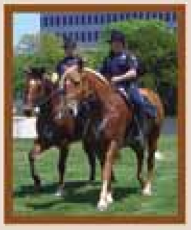



DALLAS
POLICE & FIRE
PENSION SYSTEM

2011 Annual Report


2011 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= 5,376
Benefit Recipients = 3,669
Terminated Vested = 128
Total Participants = 9,173

Service Retirements Added
Police = 113
Fire = 82
Total = 195

Disability Retirements Added
Police = 1
Fire = 0
Total = 1

System Net Assets at Market Value = $3,015,251,528
Benefits Paid = $188,093,019
Member Contributions = $19,493,460
City Contributions = $102,437,115

COMPREHENSIVE ANNUAL FINANCIAL REPORT

OF THE

DALLAS POLICE AND FIRE PENSION SYSTEM

for the Year Ending December 31, 2011

Richard L. Tettamant, Administrator
Dallas Police and Fire Pension System
4100 Harry Hines Blvd., Suite 100
Dallas, Texas 75219
214.638.3863 or 1.800.638.3861

Contents

Introduction

Richard L. Tettamant,
Administrator
Brian F. Blake,
Chief Investment Strategist
Donald C. Rohan,
Assistant Administrator
Mike Taylor,
Chief Financial Officer
Joshua Mond
General Counsel

DALLAS POLICE & FIRE PENSION SYSTEM

July 14, 2012

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 System's Comprehensive Annual Financial Report (the Annual Report) for the fiscal year ended December 31, 2011. The Financial Statements of the Supplemental Police and Fire Pension Plan of the City of Dallas (the Supplemental Plan) are included in the report. Though the assets of the System and Supplemental Plans are co-invested through a Group Trust, the two plans are two separate legal entities.

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. To the best of our knowledge, the information is accurate in all material respects and presents fairly the financial position and operations of the System.

The System achieved a net investment return of 0.3% during 2011. The actuarially assumed rate of return is set at 8.5%. On a long term basis, system performance has been excellent. In a report to the Texas Association of Public Employee Retirement Systems (TEXPERS) comparing the investment performance of 54 Texas public pension plans, the System achieved the highest rate of return over the 10 and 20 year periods ending September 30, 2011 and the second highest return over the 1, 5 and 15 year periods ending that date.

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 the Management's Discussion and Analysis (MD&A) and the System's financial statements and notes to the 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.

4100 Harry Hines Blvd. - Suite 100 - Dallas, Texas 75219
Phone 214.638.3863 - Fax 214.638.6403

- 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 2011 Actuarial Valuation and the 2011 Financial Statements with Independent Auditor's Report for the Supplemental Police and Fire Pension Plan of the City of Dallas.

MFR, PC, 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 Governmental Accounting Standards Board rulings and that the System's financial condition and operations are fairly presented.

The actuarial valuation was performed by Buck Consultants. The Actuarial Valuation Report states that the overall funding of the System remains sound. The report shows the System has achieved a funding ratio of 73.9% funded and a funding period of 30 years to fully fund. The Actuarial Valuation for the Supplemental Plan is included in the last section of this annual report.

Except where noted, NEPC and The Townsend Group provided the investment performance data included in this report.

The Board of Trustees and the System's management staff are responsible for maintaining internal controls over System operations. 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 remains under attack around the country, the System's outstanding investment return over time and the diligence of the Board in monitoring the System's funding status help assure the System's continued financial health.

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

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

"Serving Those Who Protect the Dallas Community."

Respectfully submitted,

George Tomasovic	***Richard L. Tettamant***
Chairman of the Board of Trustees	Administrator


DALLAS FIRE
RESCUE
94


6884
DALLAS POLICE
9·1·1

Overview

Although 2011 was a turbulent year in the financial markets and investment performance was disappointing, the System maintained its financial condition through diversification and sound management.

As a "mature" pension fund, the System paid out more in benefits than collected in contributions. Along with the poor market conditions, this helped cause the market value of System assets to fall slightly during 2011. However, the overall financial picture of the Pension System remains strong.

Based on a 2011 projection of future System funding, the Board asked the Members to consider certain changes to the DROP program and to benefits for new members in order to maintain the financial health of the System. The members responded by overwhelmingly approving the proposed changes. See "Plan amendments" below for details of the approved benefit changes.

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. 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 a vote of the membership, effective March 1, 1973. Together, the three plans are referred to as the Combined Pension Plan. In 2011, the System celebrated its 95th anniversary of ensuring the financial future of City of Dallas Police Officers and Firefighters and their families. The System now serves over 9,000 families of Police Officers and Firefighters.

SYSTEM ADMINISTRATION

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

- 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).

PROFESSIONAL SERVICE PROVIDERS

Investment Advisors

AllianceBernstein Institutional Investment Management
Ashmore Investment Management Limited
BankCap Partners
Brandywine Global Investment Management
Bridgewater Associates
CDK Realty Advisors
Cintra US
Criswell-Radovan
Eagle Asset Management
Energy Opportunities Capital Management
Forest Investment Associates
Grantham, Mayo, Van Otterloo & Co. (GMO)
HM Capital Partners
Hancock Agricultural Investment Group
Highland Capital Management
Hudson Clean Energy Partners
Hunt Investment Management
Invesco Real Estate
JPMorgan Asset Management
Kennedy Associates Real Estate Counsel
Knudson Luxury Housing
LandBaron Investments
L&B Realty Advisors
Levine Leichtman Capital Partners
Lone Star Advisors
Lone Star Investment Advisors
Loomis, Sayles & Company
Mellon Capital Management
Merit Energy Partners
The Mitchell Group
Mondrian Investment Partners
OFI Institutional Asset Management
Oaktree Capital Management
Olympus Real Estate Partners
Pharos Capital Group
Putnam Fiduciary Trust Company
Pyramis Global Advisors
RCM Capital Management
Regions Timberland Group
Robeco Transtrend Diversified Fund, LLC.
RREEF America
Sustainable Asset Management, USA
T. Rowe Price
Tradewinds Global Investors
Walter Scott & Partners
W.R. Huff Asset Management
Yellowstone Capital Partners

Actuary

Buck Consultants Inc.

Auditor

MFR (formerly Mir • Fox & Rodriguez, P.C.)

Custodian Bank

JP Morgan Chase Bank

Other Banking Relationships

Bank of America, N.A.
Southwest Securities, FSB
Texas Capital Bank, N.A.

Investment Consultants

The Townsend Group
NEPC

Performance Measurement Consultants

Financial Control Systems Inc. (FCS)

Legal Advisors

Strasburger & Price, LLP
Travis & Calhoun

Legislative Consultants

Locke, Lord, Bissell, & Liddell, LLP
Hillco Partners

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.

Lt. Samuel Friar was elected to the Board in a special election completed in February 2011 to fill the remainder of the Active Firefighter Trustee term of Lt. Gerald Brown, who retired in 2010. In an election held in April 2011, Sgt. Daniel Wojcik and Officer Thomas White were elected to Active Police Officer Trustee positions. Fire Trustees George Tomasovic and Rick Salinas were re-elected to Active Firefighter Trustee positions.

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 investment earnings pursuant to an annual budget adopted by the Board.

INVESTMENT HIGHLIGHTS

The Pension System maintains a highly diversified investment portfolio that is comprised of Global Public Equity, Global Private Equity, Global Fixed Income, Global Natural Resources, Global Asset Allocation (GAA), and Global Real Estate. The rate of return on System investments during 2011 was 0.3%, net of fees. The performance number was provided by NEPC, the System's general investment consultant. The actuarial expected rate of return was 8.5%. As of December 31, 2011, the System's net assets were valued at approximately $3.02 billion.

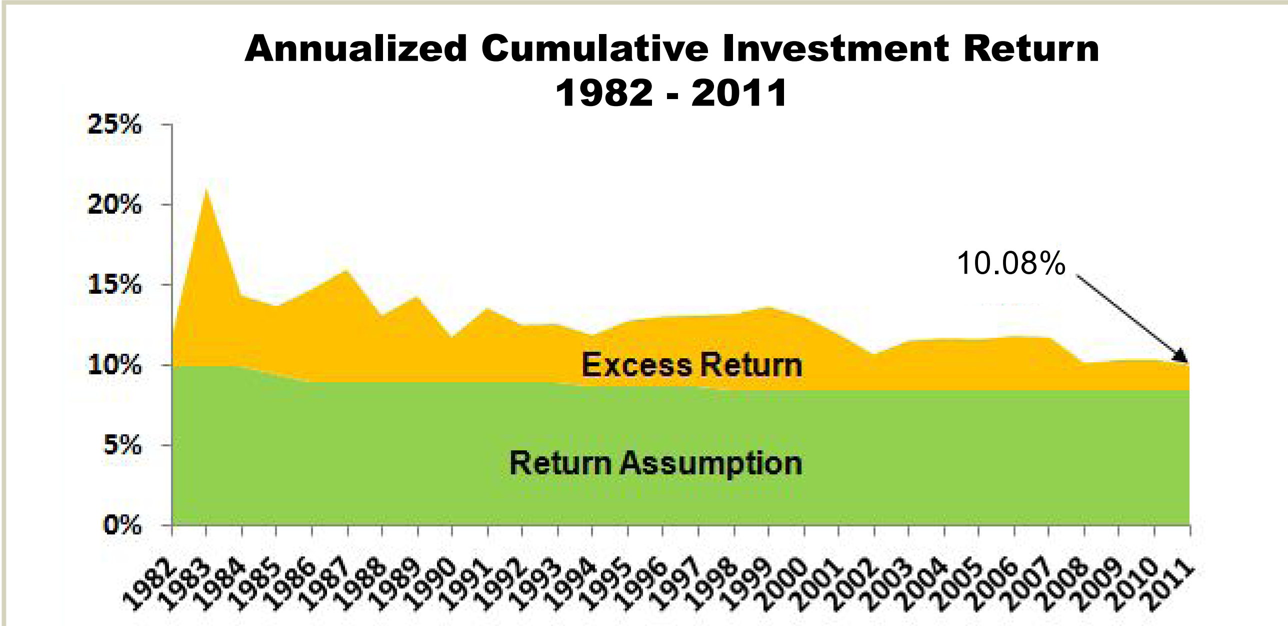
The Global Public Equity portfolio, which is measured against the MSCI ACWI Index, returned negative 6.75% outperforming the benchmark.

The Global Private Equity portfolio returned 0.03% for the year. Within the Global Private Equity allocation, the System implemented new investments in the Oaktree Power Fund III and the Levine Leichtman Capital Partners Deep Value Fund II.

The Global Fixed Income portfolio returned 5.95%, outperforming the BC Global Aggregate index by 0.45%.

The System's Global Asset Allocation (GAA) had an annual rate of return of 6.51%, outperforming its benchmark. During the year, the System implemented a new investment in the Bridgewater Pure Alpha Major Markets Fund. The System is also invested in Bridgewater's All-Weather Fund.

The System's Global Real Estate portfolio returned negative 6.44%, underperforming the NCREIF benchmark index. This underperformance, although disappointing, reflects the still weak fundamentals in certain real estate markets the System has investment in. As the real estate market cycle typically runs much longer than that of financial markets, the System takes a long term view and as such, longer term metrics are a better measurement of performance.



The above chart demonstrates that the System's long-term investment performance of 10.08% since 1982 has exceeded the expected rate of return.

As of end of 2011, the System's agricultural holdings, which are included in the Global Natural Resources portfolio, returned 9.4% net of fees for the year. Over the longer term the agricultural portfolio has generated stable, double-digit returns over 3- and 5-year periods of time.

During 2011, the System implemented a number of new investments, performed due diligence on current and prospective investments and managers, and created a $280M private Real Estate Operating Company (REOC) with RED Developments. The System also maintained its AAA credit rating with Standard & Poor's, which aided in the negotiation and extension of their internal line of credit.

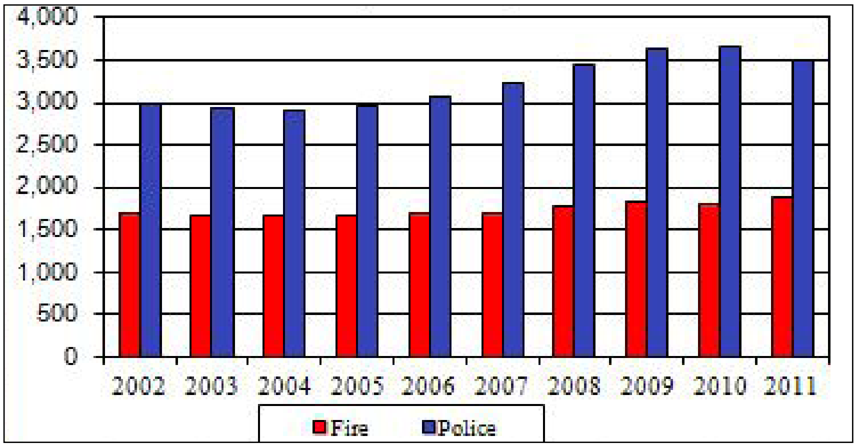
PLAN MEMBERSHIP

The System provides comprehensive retirement, disability and survivor benefits for the City's 9,173 Police Officers, Firefighters, Pensioners and their beneficiaries and deferred vested Members. As of December 31, 2011, the active membership of the System included 3,494 Police Officers and 1,882 Firefighters. The total of 5,376 Active Members reflects a decrease of 106 from last year's total of 5,482 (3,668 Police Officers and 1,814 Firefighters).

