLAN OF THE CITY OF DALLAS****Table of Contents**

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**Mir & Fox  
Rodriguez, P.C.**

Certified Public Accountants

Member of the American Institute of Certified Public Accountants

### INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of plan net assets of the Supplemental Police and Fire Pension Plan of the City of Dallas (the Supplemental Plan) as of December 31, 2007 and 2006, 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, 2007 and 2006, 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.

*Mir & Fox ; Rodriguez*

October 22, 2008

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

### OVERVIEW

The Management's Discussion and Analysis (MD&A) of the Supplemental Police and Fire Pension Plan of the City of Dallas's (the Supplemental Plan) financial position and performance provides an overview of the Supplemental Plan's financial activities for the fiscal years ended December 31, 2007 and 2006. 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 Supplemental Information.

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

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

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

### CONDENSED FINANCIAL INFORMATION

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Assets	\$ 23,752,976	21,169,910	19,960,276
Liabilities	44,023	-	207,969
Net Assets Available for Benefits	23,708,953	21,169,910	19,752,779
Contributions	1,377,700	1,333,399	1,229,869
Investment and Other Income	2,519,340	1,402,176	1,080,964
Benefit Payments	1,314,911	1,251,364	1,232,776
Administrative Expenses and Professional Fees	43,086	67,060	45,432

**FINANCIAL HIGHLIGHTS**

- The Supplemental Plan's net assets increased by \$2.5 million in 2007 to \$23.7 million. Net assets increased by \$1.4 million in 2006 to \$21.2 million.
- The rate of return on Supplemental Plan investments was 10.3% for the year, compared to an expected return (actuarial assumed investment rate of return) of 8.5%. The rate of return for 2006 was 16.8%.
- The Plan had \$44,023 in liabilities as of December 31, 2007. The Plan had no non-investment liabilities as of December 31, 2006. The difference in liabilities between the two years primarily is a result of a change in the methodology of recording assets under unitization. Under the Group Trust, investment liabilities are incorporated into the Group Trust and are reflected in total investments.
- The Supplemental Plan received employee contributions of \$37,286 in 2007 and \$33,399 in 2006. The Supplemental Plan received employer contributions from the City of Dallas in the amount \$1.34 million in 2007 and \$1.3 million in 2006.
- The Supplemental Plan paid \$1,314,811 in service retirement, disability retirement and survivor benefits during 2007, compared to \$1,251,364 in 2006. No changes to benefit provisions were implemented in 2007.
- The cost of administering the benefit programs of the Supplemental Plan, including administrative costs and professional fees, was \$43,086 compared to \$67,080 for 2006. A pro rata share of the total expenses of the System are allocated to the Supplemental Plan according to the ratio of Supplemental Plan assets to the total assets of the Group Trust, plus any expenses specific to the Supplemental Plan.
- The active membership of the Supplemental Plan decreased by one to 40 members as of the end of 2007. There were 41 active members in 2006. The number of retired, terminated vested and beneficiaries was 111 as of December 31, 2007 and 109 as of December 31, 2006.

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, 2008.

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 83.9% in 2007 compared to 81.3% in 2006.

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, 2008, the Supplemental Plan's UAAL was \$4,843,565, a decrease of \$505,094 from a UAAL of \$5,348,659 as of January 1, 2007.