The average Police Officer is 40.85 years of age with 14.07 years of pension service. The average Firefighter is 41.99 years of age and has 15.37 years of pension service with the City of Dallas.

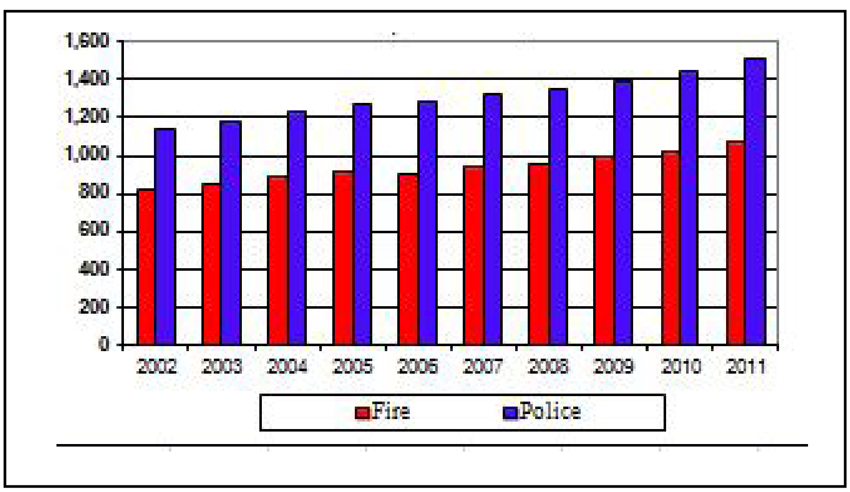
The System paid $188.1 million in pension benefit payments to recipients in 2011. At the end of the year benefit payments were being made to 2,591 service Pensioners, 176 disability Pensioners, and 902 beneficiaries. The total number of benefit recipients increased by 134.

Active Membership in the System (2002-2011)



Total Active Membership increased by 816 Members over the last ten years from 4,560 Members in 2001 to 5,376 Members as of December 31, 2011, 3,494 Police Officers and 1,882 Firefighters. The number of Active Police Officers decreased by 174 in 2011, while the number of Firefighters increased by 68.

Number of Retired Members (2002-2011)



The total number of Members on Service Retirement increased steadily over the last ten years from 1,912 in 2001 to 2,591 as of December 31, 2011, including 1,517 retired Police Officers and 1,074 retired Firefighters.

FINANCIAL HIGHLIGHTS

The System relies on contributions from the City and the Members, as well as income from investments, to provide the funds necessary to finance payment of retirement and survivor benefits. The Member and City contributions are established by statute. Members are required to pay 8.5% of computation pay (base pay plus education pay and state longevity pay). The City is required to pay 27.5% on total gross payroll for Members. The System pays benefits under defined benefit plans calculated on the basis of a Member's age, average computation pay, eligible service credit and a service multiplier percentage.

In 2011, benefit payments exceeded contributions received by approximately $66.2 million. This is a normal situation for a mature pension plan like the System and benefit payments and other expenses not met by contributions received are paid from investment income.

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 of this report and on the System's Web site under the "Publications" tab at www.dpfp.org.

Additions to Plan Net Assets

During 2011, the System received $121.9 million in Member and City contributions. The System also earned investment return, net of fees, of $20.9 million, other income of $419 thousand and net appreciation on plan assets of $(44.9) million. Net additions to Plan Net Assets totaled $98.3 million.

Deductions from Plan Net Assets

The System paid out over $188.1 million in 2011 in service and disability retirement benefits and survivor benefits, including Deferred Retirement Option Program (DROP) disbursements. The System also refunded Member contributions of about $737,000 to terminated Members. System administrative expenses totaled $6.9 million. Total deductions from Plan Net Assets were $195.8 million.

Plan Net Assets decreased by $97.4 million over the year.

PLAN AMENDMENTS

The Active Membership of the System approved the following changes to the Plan in 2011, with 88.48% of the Members who participated in the election voting to approve the amendment:

1. Removed the 0.25% restriction on DROP interest rate changes
2. Required Member to pay pension contributions while in active DROP, phased in over three years
3. Allowed a one-time opportunity for Active DROP members to rescind their DROP election
4. Provided benefits for members hired after February 28, 2011 with the following provisions:
    a. 2% accrual rate for the first 20 years of service, 2.5% accrual rate for the next five years of service and 3% accrual rate for service after 25 years
    b. Average computation pay based on 60 months of pay
    c. Retirement eligibility at age 55 with 20 years of service

5. Provided disability benefits for members hired after February 28, 2011 with the following provisions:
    a. Own occupation definition for first two years of disability
    b. Any occupation definition after two years of disability
    c. On-duty disability retirement benefit will be based on a minimum of 50% of average computation pay
    d. Survivor benefits for members who die while on active service will be based on a minimum of 25% of average computation pay.

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.

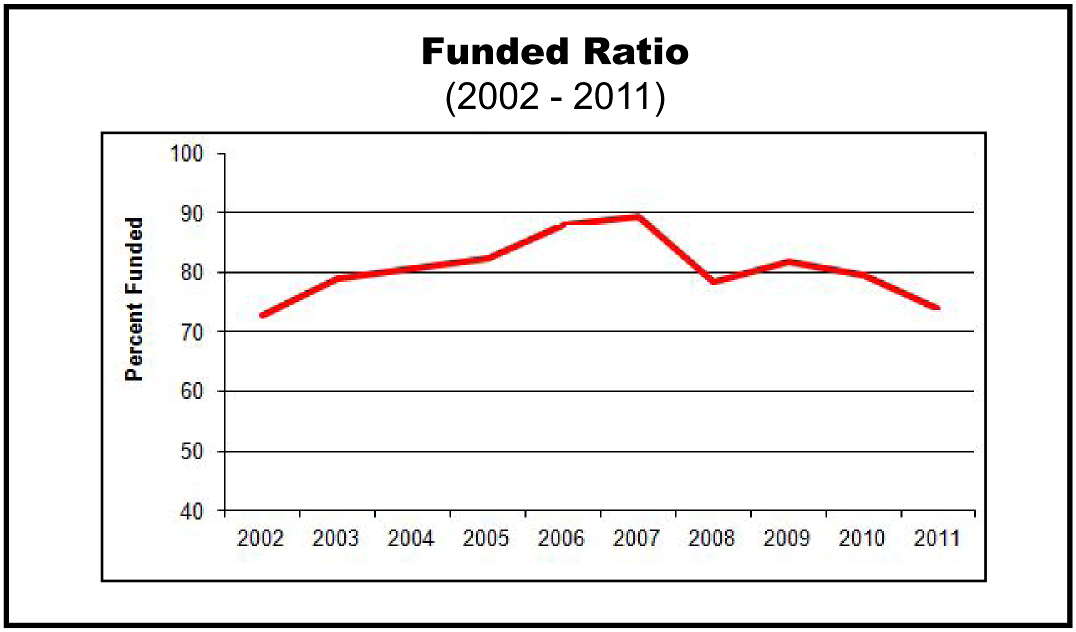
The System also continued to oppose federal legislation that would require mandatory or universal Social Security coverage and state and federal legislation that we feel would be harmful to the public defined benefit form of retirement plan such as the System.

SUMMARY

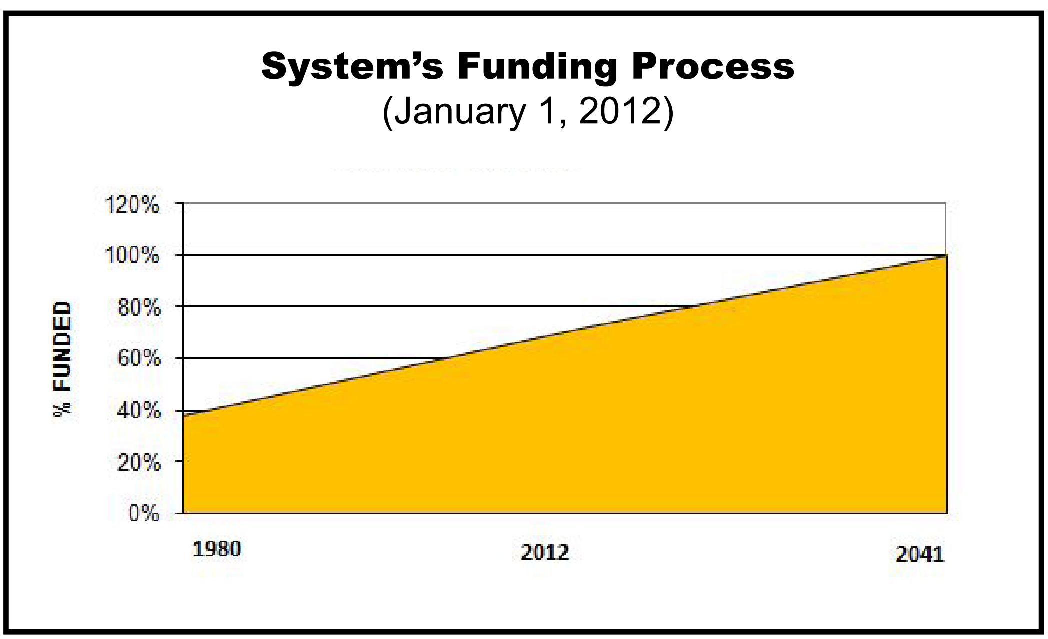
System assets, membership, and programs remained strong at the end of the year. The long-term investment performance of the System is rated among the top of all public pension plans. The use of multiple managers employing different investment styles has kept the System's long-term performance on track, 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.



The System's Funded Ratio has remained relatively constant over the last ten years.



The System is on track to be fully funded in 30 years.

2011 BOARD OF TRUSTEES

(As of 12/31/2011)

George Tomasovic
Fire-Rescue Department
Chairman

Steve Umlor
Police Department
Vice Chairman

Rick Salinas
Fire-Rescue Department
Deputy Vice Chairman

Jerry Allen
City Council

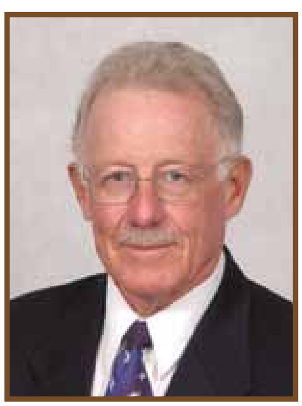
Samuel Friar
Fire-Rescue Department

Delia Jasso
City Council

David Neumann
City Council

Sheffie Kadane
City Council

John Mays
Police Pensioner



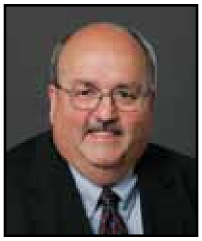
Richard Wachsman
Fire Pensioner

Thomas L. White
Police Trustee

Daniel Wojcik
Police Trustee

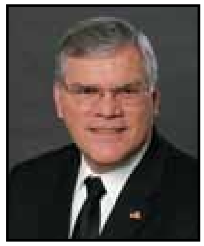
2011 Administrative Staff

(As of 12/31/2011)



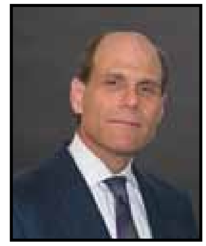
Richard Tettamant
Administrator

Brian Blake
Asst. Administrator
Investments



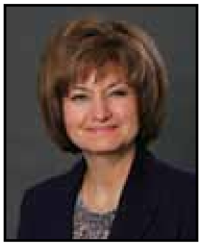
Don Rohan
Asst. Administrator
Operations

Mike Taylor
Chief Financial Officer

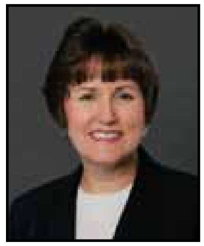


Josh Mond
General Counsel

John Holt
Information Technology
Manager



Pat McGennis
Benefits
Manager



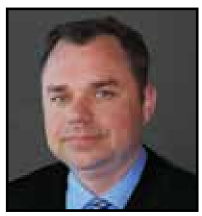
Linda Rickley
Board Coordination
Manager

Bill Scoggins, Jr.
Accounting Manager

Carol Huffman
Executive Secretary

Laura Banda
Admin. Clerk

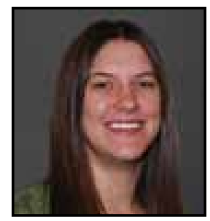
Larissa Branford
Accountant



Jerry Chandler
Systems Analyst

Aimee Crews
Benefits Counselor

Crystal Flores
Admin. Clerk



Kristen Holcomb
Admin. Clerk

Greg Irlbeck
Investment Analyst

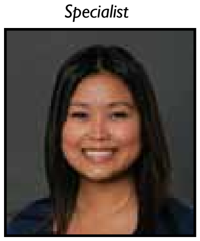
Vickie Johnson
Accounting
Specialist

Kevin Killingsworth
Communications
Specialist

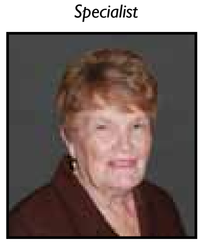
Larry Landfried
Investment Analyst

Genieva Lopez
Admin. Clerk

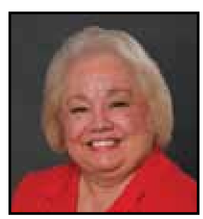
Ann Matthews
Benefits Counselor



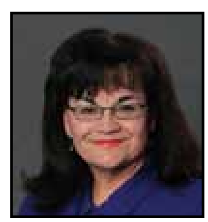
Chang Huynh
Admin. Clerk



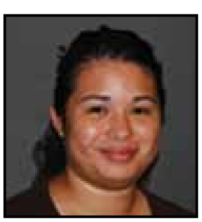
Alberta Patterson
Admin. Clerk



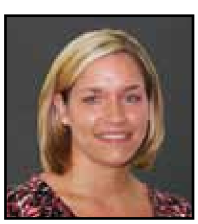
Rosa Perez
Admin. Clerk



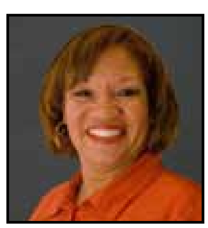
Cynthia Reyes
Admin. Clerk/Receptionist



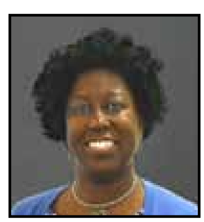
Corina Rocha
Data Control Clerk



Milissa Schmidt
Benefits Counselor



Cynthia Thomas
Benefits Counselor



Cecily Warren
Pensioner Liaison

Christina Wu
Investment Analyst


DALLAS
FIRE RESCUE
POLICE
Dallas

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
  - 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 System's 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 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's assets totaled $1.7 billion (12-31-02)

2003

- Re-election of four Trustees
- Initiation of Pensioner Advocate Program
- Initiation of Financial Planning and Pensioner Financial Planning Programs
- System's 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 off site
- 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 System assets co-investing the assets of the System and the Supplemental Plan
- System assets totaled $3.13 billion (12-31-06)

2007

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

2008

- Adopted new asset allocation policy with emphasis on global investments
- Moved office location to new site at 4100 Harry Hines Blvd.
- System Assets totaled $2.53 billion (12-31-08)

2009

- Re-election of four Trustees and election of Active Firefighter Trustee to fill vacant position
- Restructured Real Estate portfolio
- Implemented eCorrespondence – an electronic communications system with Members through the System's Website and e-mail
- Completed set-up of System "hotsite" remote location for business continuity
- System Assets totaled $2.85 billion (12-31-09)

2010

- Received following awards in 2010
  - Money Management Letter – 2009 Mid-Sized Public Pension Plan of the Year
  - US Green Building Council – LEED Silver Certification for 4100 Harry Hines
  - Infrastructure Journal – 2009 Transport Deal of the Year (NTE)
  - American Road and Transportation Builders Association – 2010 Projects of the Year (NTE and LBJ)
- Renewed loan program to enhance real estate investment return
- Implemented Web Member Services upgrades to improve Member access to information
- System Assets totaled $3.11 billion (12-31-10)

2011

- Election of Active Firefighter Trustee to replace vacant position and two new Active Police Trustees, and reelection of two Active Firefighter Trustees
- Plan amendment election held February 2011
  - Removed the 0.25% restriction on DROP interest rate changes
  - Required Member to pay pension contributions while in active DROP, phased in over 3 years
  - Allowed a one-time opportunity for Active DROP members to rescind their DROP election
  - Provided benefits for members hired after February 28, 2011 with the following provisions:
    a. 2% accrual rate for the first 20 years of service, 2.5% accrual rate for the next 5 years of service and 3% accrual rate for service after 25 years
    b. Average computation pay based on 60 months of pay
    c. Retirement eligibility at age 55 with 20 years of service
  - Disability benefits with the following provisions:
    a. Own occupation definition for first two years of disability
    b. Any occupation definition after two years of disability
    c. On-duty disability retirement benefit will be based on a minimum of 50% of average computation pay
    d. Survivor benefits for members who die while on active service will be based on a minimum of 25% of average computation pay.
- System Assets totaled $3.02 billion (12-31-11)

Financials

DALLAS POLICE AND FIRE PENSION SYSTEM

Financial Statements and
Required Supplemental Information

December 31, 2011 and 2010
(With Independent Auditors' Report Thereon)

DALLAS POLICE AND FIRE PENSION SYSTEM

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Accountants
& Consultants

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, 2011 and 2010, 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 and 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, 2011 and 2010, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (MD&A) and the schedules of funding progress and employer contributions be presented to supplement the basic financial statements. Such information although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A and required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

MFR, P.C.

June 29, 2012

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

OVERVIEW

The Management's Discussion and Analysis (MD&A) of the Dallas Police and Fire Pension System's (the System) financial position and performance provides an overview of the System's financial activities for the fiscal years ended December 31, 2011 and 2010.

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 basic financial statements, notes to the financial statements and required supplemental 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, (2) Notes to Basic Financial Statements and (3) Required Supplemental Information.

The Statement of Plan Net Assets presents the System's assets and liabilities and plan net assets held in trust 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 Note to Required Supplemental Schedules.

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)

	2011	2010	2009
Assets	$ 3,017,290	3,112,742	2,873,211
Liabilities	2,039	55	271
Net Assets Held in Trust for Pension Benefits	3,015,252	3,112,687	2,872,940
Contributions	121,931	128,088	127,284
Investment and Other (Loss) Income	(23,587)	288,389	378,796
Benefit Payments	188,093	169,459	155,343
Withdrawals and Refunds of Contributions	736	814	771
Administrative Expenses and Professional Fees	6,949	6,457	6,490

Continued

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), CONTINUED

FINANCIAL HIGHLIGHTS

- The System's plan net assets decreased $97 million in 2011 and increased $240 million in 2010. Plan net assets totaled $3.02 billion at the end of 2011 and $3.11 billion at the end of 2010. The decrease in plan net assets reflects continued volatility in the financial markets in 2011.

- The assets of the System and the Supplemental Police and Fire Pension Plan of the City of Dallas (Supplemental Plan) are co-invested through a Group Trust. The two plans are separate legal entities. The rate of return on Group Trust investments during 2011 was 0.3% net of fees, compared to a rate of return of 11.4% for 2010. The performance numbers are provided by the System's general investment consultant. The actuarial expected rate of return for both years was 8.5%. The investment return for 2011 represents a global economic slowdown during the second half of 2011. Domestically, despite strong corporate earnings, a lingering high unemployment rate and diminished growth prospects provided headwinds to any meaningful equity appreciation. Globally, the sovereign debt crisis in Europe remained the focal point. The System's financial composite, comprised of Global Equity, Global Fixed Income, Global Asset Allocation, and the public portion of Global Natural Resources returned (0.2%) net of fees for 2011, outperforming the allocation index by 8.4%. Global equity markets, as measured by the MSCI World Index, were (5.5%) in 2011. Domestic equity markets, as measured by the S&P 500, returned 2.1% in 2011. The System's private equity portfolio returned .03%, underperforming the public markets as measured by the S&P 500 by 2.07%, and outperforming the MSCI World Index by 5.58%. The System's real estate portfolio returned (6.44%), underperforming the NCREIF Property Index by 20.7%. Longer term, the System's real estate portfolio has been on par with the index, returning 7.3% versus a return of 8.1% for the NCREIF over a 10-year period.

- Liabilities totaled $2.04 million as of December 31, 2011. Liabilities at December 31, 2010 totaled $55 thousand. Investment liabilities are incorporated into the Group Trust and reflected within total investments.

- The System received member contributions of $19.5 million in 2011 and $19.8 million in 2010 and received employer contributions from the City of Dallas in the amounts of $102.4 million and $108.3 million in 2011 and 2010, respectively. The member contributions are 8.5% of computation pay (base pay rate plus education and longevity pays). Total member contributions decreased by $330 thousand, or about 1.7%, in 2011 compared to 2010 and increased by $239 thousand, or about 1%, in 2010 compared to 2009. Members in Active Service who participated in the System's Deferred Retirement Option Plan (DROP) were required to pay pension contributions at the rate of 3% of Computation Pay beginning with the first pay period ended after October 1, 2011. The employer contributions represent 27.5% of total salary and wages of covered members. Total employer contributions decreased by $5.8 million, or 5.4%, in 2011 compared to 2010 and increased by $564 thousand, or less than 1%, in 2010 compared to 2009. The decrease in contributions for 2011 resulted primary from a decrease in total membership, which decreased by 106 members during the year.

- The System paid $188.1 million in service retirement, disability retirement, survivor benefits and DROP disbursements during 2011, compared to payments of $169.5 million in 2010. The System refunded approximately $737 thousand and $814 thousand in contributions to former members in 2011 and 2010, respectively. No changes to benefit provisions of current pensioners were implemented in 2011 or 2010. The increase of $18.6 million, or 9.9%, in benefit payments in 2011 compared to 2010 resulted from an increase in the number of benefit recipients, post retirement increases to base benefits and an increase in distributions from DROP. The increase of $14.1 million, or 9%, in benefit payments in 2010 compared to 2009 resulted both from an increase in the number of benefit recipients and annual adjustment increases to base benefits.

Continued

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), CONTINUED

- The cost of administering the benefit programs of the System, including administrative costs and professional fees, was $6.9 million in 2011 compared to $6.5 million in 2010.

OTHER SIGNIFICANT CHANGES

The System's membership approved the following changes to Plan provisions in an election conducted in February 2011:

- Removing the 0.25% restriction on DROP interest rate changes.
- Requiring member contributions while in active DROP.
- Allowing a one-time opportunity for active DROP members to rescind their DROP election.
- Providing benefits for members hired after February 28, 2011 with the following provisions:
  - 2% accrual rate for the first 20 years of service, 2.5% accrual rate for the next 5 years of service and 3% accrual rate for service after 25 years.
  - Average computation pay based on 60 months of pay.
  - Retirement eligibility at age 55 with 20 years of service.
- Disability benefits with the following provisions:
  - Own occupation definition for first two years of disability.
  - Any occupation definition after two years of disability.
  - On-duty disability retirement benefit based on a minimum of 50% of average computation pay.
- Survivor benefits for members who die while on active service based on a minimum of 25% of average computation pay.

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, 2012. 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 System conducted an election in 2011 and approved by a vote of the members to amend certain Plan benefits for new Members hired after February 28, 2011 and DROP interest provisions for Members hired before March 1, 2011. The impact of the changes to improve the funding of the Plan are reflected in the numbers reported below.

- The Actuarial Valuation Report shows that the market value of assets decreased $121.9 million during 2011 to $2.99 billion as of January 1, 2012. The market value of assets increased $261.1 million during 2010 to $3.11 billion as of January 1, 2011.

- As of January 1, 2012, the actuarial value of the assets (AVA) decreased $52.3 million during 2011 to a total of $3.38 billion. As of January 1, 2011, the actuarial value of the assets (AVA) increased $47.9 million during 2010 to $3.43 billion.

- As of January 1, 2012, the actuarial accrued liability (AAL), or actuarial value of liabilities, increased during 2011 by $252.5 million to $4.57 billion. As of January 1, 2011, the actuarial accrued liabilities (AAL), or actuarial value of liabilities, increased during 2010 by $183.0 million to $4.32 billion.

Continued

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), CONTINUED

- 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 decreased to 73.9% during 2011 compared to 79.5% in 2010.

- 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, 2012, the System's UAAL was $1.2 billion, an increase of $304.8 million from a UAAL of $885.5 million as of January 1, 2011.

- 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, 2012, the employer contribution rate of 27.5% covers the normal cost and the amortization of the UAAL over 30 years, compared to 21 years to fund as of the January 1, 2011 valuation. This increase of 9 years in the number of years to fully fund the System resulted primarily from changes to the mortality and turnover assumptions adopted by the Board.

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 4100 Harry Hines Blvd., Suite 100, Dallas, Texas 75219.

DALLAS POLICE AND FIRE PENSION SYSTEM

Statements of Plan Net Assets
December 31, 2011 and 2010

Assets	2011	2010
Plan interest in Group Master Trust, at fair value (notes 2, 3, 4, 6, 7 and 8)	$ 3,013,551,399	3,109,319,678
Receivables:		
Employer (note 5)	3,089,985	2,894,319
Member (note 5)	648,732	527,697
Total receivables	3,738,717	3,422,016
Total assets	3,017,290,116	3,112,741,694
Liabilities and Plan Net Assets		
Administrative expense payable	2,038,588	55,152
Total liabilities	2,038,588	55,152
Plan net assets held in trust for pension benefits	$ 3,015,251,528	3,112,686,542

See accompanying notes to basic financial statements.