**CONTACTING THE SUPPLEMENTAL PLAN'S FINANCIAL MANAGEMENT**

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

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

**Statements of Plan Net Assets  
December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<u>Assets</u>		
Plan interest in Group Master Trust, at fair value (note 3, 4, 6, 7 and 8)	\$ <u>23,752,524</u>	<u>19,869,445</u>
Total investments	23,752,524	19,869,445
Accrued employee contributions receivable (note 5)	<u>452</u>	<u>1,300,485</u>
Total assets	23,752,976	21,169,910
<u>Liabilities and Plan Net Assets</u>		
Administrative and benefit expenses payable	<u>44,023</u>	<u>-</u>
Plan net assets held in trust for pension benefits (a schedule of funding progress is presented on page 24)	\$ <u><u>23,708,953</u></u>	<u><u>21,169,910</u></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, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>Additions:</b>		
Net investment income -		
net investment gain from the Group Master Trust	\$ <u>2,519,340</u>	<u>1,402,176</u>
Total net investment income	<u>2,519,340</u>	<u>1,402,176</u>
<b>Contributions:</b>		
Employer	1,340,414	1,300,000
Member	<u>37,288</u>	<u>33,399</u>
Total contributions	<u>1,377,700</u>	<u>1,333,399</u>
Total net additions to plan net assets	<u>3,897,040</u>	<u>2,735,575</u>
<b>Deductions:</b>		
Benefit payments	1,314,911	1,251,364
Administrative and professional fees	<u>43,086</u>	<u>67,080</u>
Total deductions from plan net assets	<u>1,357,997</u>	<u>1,318,444</u>
Net increase in plan net assets	2,539,043	1,417,131
<b>Plan net assets held in trust for pension benefits:</b>		
Beginning of year	<u>21,169,910</u>	<u>19,752,779</u>
End of year	\$ <u>23,708,953</u>	<u>21,169,910</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, 2007 and 2006**

**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, 2007 and 2006, the Supplemental Plan membership consisted of:

	<u>2007</u>	<u>2006</u>
Non-active members - pensioners and qualified survivors currently receiving benefits:		
Firefighters	46	45
Police officers	<u>65</u>	<u>64</u>
Total non-active members	<u>111</u>	<u>109</u>
 Current employees - vested:		
Firefighters	16	17
Police officers	<u>24</u>	<u>24</u>
Total members	<u>40</u>	<u>41</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 \$5,519,457 and \$4,677,345 for December 31, 2007 and 2006, 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.

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 years ended December 31, 2007 and 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 0.7025% and 0.6309%, at December 31, 2007 and 2006, respectively. The allocation of income and administrative expenses between the System and the Supplemental Plan is based on the number of units owned of the Group Trust. Benefits and contributions 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 approved by the Board.

Foreign currency transactions

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

Investments and broker accounts denominated in foreign currencies outstanding at December 31, 2007 and 2006 were converted to the Group Trust's functional currency (United States dollars) at the foreign exchange rates quoted at December 31, 2007 and 2006. 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 deposits may not be returned to it. The Group Trust's deposits are held by the Custodian, JP Morgan Chase. As of December 31, 2007 and 2006, the Group Trust had bank balances of \$5,840,577 and \$1,082,459, respectively, that are in demand deposit accounts subject to coverage by Federal deposit insurance, but not collateralized. The Group Trust does not have a deposit policy for custodial credit risk; however, the Supplemental Plan's management believes that the Group Trust'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 Master Trust**

The following disclosures on investments and plan interest in Group Master Trust are made for the Group Master Trust as of and for the years ended December 31, 2007 and 2006.

The following summarizes the Group Trust as of December 31:

	<u>2007</u>	<u>2006</u>
Investments, at fair value (notes 2, 3 and 4):		
Cash and cash equivalents	\$ 288,681,823	270,728,342
United States government securities	10,879,556	58,045,060
United States government sponsored enterprises	20,496,466	8,980,840
Foreign government securities	204,014,254	194,261,708
Commingled funds	85,940,352	86,465,708
Domestic equities	1,045,749,584	1,103,204,010
International equities	990,822,594	741,591,982
Corporate securities	306,456,923	374,428,266
Investments, at appraised value - real estate equity funds	<u>943,189,733</u>	<u>767,991,320</u>
Total investments	<u>3,896,231,284</u>	<u>3,605,695,236</u>
Receivables:		
Accrued interest and dividends	11,956,730	13,467,610
Forward currency contracts (note 6)	166,741,241	79,787,702
Securities sold	<u>32,273,311</u>	<u>51,559,052</u>
Total receivables	<u>210,971,282</u>	<u>144,814,364</u>
Total assets	<u>4,107,202,566</u>	<u>3,750,509,600</u>
<u>Liabilities and Net Assets</u>		
Repurchase loan agreement (note 7)	32,572,000	35,710,000
Payable for securities purchased	31,691,181	56,554,065
Professional fees payable	4,769,636	2,920,525
Forward currency contracts (note 6)	166,352,773	79,787,702
Securities lending collateral (note 4)	218,371,133	221,286,049
Line of credit (note 8)	<u>278,850,000</u>	<u>204,460,000</u>
Total liabilities	<u>730,606,723</u>	<u>600,718,341</u>
Net assets in the Group Trust	<u>\$ 3,376,595,843</u>	<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 years ended December 31:

	<u>2007</u>	<u>2006</u>
Investment income:		
Interest	\$ 36,676,719	28,451,894
Dividends	35,347,457	30,426,918
Real estate income	44,149,704	19,095,242
Net appreciation in fair value of investments	148,254,082	353,315,991
Securities lending income	922,183	937,538
Less investment expenses:		
Custody fees	(269,847)	(420,106)
Investment services	<u>(17,533,373)</u>	<u>(17,363,973)</u>
Total investment income in Group Trust	<u>247,546,925</u>	<u>414,443,504</u>
Plan net assets held in trust for pension benefits:		
Beginning of year	3,149,791,259	2,754,257,210
Benefits payments in excess of contributions received for Combined and Supplemental Plan	<u>(20,742,341)</u>	<u>(18,909,455)</u>
End of year	\$ <u>3,378,595,843</u>	<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	\$ 3,352,843,319	3,129,921,814
Group Trust interest held by the Supplement Plan	<u>23,752,524</u>	<u>19,869,445</u>
Total nets assets of Group Trust	\$ <u>3,378,595,843</u>	<u>3,149,791,259</u>

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

The fair values of the Group Trust's investments at December 31, 2007 and 2006 are presented by type, as follows:

	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 288,681,823	270,728,342
United States government securities	10,879,556	58,045,060
U.S. government sponsored enterprises	20,496,465	8,980,840
Foreign government securities	204,014,254	194,261,708
Commingled funds	85,990,352	86,465,708
Domestic equities	1,045,749,584	1,103,204,010
International equities	990,822,594	741,591,982
Corporate securities	306,456,923	374,426,266
Investments, at appraised value - real estate equity funds	<u>943,189,733</u>	<u>767,991,320</u>
Total investments	\$ <u>3,896,231,284</u>	<u>3,605,695,236</u>

Continued

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

**Notes to Basic Financial Statements, Continued**

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

	<u>2007</u>	<u>2006</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	\$ <u>218,371,133</u>	<u>221,286,049</u>
Total investments greater than 5% of net assets	218,371,133	221,286,049
Investments less than 5% of net assets:		
At quoted market value	2,734,670,418	2,616,417,867
At appraised value	<u>943,189,733</u>	<u>767,991,320</u>
Total investments	\$ <u>3,898,231,284</u>	<u>3,605,895,236</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 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 are held by either the counterparty or the counterparty's trust department or agent but not in the Group Trust's name. At December 31, 2007 and 2006, the Group Trust's security investments that were not subject to custodial credit risk were the investments in fixed income and equity investments.

Continued

**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 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 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 System 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 System 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 System Board's approval. The manager shall have discretion to manage the portfolio consistent with the style presented to the System 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 System 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 System Board.
  - d. Transactions shall be executed at competitive costs, or within the parameters established for directed brokerage transactions by the System Board.
  - e. Managers shall maintain cash levels consistent with their style as presented to the System Board at the time of selection. Any deviation shall be allowed only after notifying the System Administrator and Assistant Administrator of Investments and should be related to unusual market conditions. The cash level held by each manager will be addressed in the Investment Management Services Contract.
3. The System 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 System 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 System Board, System Administrator, General Counsel, and the investment manager execute this document.