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DALLAS POLICE AND FIRE PENSION SYSTEM

Statements of Changes in Plan Net Assets
Years Ended December 31, 2011 and 2010

	2011	2010
Additions to plan net assets:		
Investment income -		
net investment (loss) gain from the Group Master Trust (note 3)	$ (23,587,085)	288,388,645
Contributions:		
Employer (note 5)	102,437,115	108,263,675
Member (note 5)	19,493,460	19,823,954
Total contributions	121,930,575	128,087,629
Total additions to plan net assets	98,343,490	416,476,274
Deductions from plan net assets:		
Benefit payments	188,093,019	169,458,531
Refunds of contributions (note 11)	736,470	813,966
Administrative expenses and professional fees (note 10)	6,949,015	6,457,302
Total deductions from plan net assets	195,778,504	176,729,799
Net (decrease) increase in plan net assets	(97,435,014)	239,746,475
Plan net assets held in trust for pension benefits:		
Beginning of year	3,112,686,542	2,872,940,067
Plan net assets held in trust for pension benefits	$ 3,015,251,528	3,112,686,542

See accompanying notes to basic financial statements.

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements
December 31, 2011 and 2010

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, 2011 and 2010, the System's membership consisted of:

	2011	2010
Non-active members:		
Pensioners and qualified survivors currently receiving benefits and terminated members entitled to benefits but not yet receiving them:		
Firefighters	1,559	1,511
Police officers	2,110	2,024
Terminated vested members not yet receiving benefits	128	135
Total non-active members	3,797	3,670
Current members:		
Vested:		
Firefighters	1,370	1,406
Police officers	2,524	2,474
Total vested current members	3,894	3,880
Nonvested:		
Firefighters	512	408
Police officers	970	1,194
Total non-vested current members	1,482	1,602
Total current members	5,376	5,482

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 members of the Combined Pension Plan receive one of two benefit structures:

- Members who began membership before March 1, 2011 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. Certain members who meet the service prerequisite may elect to take early retirement with reduced benefits starting at age 45.

- Members who began membership after February 28, 2011 are entitled to monthly pension benefits after accruing 20 years of service and the attainment of age 55. Pension benefits are equal to the member's average Computation Pay determined over the highest 60 consecutive months of Computation pay, multiplied by 2% for the first 20 years of service, 2.5% for the next 5 years of service and 3% for the excess of 25 years and multiplied by the numbers of years of pension service, up to a maximum of 32 years. The member shall not accrue a monthly pension that exceeds 90% of the member's average Computation Pay.

The Computation Pay includes Civil Service Pay for the highest rank attained by competitive exam and any educational incentive, Longevity or City Service Incentive Pay. 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 except that the percent multiplier would be based on the member's age at the time of applying for the pension. Group B benefits are increased by 4% of the initial benefit amount each October 1.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

Additional benefits available under the System:

- Members with over 20 years of pension service, upon attaining age 55, shall receive a monthly supplement equal to the greater of $75 or 3% of their total monthly benefits (excluding the benefit supplement amount).

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

- Members who are eligible to retire are allowed to enter the DROP program. DROP members have their contribution discontinued but the City's portion of the total contribution continues. The member's monthly benefit remains in the System in a DROP Account and accumulates interest. Upon retirement from the City, the Member is able to withdraw from their DROP Account along with the normal benefits. DROP members' balances are $1,046,207,889 and $928,680,243 at December 31, 2011 and 2010, 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 2011 and 2010, 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. If a member's employment is terminated and is not eligible for a future benefit or the member elects not to receive present or future pension benefits, the member's contributions to the System are returned, without interest, upon written application. If application for refund is not made within three years, the member who is not eligible for a future benefit forfeits the right to a refund of his or her contribution; however, a procedure does exist whereby the member's right to the contributions can be reinstated. Under current law, Group A members must have 20 years of service to be eligible for a benefit. Group A member contributions are not refunded upon termination from employment.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

Termination

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

System administration

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

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 or loss, 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.

Additionally, within the Group Trust, 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 Trust. JPMorgan Chase served as custodian for the years ended December 31, 2011 and 2010. The fair value of the System's interest in the Group Trust is based on the unitized interest that it has in the Group Trust. The System's interest in the Group Trust was approximately 99.309% and 99.385% at December 31, 2011 and 2010, respectively. The allocation of investment income and administrative expenses between the System and the Supplemental Plan is based on the number of units owned of the Group Trust. Benefits, contributions and administrative expenses are allocated to each plan directly.

Investment valuation and income recognition

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

Investments are reported at fair value. The System's interest in the Group Trust is based on the fair value of the unitized interest held by the System. The underlying investments included in the Group 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.

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.

Benefits

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

 Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

Foreign currency transactions

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

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

Investments and broker accounts denominated in foreign currencies outstanding at December 31, 2011 and 2010 were converted to the Group Trust's and the System's functional currency (United States Dollars) at the foreign exchange rates quoted at December 31, 2011 and 2010, respectively. These foreign exchange gains and losses are included in the Group Trust net (depreciation)/ appreciation in fair value of investments in the accompanying disclosures of the Group Trust.

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.

Recent accounting pronouncements

GASB Statement No. 59, *Financial Instruments Omnibus.*

This statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools by amending the following pronouncements:

- GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, to clarify that unallocated insurance contracts should be reported as interest-earning investment contracts,
- GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, to emphasize the applicability of SEC requirements to certain external investment pools - known as 2a7-like pools,
- GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, to clarify that interest rate risk disclosure for a government's investments pools should be limited to its debt investment pools,
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, to clarify (1) which financial guarantee contracts, revenue-based contracts, and hybrid instruments are within the scope of the statement and (2) whether contracts that include nonperformance penalties meet the net settlement characteristics, and

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DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

- National Council on Governmental Accounting (NCGA) Statement 4, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*, to conform with the amendments made to GASB Statement No. 53.

The requirements of this statement were adopted in fiscal year 2011.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

This statement is intended to enhance the usefulness of the GASB Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. By incorporating and maintaining this guidance in a single source, this statement improves financial reporting and reduces the complexity of locating and using authoritative literature needed to prepare governmental financial reports. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2011. Management does not believe that GASB Statement No. 62 will have a material effect on the System's financial statements when adopted in fiscal year 2012.

GASB Statement No. 63, *Financial Reporting of Deferred outflows of Resources, Deferred Inflows of Resources, and Net Positions.*

This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011. Management does not believe that GASB Statement No. 63 will have a material effect on the System's financial statements when adopted in fiscal year 2012.

GASB Statement No. 67, *Financial Reporting for Pension Plans.*

This statement replaces the requirements of GASB Statement No. 25, building upon the existing framework for financial reports of defined benefit pension plans, including enhanced disclosures and the presentation of new information about annual money-weighted rates of return. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2013. Management is currently assessing the impact that GASB Statement No. 67 will have on the System's financial statements when adopted in fiscal year 2014.

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform with the current year presentation.

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DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

2. Cash and Cash Equivalents

For cash deposits and cash equivalents, custodial credit risk is the risk that in the event of a bank failure, the Group Trust's and the System's deposits may not be returned to it. The Group Trust's and the System's deposits are held by the custodian, JPMorgan Chase. As of December 31, 2011 and 2010, the Group Trust and the System had bank balances of $15,765,821 and $4,164,365, respectively, that are in demand deposit accounts subject to coverage by the Federal Deposit Insurance Corporation, but not collateralized. The Group Trust and the System do not have a deposit policy for custodial credit risk; however, management believes that the Group Trust's and the System's credit risk exposure is mitigated by the financial strength of the banking institution in which the deposits are held.

3. Investments and Plan Interest in Group Master Trust

The following disclosures on investments and the System's interest in the Group Trust are made for the Group Trust as of and for the years ended December 31, 2011 and 2010. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Short-term investments are government and corporate bonds with a maturity of less than one year and are valued based on current market rates. The fair value of limited partnerships, real estate trusts, and real estate loans is based on independent appraisals and recent financial results. Investments that do not have an established market are reported at their estimated fair values. Unrealized gains and losses are presented as net (depreciation)/ 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. Dividend income is recorded on the ex-dividend date. Interest and income from other investments are recorded as earned.

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

	2011	2010
Assets		
Investments, at fair value (notes 2, 3 and 4):		
Cash and cash equivalents	$ 212,012,476	216,646,496
United States government securities	11,185,810	13,720,331
United States government sponsored enterprises	1,025,208	1,161,739
Foreign government securities	97,750,603	101,358,508
Commingled funds - equity	910,925,729	1,001,915,984
Commingled funds - fixed	118,429,338	91,809,624
Domestic equities	436,012,638	655,491,225
International equities	307,583,199	308,299,085
Corporate securities	202,536,628	309,833,860
Investments, at appraised value - real estate equity funds	1,383,849,615	1,082,549,559
Total investments	3,681,311,244	3,782,786,411

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DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

Receivables:		
Accrued interest and dividends	7,024,601	7,268,566
Forward currency contracts (note 6)	35,486,325	132,126,580
Securities sold	3,317,375	3,407,551
Total receivables	45,828,301	142,802,697
Total assets	3,727,139,545	3,925,589,108
Liabilities and Net Assets		
Repurchase loan agreement (note 7)	24,644,300	29,957,000
Payable for securities purchased	3,796,351	3,641,324
Professional fees payable	6,866,248	7,118,538
Forward currency contracts (note 6)	35,772,079	132,259,801
Securities lending collateral (note 4)	157,129,466	160,248,227
Line of credit and other bank loans (note 8)	465,011,200	461,926,000
Total liabilities	693,219,644	795,150,890
Net assets in the Group Trust	$ 3,033,919,901	3,130,438,218

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

	2011	2010
Investment income:		
Interest	$ 21,145,839	21,861,080
Dividends	28,853,282	29,862,794
Real estate income	2,742,140	6,775,774
Net (depreciation)/appreciation in fair value of investments	(45,186,741)	260,327,583
Securities lending income	608,035	599,936
Less investment expenses:		
Custody fees	(278,628)	(373,660)
Investment services	(32,057,338)	(30,931,750)
Total investment (loss) income in Group Trust	(24,173,411)	288,121,757
Benefit payments in excess of contributions received for System and Supplemental Plan	(72,344,906)	(48,388,619)
Plan net assets held in trust for pension benefits:		
Beginning of year	3,130,438,218	2,890,705,080
End of year	$ 3,033,919,901	3,130,438,218

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

Group Trust interest held by the System	$ 3,013,551,399	3,109,319,678
Group Trust interest held by the Supplemental Plan	20,368,502	21,118,540
Total net assets of Group Trust	$ 3,033,919,901	3,130,438,218

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DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

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, 2011 and 2010 are presented by type, as follows:

	2011	2010
Cash and cash equivalents	$ 212,012,476	216,646,496
United States government securities	11,185,810	13,720,331
U.S. government sponsored enterprises	1,025,208	1,161,739
Foreign government securities	97,750,603	101,358,508
Commingled funds - equity	910,925,729	1,001,915,984
Commingled funds - fixed	118,429,338	91,809,624
Domestic equities	436,012,638	655,491,225
International equities	307,583,199	308,299,085
Corporate bonds	202,536,628	309,833,860
Investments, at appraised value - real estate equity funds	1,383,849,615	1,082,549,559
Total investments	$ 3,681,311,244	3,782,786,411

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 JPMorgan Chase and under such agreements JPMorgan 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.

Group Trust investments that individually represent market value of 5% or more of the net assets available for benefits as of December 31, 2011 and 2010 were $157,129,466 and $160,248,227, respectively.

Custodial credit risk

For an investment, custodial credit is the risk that, in the event of the failure of the counterparty, the Group Trust and the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Group Trust or the System, and are held by either the counterparty or the counterparty's trust department or agent but not in the Group Trust's or the System's name. At December 31, 2011 and 2010, the Group Trust's and the System's security investments that were not subject to custodial credit risk were the investments in fixed income and equity investments.

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 a 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.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

Alternative and real estate investments

1. The investment specific guidelines for each manager will be incorporated in a Limited Partnership Agreement, Limited Liability Company Agreement, or other binding agreement as is appropriate for the investment. The Board, System Administrator, General Counsel, and the investment manager execute this document.

2. In case of conflict between the specific manager guidelines and the general guidelines, the specific guidelines, as approved by the Board, shall supersede. The general guidelines are as follows:

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

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

Interest rate risk and foreign currency risk

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

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DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

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

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

At December 31, 2011, the following table shows 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
Fixed maturity domestic:					
U.S. Treasury securities	$	2,462,978		8,722,832	11,185,810
U.S. Government agency securities				1,025,208	1,025,208
Corporate bonds	6,155,305	56,586,640	71,356,928	68,437,755	202,536,628
Total fixed maturity domestic	6,155,305	59,049,618	71,356,928	78,185,795	214,747,646
Foreign government securities:					
Australian Dollar		4,948,413	3,517,812		8,466,225
Brazil Real	670,151			4,220,185	4,890,336
British Pound Sterling	5,837,652				5,837,652
Canadian Dollar	2,847,332	2,752,566			5,599,898
EURO Currency	1,056,878	10,156,036	6,109,484	2,069,424	19,391,822
Hungary	1,357,825				1,357,825
Indonesian Rupiah		2,823,793			2,823,793
Japanese Yen	2,912,375	11,629,592	2,828,906		17,370,873
Malaysian Ringgit	1,979,871	1,390,788			3,370,659
Mexican New Peso		2,692,745		5,492,659	8,185,404
New Zealand Dollar		1,014,493	1,964,487		2,978,980
Norway Krone	2,857,274				2,857,274
Poland New Zloty		3,597,399	5,264,208		8,861,607
South Africa			1,973,198	590,364	2,563,562
South Korea	888,762	2,305,931			3,194,693
Total foreign government securities	20,408,120	43,311,756	21,658,095	12,372,632	97,750,603
Total fixed maturity	$ 26,563,425	102,361,374	93,015,023	90,558,427	312,498,249

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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, 2011 is as follows:

Quality Rating		Corporate Bonds	U.S. Government Treasury Securities	U.S. Government Agencies	Foreign Government Securities	Grand Total Fair Value	Percentage of Holdings
AAA	$	9,553,419	11,185,810	1,025,208	12,130,741	33,895,178	10.85%
AA+		1,318,962			5,147,384	6,466,346	2.07%
AA		2,170,875				2,170,875	0.69%
AA-					947,216	947,216	0.30%
A+		4,224,717			3,170,248	7,394,965	2.37%
A		3,353,981			15,207,819	18,561,800	5.94%
A-		4,581,702			9,634,205	14,215,907	4.55%
BBB+		7,291,975			1,463,579	8,755,554	2.80%
BBB		5,099,731				5,099,731	1.63%
BBB-		5,454,559			771,568	6,226,127	1.99%
BB+		12,886,285			1,357,825	14,244,110	4.56%
BB		34,397,441				34,397,441	11.01%
BB-		18,614,400			2,752,566	21,366,966	6.84%
B+		13,304,462				13,304,462	4.26%
B		20,679,366			36,792	20,716,158	6.63%
B-		13,091,316				13,091,316	4.19%
Below CCC		33,026,806			208,476	33,235,282	10.63%
NA		13,486,631			44,922,184	58,408,815	18.69%
Subtotal	$	202,536,628	11,185,810	1,025,208	97,750,603	312,498,249	100.00%
Total credit risk debt securities						312,498,249	8.49%
Other investments						3,368,812,995	91.51%
Total investments						3,681,311,244	100.00%

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DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

4. **Securities Lending**

The Board has authorized the Group Trust to enter into an agreement with JPMorgan Chase (JPMorgan) 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 2011 and 2010, JPMorgan lent, on behalf of the Group Trust, securities held by JPMorgan as the Group Trust's custodian, and received United States dollar cash and United States Government securities as collateral. JPMorgan 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 2011 and 2010 on the amount of the loans that JPMorgan made on its behalf. There were no failures by any borrowers to return the loaned securities or pay distributions thereon during the fiscal years 2011 and 2010. Moreover, there were no losses during the 2011 and 2010 fiscal years resulting from a default of the borrower. JPMorgan indemnifies the Group Trust in respect of any loan related to any non-cash distribution and return of securities.

During 2011 and 2010, 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 JPMorgan. The relationship between the average maturities of the investment pool and the Group Trust'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, 2011 and 2010, the Group Trust and the System had no credit risk exposure to borrowers. The market value for securities on loan for the Group Trust were $152,361,948 and $155,506,124 at December 31, 2011 and 2010, respectively. The collateral held for the Group Trust were $157,129,466 and $160,248,227 at December 31, 2011 and 2010, 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, 2011 and 2010.

 Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

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 21 years as of January 1, 2011 compared to 26 years as of January 1, 2010.

The required contribution rate of the City, pursuant to an actuarial study effective January 1, 2011, consists of 15.02% of covered members' salaries to pay normal costs, 18.04% of covered members' salaries to amortize its funding deficit over 30 years, and by (5.56)% of covered members' salaries for an additional amortization requirement resulting in a net contribution rate of 27.5%. The City is required to contribute at a rate that has been actuarially determined and adopted by the Board.

In 2011 and 2010, 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 2011 and 2010, contributions were made in accordance with the adopted plans of benefits approved by the System's actuary.

Funded status

Information regarding the actuarial funding status of the System as of January 1, 2012, the most recent actuarial valuation date, is as follows (dollar amounts in millions):

Actuarial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	AVA as a Percentage of AAL	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/01/12	$3,378	$4,569	$1,190	73.9%	$349	341.0%

The January 1, 2012 actuarial valuation used the following significant assumptions:

Investment rate of return	8.5%, net, compounded annually
General inflation rate	4% per year
Mortality, retirement, disability and separation rates	Graduated rates
Actuarial cost method	Entry age normal cost method
Post retirement benefit increases:	
Group A (former Plan A) and Group B	4% per year 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	30 years
DROP account returns	8.5% per year
Post retirement mortality	RP-2000 Combined Healthy Mortality Table projected to the year 2022 using Scale AA for healthy retirees and active members. RP-2000 Combined Healthy Mortality Table with a one-year set forward for disabled members

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

Historical trend information

Historical trend information is provided as supplemental information on pages 29 through 31. 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 2011 and 2010, 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, 2011 and 2010.

During 2011 and 2010, the Group Trust recognized net realized gains and losses on foreign currency forward contracts of $(131,608) and $911,553, respectively. At December 31, 2011 and 2010, the Group Trust had net unrealized gains and losses on forward currency contracts reflected in the accompanying Group Trust summary information of $(480,692) and $(1,118,863), respectively, included in net (depreciation)/appreciation in fair value of investments.

7. **Obligation Under Reverse Repurchase Agreements**

State statutes permit the System to enter into reverse repurchase agreements. The credit exposure at year end 2011 and 2010 related to these agreements was $24,644,300 and $29,957,000, 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, 2011 and 2010.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

8. Line of Credit and Other Bank Loans

The Group Trust has a credit agreement with a commercial bank which provides for a revolving line of credit bearing interest at the 30 day floating LIBOR plus 75 basis points at December 31, 2011 and 2010, payable quarterly. At December 31, 2011 and 2010, the Group Trust had borrowed approximately $353,340,200 and $344,666,000 respectively, related to the revolving credit line, which provides for a maximum borrowing of $400,000,000. The revolving credit line was opened on November 1, 2006, and expires on March 31, 2014. The Group Trust and the System also pay a quarterly fee on the unused portion of the line of credit equaling 20 basis points. The line of credit agreement contains various covenants under the terms of the agreement in which the bank may call the line of credit, if the Group Trust is in violation of any restrictive covenants.

The Group Trust has a credit agreement with a commercial bank which provides for a revolving line of credit bearing interest at the PRIME rate and a floor rate of 5% as of December 31, 2011 and 2010, payable monthly. At December 31, 2011 and 2010, the Group Trust had borrowed $40,000,000 related to the revolving credit line, which provides for a maximum borrowing of $40,000,000. The revolving credit line expires on June 29, 2012. The Group Trust and the System also pay a monthly fee on the unused portion of the line of credit equaling 50 basis points. On March 1, 2012, the credit agreement was renewed with revised terms. The renewed credit agreement bears interest at the PRIME rate minus 26 basis points with a floor rate of 2.5% and a maximum rate of 5.0% with no fee on the unused portion of the line of credit. The renewed credit agreement expires on April 1, 2017.

The Group Trust has a credit agreement with a commercial bank which provides for a revolving line of credit bearing interest at the PRIME rate as of December 31, 2011 and 2010, payable quarterly. At December 31, 2011 and 2010, the Group Trust had borrowed $40,000,000 and $40,000,000, respectively, related to the revolving credit line, which provides for a maximum borrowing of $40,000,000. The credit agreement has no monthly fee for the unused portion of the line of credit. On February 14, 2012, the credit agreement was extended to mature on September 14, 2012.

In addition to the line of credit, the Group Trust has an additional loan agreement with the commercial bank bearing interest per annum at the LIBOR rate plus 75 basis points at December 31, 2011 and 2010, payable quarterly. At December 31, 2011 and 2010, the loan balance outstanding was $31,671,000 and $37,260,000, respectively. The loan is secured by real property and matures on March 31, 2014. The bank loan agreement contains various covenants under the terms of the agreement in which the bank may call the loan if the Group Trust is in violation of any restrictive covenants.

Maturities of debt at December 31 are as follows:

Year		Amount
2012	$	40,000,000
2013		-
2014		385,011,200
2015		-
2016		-
Thereafter		40,000,000
Total	$	465,011,200

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

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 $0 and $148,035 related to the System's overall administrative costs during the years ended December 31, 2011 and 2010, respectively.

Group Trust investment related expenses for the years ended December 31, 2011 and 2010 also include $32,057,338 and $30,931,750, 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 upon termination of employment with the City, prior to being eligible for pension benefits. As of December 31, 2011 and 2010, aggregate contributions from active members of the System with less than five years of service were $5,729,975 and $13,878,101, respectively,

The Group Trust had outstanding investment commitments to various limited partnerships and international investment advisors of approximately $516,000,000 and $422,000,000 at December 31, 2011 and 2010, respectively.

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.

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 2011 and 2010, the System contributed $349,168 and $330,002, 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.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

13. **Risks and Uncertainties**

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

The System contribution rates and the actuarial information included in the schedule of employer contributions, page 30, and schedule of funding progress, page 29, 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, 2011 and 2010.

14. **Subsequent Events**

Management has evaluated subsequent events through June 29, 2012, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed, except for noted in the above notes, or that would have a material impact on reported net assets or changes in net assets.

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 in millions):

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)
1/1/2003	$ 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 %
1/1/2009	3,040	3,878	838	78.4 %	348	240.8 %
1/1/2010	3,383	4,133	750	81.8 %	367	204.4 %
1/1/2011	3,431	4,316	885	79.5 %	365	242.5 %
1/1/2012	3,379	4,569	1,190	73.9 %	349	341.0 %

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

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

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

Schedule 2

DALLAS POLICE AND FIRE PENSION SYSTEM

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

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

Schedule of Contributions

Year ended December 31,	Annual required contribution	Percentage contributed
2002	$ 77,085	100.0%
2003	78,323	100.0%
2004	83,291	100.0%
2005	87,373	100.0%
2006	91,653	100.0%
2007	97,762	100.0%
2008	104,373	100.0%
2009	119,899	89.8%
2010	111,154	97.4%
2011	110,029	93.1%

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, 2012 and 2011 are as follows:

Actuarially assumed investment rate of return *	8.5% per annum, net, compounded annually
Mortality, retirement, disability and separation rates	Graduated rates detailed in actuary's report
Projected salary increases **	Range of 4% to 9.64%
Actuarial cost method	Entry age normal cost method
Post retirement benefit increases:	
Group A (former Plan A) and Group B members	4% per year of original pension annually
Group A (former Old Plan) members	4% per year compounded annually
Asset valuation	5-year smoothing
Amortization method	Open level percent of payroll
Remaining amortization period	30 years in 2012 actuary report 21 years in 2011 actuary report
DROP account returns	8.5% per annum
Post retirement mortality	RP-2000 Combined Healthy Mortality Table projected to year 2022 using Scale AA for healthy retirees and active members and RP-2000 Combined Healthy Mortality Table with a one-year set forward for disabled members for 2012. 1994 Group Annuity Mortality table for 2011.

The actuarial information presented was determined by the actuarial firm Buck Consultants, Inc. 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, 2012 and 2011, and are not materially different from what they would have been had they been calculated on December 31, 2011 and 2010, 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 plan document.

* Includes inflation rate of 4% and a real rate of return of 4.5%.
** Includes inflation rate of 4%.

Investments

STRATEGIC INVESTMENT POLICY

The Strategic Investment Policy of 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. The System's Strategic Investment Policy is published on the System's website at www.dpfp.org. (See "Policies" under the "About Us" tab.)

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 of Trustees ("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 economic 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.