Continued



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

**Notes to Basic Financial Statements, Continued**

2. In case of conflict between the specific manager guidelines and the general guidelines, the specific guidelines, as approved by the System 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 System Board's approval. The manager shall have discretion to manage the portfolio consistent with the style presented to the System Board at the time of selection and further subject to the restrictions established by the policy herein.
  - b. The Chair of the System Board may execute amendments and consents if the resulting changes or allowances are provided for in the governing documents as previously accepted by the System Board. Otherwise, such changes are to be approved by the System Board. The System Board will be notified on a quarterly basis of all executed amendments.
  
3. The System 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 System 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 invests in fixed income securities including, but not limited to, investments representing instruments with an obligated fixed rate of interest including public and private debentures, mortgages, investments in life insurance general accounts and guaranteed investment contracts, with maturities greater than one year, and options/futures. Instruments may have an investment grade or non-investment grade rating. Purchases and sales, investment selection and implementation of investment strategies are delegated to the discretion of the investment manager, subject to compliance with its management agreement and the System's Investment Policy.

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

Continued

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

**Notes to Basic Financial Statements, Continued**

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, 2007, the following tables show the Group Trust's investments by type, time-to-maturity, fair value, and foreign currency fluctuation:

Type of Investment	Less Than 1 Year	1 – 5 Years	6 – 10 Years	More Than 10 Years	Total Fair Value
<b>Fixed maturity domestic:</b>					
U.S. Treasury securities	\$	8,851,605		2,027,951	10,879,556
U.S. Gov't agency securities				20,496,455	20,496,455
Municipal bonds				740,000	740,000
<b>Corporate securities:</b>					
Collateralized mortgage obligation				3,460,198	3,460,198
Corporate bonds	4,848,138	30,830,847	104,106,811	151,182,594	260,968,390
Commingled funds				65,940,352	65,940,352
Convertible bonds		3,276,638		1,116,344	4,392,982
Investment interests				126,584	126,584
<b>Total fixed maturity domestic</b>	<b>4,848,138</b>	<b>42,968,090</b>	<b>104,106,811</b>	<b>265,090,488</b>	<b>417,004,527</b>
<b>International government bonds:</b>					
Australian Dollar		4,452,661	10,979,561		15,432,212
Brazil Real		4,006,455		3,724,045	7,732,500
British Pound Sterling		8,757,099	13,258,921	2,579,261	24,595,281
Canadian Dollar		8,091,510			8,091,510
EURO Currency	2,793,430	17,075,802	14,524,189	8,160,965	42,574,386
Japanese Yen	10,757,093	22,509,070	4,556,510		37,822,673
Iceland Krona	1,777,775				1,777,775
Indonesian Rupiah		2,068,472			2,068,472
Malaysian Ringgit	108,728	2,871,942	3,091,258		5,871,928
Mexican New Peso		10,856,060		1,447,431	12,303,491
New Zealand Dollar		6,318,733			6,318,733
Norway Krona		7,597,637			7,597,637
Poland	10,140,790				10,140,790
Singapore Dollar	2,159,237	6,578,734			8,737,971
Swedish Krona	4,051,480	8,877,414			12,928,894
<b>Total international government bonds</b>	<b>31,788,533</b>	<b>109,833,589</b>	<b>48,410,429</b>	<b>15,931,702</b>	<b>204,014,253</b>
<b>International Corporate Bonds:</b>					
Philippines			1,168,000		1,168,000
South African Rand	827,176	4,773,594			5,600,770
<b>Total international corporate bonds</b>	<b>827,176</b>	<b>4,773,594</b>	<b>1,168,000</b>	<b>-</b>	<b>6,768,770</b>
<b>Total international fixed maturity</b>	<b>32,615,709</b>	<b>114,657,183</b>	<b>47,578,429</b>	<b>15,931,702</b>	<b>210,783,023</b>
<b>Total fixed maturity</b>	<b>\$ 37,453,847</b>	<b>157,618,273</b>	<b>151,685,240</b>	<b>281,022,190</b>	<b>627,787,550</b>