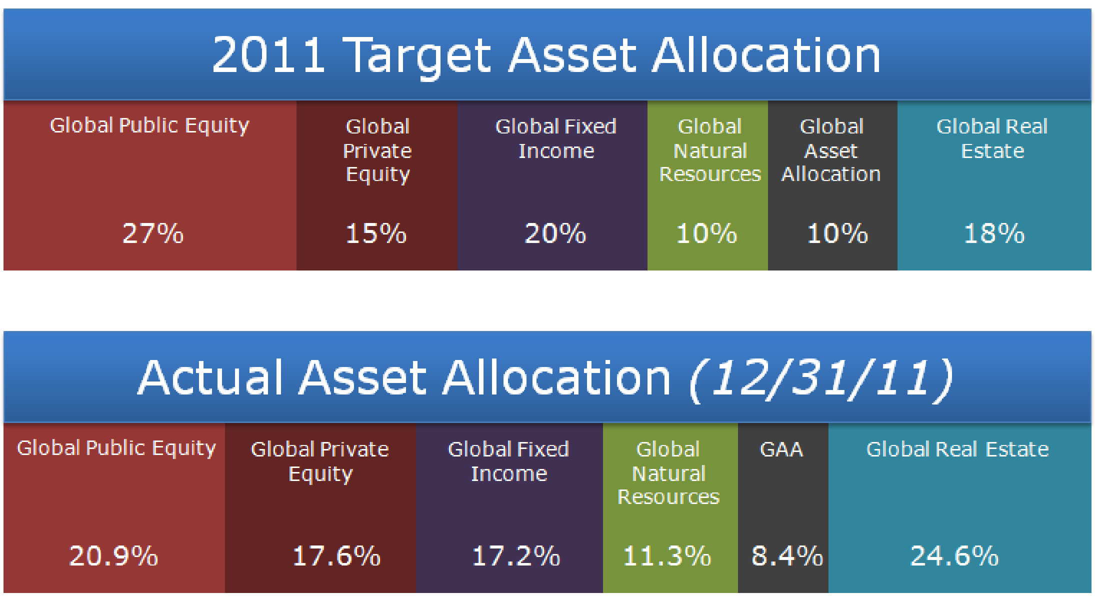
3. The System's investment program shall at all times comply with existing and future applicable state and federal regulations.

STRATEGIC ASSET ALLOCATION POLICY

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

The Board has adopted an asset allocation policy with the following primary asset groups, Global Equity (Public Equity and Private Equity), Global Natural Resources, Global Fixed Income (Public Fixed Income and Private Fixed Income), Global Asset Allocation, and Global Real Estate, as shown in the chart below.

An asset allocation review is conducted monthly by the Board and Staff. 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 re-allocation of assets as soon as administratively possible.



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

Though most public equity indexes finished near break-even, 2011 marked another year of uncertainty and volatility. Domestically, despite strong corporate earnings, a lingering high unemployment rate and diminished growth prospects provided headwinds to meaningful equity appreciation. The broad United States stock market, as measured by the S&P 500, rallied late in the year to finish 2011 with a return of 2.1%. Small-cap and mid-cap stocks, measured by the Russell 2000 index, performed worse, finishing the year negative 4.2%. Globally the sovereign debt crisis in Europe remained the focal point. International markets, measured by the MSCI ACWI ex US index, were negative 15.72% in 2011. Among asset classes, the System saw strongest returns in the Global Fixed Income and Global Asset Allocation portfolios, which returned 5.95% and 6.51% respectively. As of December 31, 2011, the System's net assets were valued at $3.02 billion.

Though returns were flat in 2011, the System maintained its long-term perspective. The System's financial composite, comprised of Global Public Equity, Global Asset Allocation and the public portion of the Global Fixed Income and the Global Natural Resources portfolios, ranked in the top 1% of 3-year annualized returns among public plans according to NEPC, the System's general investment consultant. Overall, the System's investment performance compares very well with the other public pension plans in the state. A report prepared for the Texas Association of Public Employees Retirement Systems (TEXPERS) reveals that the System had the highest investment return in the state over the last ten and twenty year periods ending September 30, 2011, and had the second highest performance over the one, five and fifteen year periods.

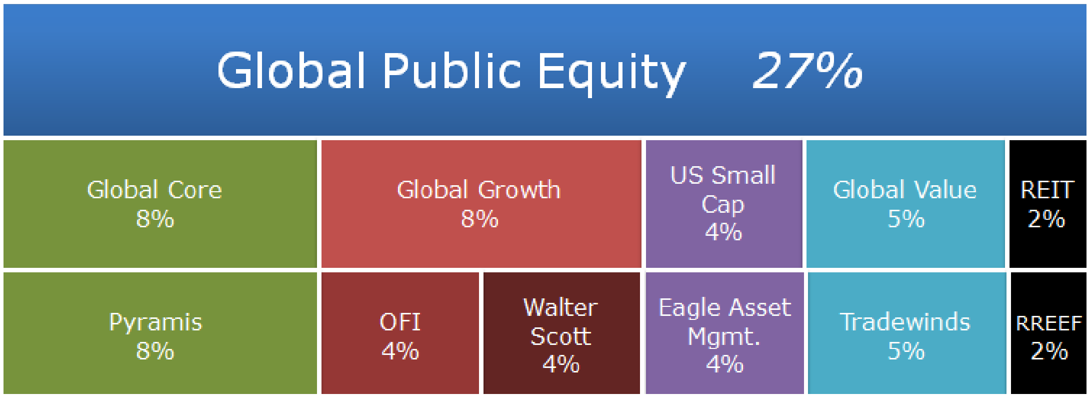
The System's use of multiple investment strategies, asset diversification, and asset rebalancing has served us well over many market cycles and will continue to help the System to continue to achieve its financial goals in the future. For a more detailed comparison, see "Rates of Return by Asset Class" below.

Rates of Return by Asset Class

Asset Class	2011 Return	Benchmark Return	Benchmark
Global Public Equity	-6.75%	-7.30%	MSCI ACWI
Global Private Equity	0.03%	4.10%	S&P 500 + 2%
Global Natural Resources	-7.64%	-9.73%	Custom Benchmark
Global Fixed Income	5.95%	5.60%	BC Global Aggregate
Global Asset Allocation	6.51%	6.10%	T-Bill + 600BPS
Global Real Estate	-6.44%	14.30%	NCREIF Property Index

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

Global Pubic Equity



The System's Global Public Equity portfolio consists of investments in equities traded on domestic and international public exchanges. The target asset allocation for global public equities is 27%. As of December 31, 2011, the System's Global Public Equity portfolio returned negative 6.75% compared to a return of negative 7.30% by the MSCI ACWI index, a measure of global equity markets. The investments were valued at $630.3 million, representing 20.9% of the System's total market value at year end.

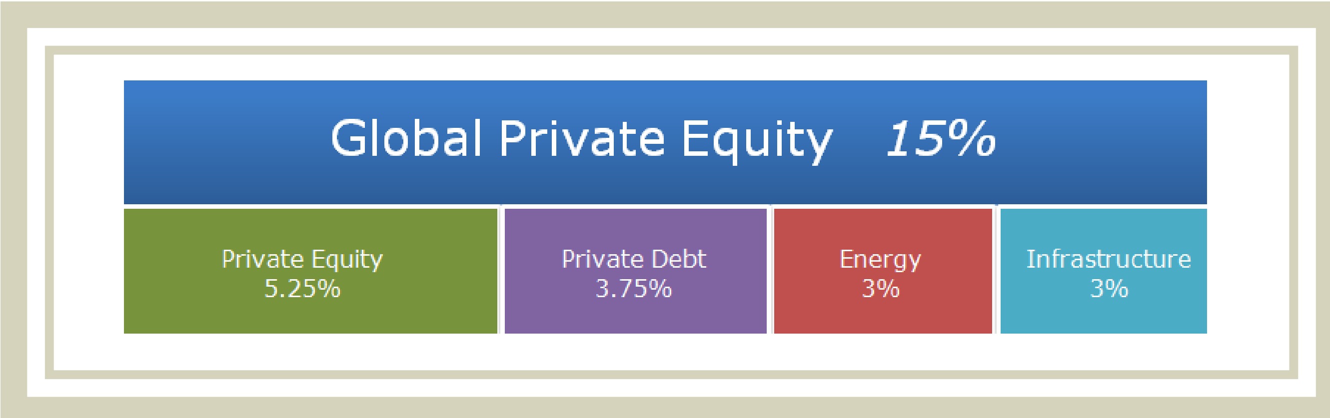
In 2011, Eagle Asset Management, the System's US small cap manager, outperformed its benchmark in 2011 by 1.9% and has achieved a 15.0% annualized return over the past 3 years. Over the course of the year, the System also rewarded solid long-term performance by Walter Scott and OFI with increased capital commitments that came from a discontinued relationship with Alliance Bernstein. Also included in the public equity portfolio is the System's investment in real estate investment trusts (REITs), managed by RREEF, totaling approximately $46.3 million. The RREEF portfolio finished the year with a return of 7.0%.

The below chart depicts the System's top ten public equity holdings as of December 31, 2011.

Top Ten Public Global Equity Holdings

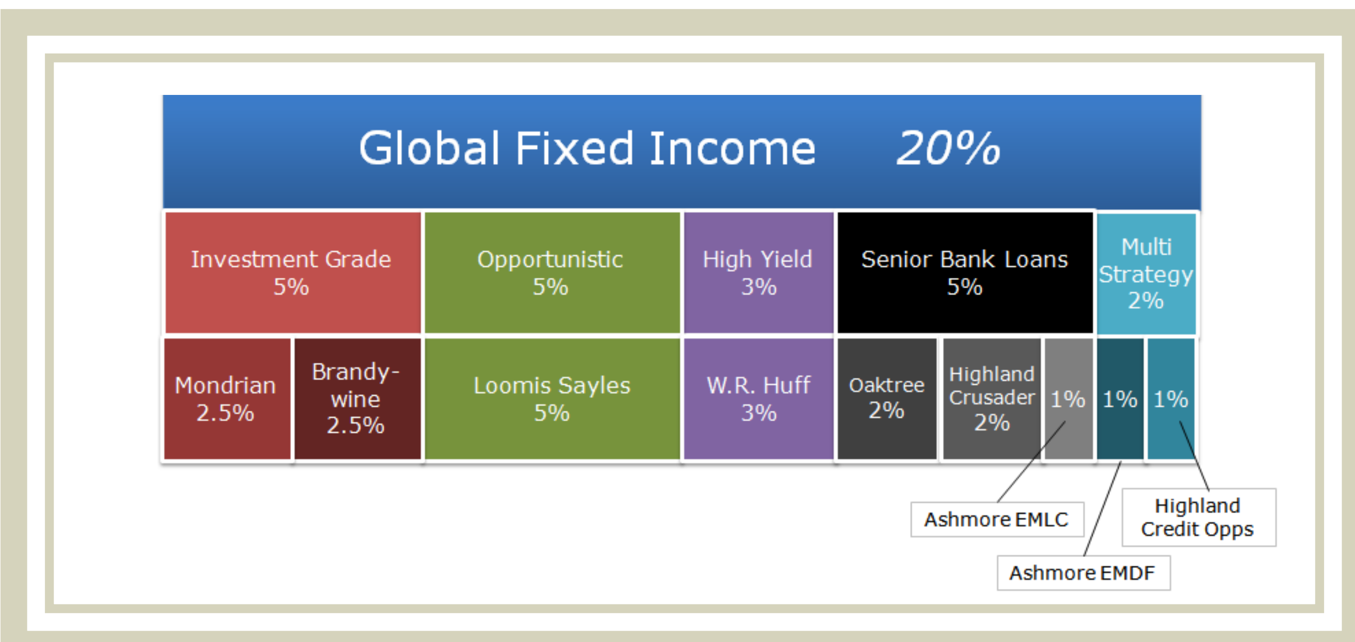
Holding		Market Value
1)	Microsoft Corp	$8,309,796
2)	Newmont Mining Corp	$6,546,851
3)	Google	$5,632,248
4)	Schlumberger	$5,386,175
5)	Barrick Gold Corp	$4,982,469
6)	Nestle	$4,958,056
7)	Colgate-Palmolive Co	$4,812,595
8)	Eli Lilly & Co	$4,114,440
9)	Western Digital Corp	$3,931,702
10)	EOG Resources Inc	$3,893,115

Global Private Equity



As The System's Global Private Equity portfolio consists of investments in equity, debt, energy and infrastructure that are typically not publicly traded. The above chart shows the private equity allocation based upon capital commitments as a percentage of the total portfolio. At year end, the System's Global Private Equity portfolio was valued at approximately $537 million and returned 0.03% in 2011. Among the top performing private equity investments were the Pharos LP and Pharos Capital Partners II funds which returned 16.5% and 14.3% for the year, respectively. The Lone Star CRA (Community Reinvestment Act) Fund had another profitable year and has annualized 3-year return of 39.9%. New private equity investments made by the System during 2011 included closings on $25 million commitments in the Oaktree Power Opportunities Fund III and Levine Leichtman Deep Value Fund II.

Global Fixed Income



The System's Global Fixed Income investments represent approximately 17.2% of the total portfolio and returned 6.0% for the year, outperforming the BC Aggregate index benchmark, which returned 5.6%. The System's investment grade fixed income holdings managed by Brandywine outperformed their benchmark returning 7.5% in 2011, while the Mondrian

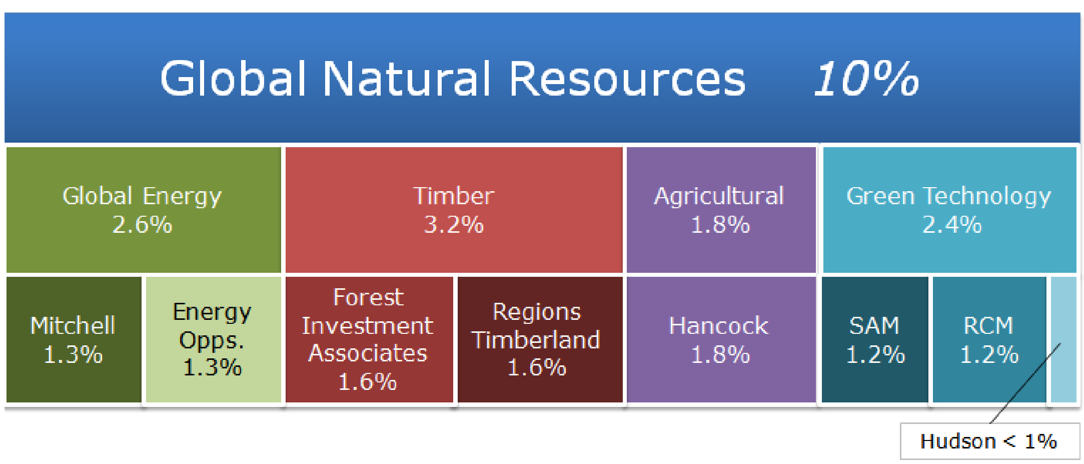
Investment Partners portfolio returned 3.6%. The global high yield and opportunistic fixed income market performed similarly to the investment grade market, with the Citigroup High Yield Index returning 5.5% in 2011. The System's high yield portfolio managed by W. R. Huff Asset Management showed strong returns of 13.3% in 2011.

The below chart depicts the System's top ten public fixed income holdings as of December 31, 2011.

Top Ten Global Fixed Income Holdings

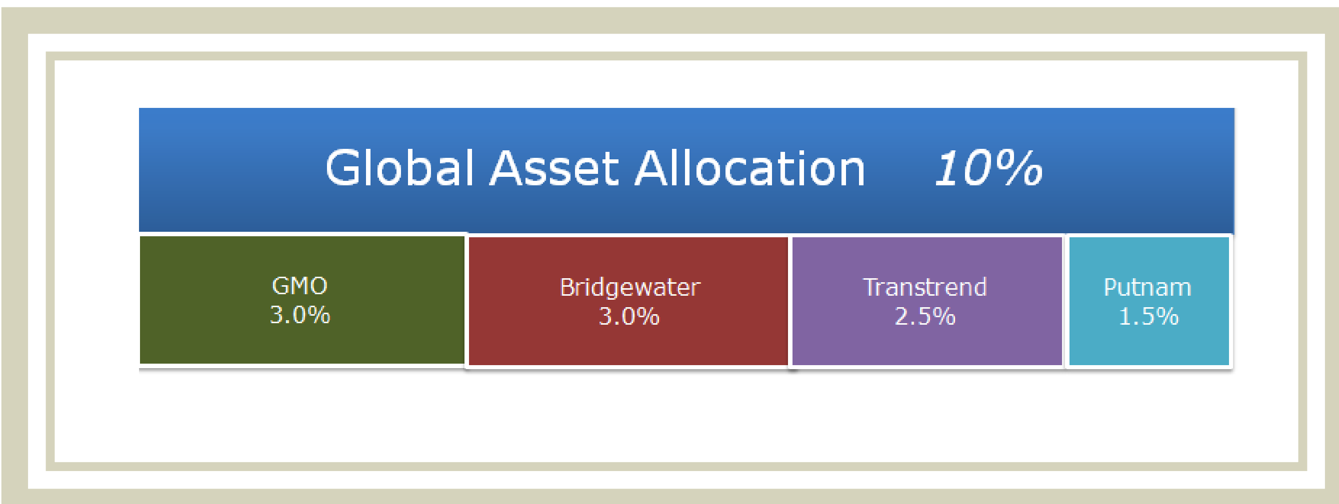
	Holding	Market Value
1)	U.S. Treasury 4.25% 11/15/2040	$7,792,144
2)	GILT Treasury 4.50% 03/07/2013	$5,839,041
3)	Japan 1.70% BDS '285' 03/20/2017	$5,552,160
4)	Borden Inc 7.88% 02/15/2023	$4,657,500
5)	Plains Exploration & Production 6.75% BDS	$4,226,663
6)	Brazil 10.25% SNR 01/10/2028	$4,220,185
7)	Lucent Technologies 6.45% 03/15/2029	$4,038,090
8)	NRG Energy Inc 7.65% 05/19/2019	$3,689,700
9)	Germany 1.75% 08/09/2015	$3,380,928
10)	New South Wales Treasury 6% 04/01/2016	$3,263,616

Global Natural Resources



The Global Natural Resources allocation represents the System's continuing commitment to natural resources, clean water, as well as green technology. The System's public energy holdings are managed by Energy Opportunities Capital Management and the Mitchell Group. Mitchell outperformed its benchmark, Dow Jones Equal Weight Oil & Gas index, by 5.8% in 2011. The System's sustainable timberland holdings are managed by Forest Investment Associates and Regions Timberland Group. Timber investments managed by Forest Investment Associates are primarily located in the southeastern parts of the United States, while the Regions Timberland portfolio has a global footprint with investments in the US, Brazil and Uruguay. At the end of 2011, the System's timber investments had a market value of approximately $109 million. The System's agricultural holdings managed by the Hancock Agricultural Investment Group continued to generate stable and solid returns, returning 9.4% for the year. Crops in the agriculture portfolio are diversified between permanent and row crops producing, but not limited to, apples, cranberries, almonds, wine grapes, cotton, corn and soybeans. In 2011, a real estate property was converted to a working almond orchard and incorporated into the agricultural portfolio. RCM Capital Management, Sustainable Asset Management and Hudson Clean Energy Partners make up the System's investments in clean water and alternative energy. Hudson Clean Energy had a strong year, returning 8.7% in 2011.

Global Asset Allocation



The Global Asset Allocation (GAA) portfolio has a target allocation of 10.0% and was valued at $251 million at year end, representing approximately 8.4% of the System's total market value. The Bridgewater composite portfolio, which is comprised of $65 million in the All Weather Fund and a newly funded $22 million investment in the Pure Alpha Major Markets Fund, returned 19.1% in 2011, outperforming its benchmark by 13.0%. The Putnam Total Return Trust returned 4.4%, while the portfolio managed by Grantham, Mayo, Van Otterloo & Co. (GMO) returned 4.6% in 2011.

Global Real Estate

The System's Global Real Estate portfolio is diversified by the type and location of the real estate assets owned, and is targeted at 18% of the total portfolio. The portfolio consists of retail, industrial, multi-family, residential, office, and undeveloped land. The location of the private real estate owned by the System includes multiple holdings in the United States, and internationally in the Bahamas and France.

The System's private real estate portfolio returned negative 6.44% net of fees for the year largely because the System wrote down a number of properties due to current market conditions, as reflected by comparable sales. Longer term, the private real estate portfolio has returned 7.3% net of fees over the 10 years.

The System saw an uptick in activity in the real estate portfolio in 2011. Over the course of the year, the System sold two industrial office buildings in Irving, TX producing a 12% internal rate of return. Another real estate success came from the sale of a luxury student housing complex in College Station, TX, which resulted in an equity multiple of 1.32x. The System also sold retail, residential and industrial properties in Nebraska, Hawaii and Texas, respectively. These transactions are representative of the increased real estate activity seen in the System's portfolio across a number of property types and geographic regions.

Inflation

Inflation as measured by the Consumer Price Index for all Urban Consumers (CPI-U) increased 3.0% from December 2010 through December 2011 according to the U.S. Department of Labor.

Actuarial Report

DALLAS POLICE AND FIRE PENSION SYSTEM

ACTUARIAL VALUATION

AS OF JANUARY 1, 2012

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May 31, 2012

Mr. Richard L. Tettamant
Administrator
Dallas Police & Fire Pension System
4100 Harry Hines Blvd., Suite 100
Dallas, TX 75219

Re: Dallas Police and Fire Pension System Actuarial Valuation as of January 1, 2012

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, 2012.

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, 2012, the employer contribution rate for GASB 27 purposes to pay the normal cost and fund the Unfunded Actuarial Accrued Liability over 30 years is 33.06%. This amount is more than the 29.54% employer contribution rate calculated as of January 1, 2011.

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972.628.6800 • 972.628.6801 (fax)

Mr. Richard Tettamant
May 31, 2012
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The funding period has been calculated in accordance with the Texas Pension Review Board (Texas PRB) Guidelines for Actuarial Soundness, which allow funding the Unfunded Actuarial Accrued Liability (UAAL) as a level percentage of payroll. In calculating the funding period, we have determined the level percentage of pay available to fund the UAAL as the excess of the fixed contribution rates over the normal cost rate. In order for this excess to be level, the normal cost rate must be level and, as such, has been determined using the entry age normal cost rate for the benefits available to members hired after February 28, 2011. Based on this method, the current contribution rate covers the normal cost and the amortization of the UAAL over 30 years.

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. New actuarial standards require actuaries to consider the effect of mortality improvement both prior to and subsequent to the valuation date. The mortality assumption for healthy retirees and active members was changed to the RP-2000 Combined Healthy Mortality Table projected to the year 2022 using Scale AA. In addition, the mortality table for disabled members was changed to the RP-2000 Combined Healthy Mortality Table with a one-year set forward.

In addition, the assumption for terminations prior to retirement for Police members was changed in order to better reflect the actual experience of the System and to better anticipate future expectations.

Otherwise, the valuation is based on the same assumptions and methods adopted by the Board of Trustees as the previous 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, 2012 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.

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Mr. Richard Tettamant
May 31, 2012
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We are Enrolled Actuaries, Fellows of the Society of Actuaries, and Members of the American Academy of Actuaries. We meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. To the best of our knowledge, this report is complete and accurate and has been prepared in accordance with generally accepted actuarial principles and practice, and we am available to answer questions about it.

Respectfully submitted,

David L. Driscoll

David L. Driscoll, FSA, EA, MAAA
Principal, Consulting Actuary

David Kent, FSA, EA, MAAA
Director, Retirement

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Enclosures

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Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2012

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Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2012

Table of Contents (continued)

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Summary of Principal Results

	January 1, 2012	January 1, 2011
Membership		
Active	5,376	5,482
Terminated with refunds due	75	68
Terminated with deferred benefits	128	135
Retired members and beneficiaries	3,669	3,535
Compensation		
Total	$ 349,494,994	$ 365,126,229
Average	$ 65,010	$ 66,605
Assets		
Market value	$ 2,990,943,353	$ 3,112,686,542
Actuarial value	$ 3,378,481,222	$ 3,430,818,823
Valuation Results		
Unfunded actuarial accrued liability	$ 1,190,369,365	$ 885,530,459
Funding period*	30	21
GASB No. 25		
Actuarial accrued liability (AAL)	$ 4,568,850,587	$ 4,316,349,282
Assets (actuarial)	$ 3,378,481,222	$ 3,430,818,823
GASB ratio	73.9%	79.5%
Unfunded AAL	$ 1,190,369,365	$ 885,530,459

* The funding period has been calculated in accordance with the Texas PRB Guidelines for Actuarial Soundness, which allow funding the UAAL as a level percentage of payroll. In calculating the funding period, we have determined the level percentage of pay available to fund the UAAL as the excess of the fixed contribution rates over the normal cost rate. In order for this excess to be level, the normal cost rate must be level and, as such, has been determined using the entry age normal cost rate for the benefits available to members hired after February 28, 2011.

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Comments on the Valuation

Overview

The current contribution rates are sufficient to fund the System over a finite time period, 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 increased to 30 years from 21 years. This increase was primarily due to losses on the actuarial value of assets and a decrease in expected future member contributions due to lower salaries than expected.

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 33.06% of payroll compared with the City's actual contribution rate of 27.50% of payroll and the 30-year funding cost in 2011 of 29.54% of payroll. Section 3 shows a reconciliation of the changes between the 2011 and 2012 figures.

The other measure is the funding period. This is the length of time in years that will be required to amortize the current UAAL based on the current contribution rate. The funding period has been calculated consistent with the Texas PRB Guidelines for Actuarial Soundness, which allow funding the UAAL over a level percentage of payroll. In calculating the funding period, we have determined the level percentage of pay available to fund the UAAL as the excess of the fixed contribution rates over the normal cost rate. In order for this excess to be level, the normal cost rate must be level and, as such, has been determined using the entry age normal cost rate for the benefits available to members hired after February 28, 2011. Based on this method, the current contribution rate covers the normal cost and the amortization of the UAAL over 30 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 2011 and 2012.

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. New actuarial standards require actuaries to consider the effect of mortality improvement both prior to and subsequent to the valuation date. The mortality assumption for healthy retirees and active members was changed to the RP-2000 Combined Healthy Mortality Table projected to the year 2022 using Scale AA. In addition, the mortality table for disabled members was changed to the RP-2000 Combined Healthy Mortality Table with a one-year set forward.

In addition, the assumption for terminations prior to retirement for Police members was changed in order to better reflect the actual experience of the System and to better anticipate future expectations.