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, 2007 is as follows:

Type	Moody Rating	Amount	Percentage of Holdings		Moody Rating	Amount	Percentage of Holdings
<b>Corporate securities:</b>							
<b>Convertible bonds:</b>							
	Ba2	\$ 1,118,344	0.18%	Mortgage bonds	Aaa	\$ 3,460,198	0.55%
	NR	3,278,838	0.52%	Total mortgage bonds		3,460,198	0.55%
Total convertible bonds		<u>4,397,182</u>	0.70%	Investment fund	NR	128,584	0.02%
				Total investment fund		<u>128,584</u>	0.02%
<b>Corporate bonds:</b>							
	A1	3,330,236	0.53%	Total corporate securities		<u>395,716,824</u>	49.70%
	A2	412,991	0.07%	<b>Government sponsored enterprises:</b>			
	Aa2	1,818,334	0.24%		Aaa	5,741,577	0.91%
	B1	45,386,493	7.23%		NR	14,754,888	2.35%
	B2	15,666,858	2.47%			<u>20,496,465</u>	
	B3	27,097,825	4.32%	<b>Foreign government securities:</b>			
	B3e	1,188,090	0.19%		A1	38,291,864	6.09%
	Ba1	4,106,925	0.65%		A2	20,318,082	3.24%
	Ba2	21,136,022	3.37%		A3	9,574,089	1.52%
	Ba3	20,621,319	3.28%		Aa1	3,478,428	0.55%
	Baa1	2,185,451	0.35%		Aa2	901,033	0.14%
	Baa2	5,645,323	0.90%		Aa3	4,027,659	0.64%
	Baa3	3,004,471	0.48%		Aaa	66,645,270	13.80%
	Ca	342,950	0.05%		Ba1	3,724,045	0.59%
	Caa1	28,885,697	4.57%		Baa1	18,386,215	2.61%
	Caa2	12,865,916	2.05%		Baa2	2,047,850	0.33%
	Caa3	3,169,263	0.50%		Ca	499,044	0.08%
	NR	101,578,116	16.18%		NR	12,179,032	1.94%
Total corporate bonds		<u>297,737,160</u>	47.43%		WR	5,971,652	0.95%
				Total foreign government securities:		<u>204,614,283</u>	32.50%
<b>United States government securities:</b>							
				Treasury note	Aaa	10,879,556	1.73%
				Total U.S. government securities		<u>10,879,556</u>	1.73%
				Municipal bonds	Baa2	740,000	0.12%
				Commingled	NR	86,940,352	13.86%
				Total credit risk debt securities		<u>\$ 627,787,550</u>	100.00%

Continued

**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 to enter into an agreement with JP Morgan Chase (JP Morgan) for the lending of certain of the Group Trust'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 2007 and 2006, JP Morgan lent, on behalf of the Group Trust, securities held by JP Morgan as the Group Trust's custodian, 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 2007 and 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 years 2007 and 2006. Moreover, there were no losses during the 2007 and 2006 fiscal years 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 2007 and 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 System Board could not determine. On December 31, 2007, the Group Trust had no credit risk exposure to borrowers. The market value of securities on loan and collateral held for the Group Trust were \$218,371,133 and \$221,288,049 at December 31, 2007 and 2006, respectively.

Disclosure of securities lending revenue is shown gross with the associated reductions for investment expenses on the face of the Group Trust's 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 of the Group Trust information as of December 31, 2007 and 2006.

**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, 2008 and 2007. The contribution is also limited to be within \$100,000 of the previous year's contribution.

Continued

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

### Notes to Basic Financial Statements, Continued

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, 2006, consists of 132.57% of covered members' salaries, increased by 10.46% of covered members' salaries of 154.79% as of January 1, 2007.

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, 2008.

#### Historical trend information

Historical trend information is provided as supplemental information on pages 24 through 26. 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.

#### **6. Forward Contracts**

During fiscal years 2007 and 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, 2007 and 2006.

During 2007 and 2006, the Group Trust recognized net realized losses on foreign currency forward contracts of \$388,468 and \$1,964,102, respectively. At December 31, 2007 and 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 \$5,941,188 and \$2,068,373, respectively.

Continued

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

**Notes to Basic Financial Statements, Continued**

**7. Obligation Under Reverse Repurchase Agreements**

State statutes permit the Supplemental Plan to enter into reverse repurchase agreements. The credit exposure at year end 2007 and 2006 related to these agreements was \$32,572,000 and \$35,710,000, respectively, 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 Supplemental Plan's 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, 2007 and 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 30 day float at December 31, 2007, payable quarterly and 5.75% at December 31, 2006, payable monthly. At December 31, 2007 and 2006, the Group Trust had borrowed \$276,850,000 and \$204,460,000, respectively, related to the revolving credit line which provides for a maximum borrowing of \$350,000,000 and \$234,000,000, respectively. 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 also 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.

**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. The Supplemental Plan reimbursed the City for \$43,086 and \$67,080 related to the Supplemental Plan's overall administrative costs during the years ended December 31, 2007 and 2006, respectively.

Group Trust investment related expenses for the years ended December 31, 2007 and 2006 also include \$17,533,373 and \$12,622,475, respectively, in asset management fees for the Group Trust.

**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, 2007 and 2006, aggregate contributions from active members of the Supplemental Plan with less than five years of service were \$23,610 and \$8,650, respectively.

The Group Trust had outstanding investment commitments to various limited partnerships and international investment advisors of \$566,176,827 and \$501,151,919 at December 31, 2007 and 2006, respectively.

Continued

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

**Notes to Basic Financial Statements, Continued**

**12. Risks and Uncertainties**

The Group Trust 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 25, and schedule of funding progress, page 24, are based on certain assumptions pertaining to interest rates, inflation rates and participant demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term could be material to the basic financial statements.

Several lawsuits are pending against the City by third party police officers and firefighters, which claim the right to significant back pay on behalf of most current and many former Dallas police officers and firefighters. If these lawsuits are successful, they will likely result in large over-due pension claims on behalf of many retired pensioners and large increases in the actuarial accrued liabilities of current members of the 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 management believes will be due if the police officers' and firefighters' claims are successful. The ultimate outcome of these lawsuits cannot be determined at this time and, accordingly, no amounts related to these claims have been accrued in the Supplemental Plan's basic financial statements as of December 31, 2007 and 2006.

**13. Subsequent Events**

Recent events in the financial markets include a devaluation of some assets including certain mortgages and derivative assets. The U.S. banking system and credit markets has required intervention by the Federal Reserve and the U. S. Treasury Department. In addition, the public equity markets have seen large price declines on a year to date basis. As a result, future investment returns could be adversely impacted in certain asset classes. In response to recent events, the Supplemental Plan's management is assessing the likely impact on future investment returns and developing risk mitigation strategies.

**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)
1/1/1999	\$ 15,506	\$ 17,106	\$ 1,600	91%	\$ 851	188%
1/1/2000	17,628	18,146	518	975%	934	56%
1/1/2001	16,628	19,568	2,940	85%	655	449%
1/1/2002	15,496	21,214	5,718	73%	737	776%
1/1/2003	14,061	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%
1/1/2008	25,254	30,098	4,844	84%	938	516%

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 %
2007	1,340,414	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, 2008 and 2007 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
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 2008 and 2007
DROP account returns	9% per annum
Post retirement mortality	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 2008 actuary report and 11% of base pay per the 2007 actuary report.

The actuarial information presented was determined by the actuarial firm Buck Consultants, Inc. for 2007 and 2006 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, 2008 and 2007, and are not materially different from what they would have been had they been calculated on December 31, 2007 and 2006, 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.