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 33.06% of payroll will be required for the City to avoid showing an additional pension liability on its financial statements for the fiscal year beginning in 2012. At the current rate of contribution, and assuming no other changes, the City will be required to show an accrued but unpaid pension liability for the System on its financial statements 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 2011 and 2012 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. The estimated rate of return for 2011 is (1.78)% for the market value of assets, and 0.43% 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 remained fairly level during the last year. The active membership decreased from 5,482 members as of January 1, 2011 to 5,376 members as of January 1, 2012, a 2% decrease. The total active payroll decreased from \$365,126,229 to \$349,494,994 over the same period, a 4.3% decrease. Schedule A shows a summary of the membership data.

Experience

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

Actuarial Cost, Margin and Funding Period

	January 1, 2012	January 1, 2011
1. Covered Payroll		
a. Active members excluding DROP	226,996,912	236,127,391
b. DROP members	122,498,082	128,998,838
c. Total	349,494,994	365,126,229
2. Actuarial present value of future pay		
a. Active members excluding DROP	1,948,525,200	2,123,253,500
b. DROP members	1,389,151,600	1,486,205,000
c. Total	3,337,676,800	3,609,458,500
3. Current contribution rates		
a. City	27.50%	27.50%
b. Member*	8.50%	8.50%
c. Total	36.00%	36.00%
4. Actuarial present value of future benefits	5,353,464,083	5,193,430,871
5. Actuarial present value of future normal costs		
a. Total	784,613,496	877,081,589
b. Member (3b x 2a)*	276,318,997	290,132,373
c. City (5a - 5b)	508,294,499	586,949,216
6. Actuarial accrued liability (4 - 5a)	4,568,850,587	4,316,349,282
7. Actuarial value of assets	3,378,481,222	3,430,818,823
8. Unfunded actuarial accrued liability (UAAL) (6 - 7)	1,190,369,365	885,530,459
9. Normal cost		
a. Normal cost percentage (5a ÷ 2c)	23.51%	24.30%
b. Total normal cost (1c x 9a)	82,166,273	88,725,674
c. Member normal cost (1a x 3b)*	23,388,416	21,038,320
d. City normal cost (9b - 9c)	58,777,857	67,687,354
e. City normal rate (9d ÷ [1c x 1.11])	15.02%	16.70%

* Active DROP members contribute 3.0% of pay for pay periods ending on or after October 1, 2011, 6.0% of pay for pay periods ending on or after October 1, 2012, and 8.5% of pay for pay periods ending on or after October 1, 2013. Present value of future member contributions (line 5b) as of January 1, 2011 and January 1, 2012 was increased by $109,655,825 and $110,694,355, respectively and member normal cost (line 9c) as of January 1, 2011 and January 1, 2012 was increased by $967,491 and $4,593,678, respectively to account for these changes.

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Actuarial Cost, Margin and Funding Period

	January 1, 2012	January 1, 2011
10. 30-year funding cost*		
a. City normal cost rate**	15.02%	16.70%
b. Amortization rate	18.04%	12.84%
c. Total	33.06%	29.54%
11. Margin over/(under) 30-year cost* (3a - 10c)	(5.56)%	(2.04)%
12. Funding period to amortize UAAL***	30	21

* 30-year funding cost is necessary for accounting purposes only.

** 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 and the plan modifications approved by the membership in 2011.

*** The funding period has been calculated in accordance with the Texas PRB Guidelines for Actuarial Soundness, which allow funding the UAAL as a level percentage of payroll. In calculating the funding period, we have determined the level percentage of pay available to fund the UAAL as the excess of the fixed contribution rates over the normal cost rate. In order for this excess to be level, the normal cost rate must be level and, as such, has been determined using the entry age normal cost rate for the benefits available to members hired after February 28, 2011.

Analysis of Change in UAAL

1.	UAAL as of January 1, 2011	$ 885,530,459
2.	Changes due to:	
	a. Expected increase/(amortization)	$ 28,692,037
	b. Assumption change	32,211,093
	c. Actual contributions (greater)/less than expected	13,994,494
	d. Liability experience	(44,273,801)
	e. Asset experience	274,215,083
	f. Total changes	$ 304,838,906
3.	UAAL as of January 1, 2012	$1,190,369,365

Analysis of Change in Funding Cost

1.	30-year funding cost* as of January 1, 2011	29.54%
2.	Changes due to:	
	a. Resetting of amortization from prior year**	(1.26)
	b. Assumption change	0.20
	c. Actual contributions (greater)/less than expected	0.19
	d. Liability experience	0.56
	e. Asset experience	3.83
	f. Total	3.52
3.	30-year funding cost* as of January 1, 2012	33.06%

* 30-year funding cost is necessary for accounting purposes only.

** Includes decrease in employer normal cost percentage due to increased employee DROP contribution.

Analysis of Change in Funding Period

1. Funding period as of January 1, 2011	21 years
2. Changes due to:	
a. Passage of time	(1)
b. Assumption change	0
c. Actual contributions (greater)/less than expected	0
d. Liability experience	3
e. Asset experience	7
f. Total changes	9
3. Funding period as of January 1, 2012	30 years

The funding period has been calculated consistent with the Texas PRB Guidelines for Actuarial Soundness, which allow funding the UAAL over a level percentage of payroll. In calculating the funding period, we have determined the level percentage of pay available to fund the UAAL as the excess of the fixed contribution rates over the normal cost rate. In order for this excess to be level, the normal cost rate must be level and, as such, has been determined using the entry age normal cost rate for the benefits available to members hired after February 28, 2011.

Historical Trend Information

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

	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2007	2,962	3,371	409	87.9%	306	133.7%
January 1, 2008	3,259	3,644	385	89.4%	321	119.9%
January 1, 2009	3,040	3,878	838	78.4%	348	240.8%
January 1, 2010	3,383	4,133	750	81.8%	367	204.4%
January 1, 2011	3,431	4,316	885	79.5%	365	242.5%
January 1, 2012	3,379	4,569	1,190	73.9%	349	341.0%

GASB #25 Schedule of Employer Contributions for Year Ending December 31, 2011

Annual Required Contribution	Percentage Contributed
29.54% of Pay	93.1%

Summary of Accumulated Benefits
(FASB ASC 960)

Accumulated Benefits at January 1, 2012

Vested benefits of participants and beneficiaries currently receiving payments	$ 2,360,234,159
Other vested benefits	2,038,584,500
Nonvested benefits	132,212,579
Total benefits	$ 4,531,031,238

ASC 960 Reconciliation

Accumulated benefits at January 1, 2011		$ 4,277,790,175
Benefits accumulated	$ 65,368,276	
Interest	355,750,564	
Benefits paid	(188,829,489)	
Assumption change	20,951,712	
Plan amendments	0	
Total Change		253,241,063
Accumulated benefits at January 1, 2012		$ 4,531,031,238

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Reconciliation of Fund Assets

	Year Ending December 31, 2011
1. Value of fund at beginning of year	$ 3,112,686,542
2. Contributions	
a. City	102,437,115
b. Member	19,493,460
c. Total	$ 121,930,575
3. Benefit payments (including DROP payments)	(188,093,019)
4. Refunds	(736,470)
5. Gross earnings	(48,351,107)
6. Expenses	(6,493,168)
7. Value of assets at end of year	$ 2,990,943,353
8. Estimated rate of return	(1.78)%

Determination of Excess Earnings To Be Deferred

	Year Ending December 31, 2011
1. Market value at beginning of year	$ 3,112,686,542
2. Net new investments	
a. Contributions	$ 121,930,575
b. Benefit payments (including DROP payments)	(188,093,019)
c. Refunds	(736,470)
d. Total	$ (66,898,914)
3. Market value at end of year	$ 2,990,943,353
4. Yield, net of expenses (3 - 1 - 2d)	$ (54,844,275)
5. Average balance [1 + ½ x (2d)]	3,079,237,085
6. Assumed investment return rate	8.50%
7. Expected net return (5 x 6)	$ 261,735,152
8. Gains/(losses) subject to deferral (4 - 7)	$ (316,579,427)

Calculation of Actuarial Value of Assets

1.	Market value of assets as of January 1, 2012				$2,990,943,353
2.	Deferral amounts				
		Year	Total Gain/(Loss)	Percent Deferred	Deferral Amount
	a.	2011	$ (316,579,427)	80%	$ (253,263,542)
	b.	2010	62,874,951	60%	37,724,971
	c.	2009	132,954,038	40%	53,181,615
	d.	2008	(1,125,904,567)	20%	(225,180,913)
	e.	Total			$ (387,537,869)
3.	Preliminary actuarial value of assets (1 - 2e)				3,378,481,222
4.	80% of Market value				2,392,754,682
5.	120% of Market value				3,589,132,023
6.	Actuarial value of assets (3, not less than 4 or more than 5)				3,378,481,222
7.	Rate of return on actuarial value of assets				0.43%

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Schedule A

Membership Data

	January 1, 2012	January 1, 2011
1. Active members (excluding DROP)		
a. Police and Fire		
1. Number	3,995	4,085
2. Covered payroll	$226,996,912	$236,127,391
3. Average annual pay	$ 56,820	$ 57,804
4. Average age	36.80	36.58
5. Average service (years)	9.85	9.68
b. Police		
1. Number	2,689	2,867
2. Covered payroll	$153,304,969	$164,267,163
3. Average annual pay	$ 57,012	$ 57,296
4. Average age	37.02	36.43
5. Average service (years)	10.11	9.49
c. Fire		
1. Number	1,306	1,218
2. Covered payroll	$ 73,691,943	$ 71,860,228
3. Average annual pay	$ 56,426	$ 58,999
4. Average age	36.34	36.94
5. Average service (years)	9.30	10.13

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2012

Schedule A
(continued)

Membership Data
(continued)

	January 1, 2012	January 1, 2011
2. Active members (DROP only)		
a. Police and Fire		
1. Number	1,381	1,397
2. Covered payroll	$122,498,082	$128,998,838
3. Average annual pay	$ 88,702	$ 92,340
4. Average age	54.14	54.21
5. Average total service (years)	28.06	28.27
6. Average time in DROP (years)	4.65	4.66
7. DROP account balance	$415,259,441	$416,749,719
b. Police		
1. Number	805	801
2. Covered payroll	$ 69,874,323	$ 73,402,057
3. Average annual pay	$ 86,800	$ 91,638
4. Average age	53.67	53.72
5. Average total service (years)	27.30	27.50
6. Average time in DROP (years)	4.12	4.13
7. DROP account balance	$208,655,908	$206,566,146
c. Fire		
1. Number	576	596
2. Covered payroll	$ 52,623,759	$ 55,596,781
3. Average annual pay	$ 91,361	$ 93,283
4. Average age	54.80	54.88
5. Average service (years)	29.13	29.30
6. Average time in DROP (years)	5.39	5.36
7. DROP account balance	$206,603,533	$210,183,573

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Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2012

Schedule A
(continued)

Membership Data
(continued)

	January 1, 2012	January 1, 2011
3. Active members (including DROP)		
a. Police and Fire		
1. Number	5,376	5,482
2. Covered payroll	$349,494,994	$365,126,229
3. Average annual pay	65,010	66,605
4. Average age	41.25	41.08
5. Average service (years)	14.53	14.42
6. DROP account balance	$415,259,441	$416,749,719
b. Police		
1. Number	3,494	3,668
2. Covered payroll	$223,179,292	$237,669,220
3. Average annual pay	$ 63,875	$ 64,795
4. Average age	40.85	40.21
5. Average service (years)	14.07	13.42
6. DROP account balance	$208,655,908	$206,566,146
c. Fire		
1. Number	1,882	1,814
2. Covered payroll	$126,315,702	$127,457,009
3. Average annual pay	$ 67,118	$ 70,263
4. Average age	41.99	42.83
5. Average service (years)	15.37	16.43
6. DROP account balance	$206,603,533	$210,183,573

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Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2012

Schedule A
(continued)

Membership Data
(continued)

	January 1, 2012	January 1, 2011
4. Inactive members eligible for annuity		
a. Retired members	2,767	2,644
b. Beneficiaries	902	891
c. Number entitled to deferred benefits	128	135
d. Total number of inactive members	3,797	3,670
e. Total annual benefit	$153,990,654	$143,188,147
f. Average annual benefit	$ 40,556	$ 39,016
5. Inactive members with refunds due		
a. Number	75	68
b. Accumulated contribution balance	$ 470,719	$ 225,527

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Summary of Benefit Provisions
As of January 1, 2012
For Actuarial Calculations

Group A

Definitions

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

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

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

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

Pension System: The Dallas Police and Fire Pension System

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

Qualified Surviving Children: All surviving unmarried children under 19 years of age and children that become handicapped before age 23 provided they were born or adopted before Member terminated his employment.

Contribution Rates

The Member contribution rate is 6.5%.

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

City	Member
28.5%	9.0%
27.5	8.5
26.0	8.0
24.5	7.5
23.0	7.0
21.5	6.5

Service Retirement Benefits

Annual Normal Retirement Pension

Greater of I or II:

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

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

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

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

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

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

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

Disability Retirement Benefits

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

Annual Amount of Pension

Greater of I or II:

I. Same as Normal Retirement Pension (I).

II. Depending on Source of Disability

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

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

Survivor Benefits

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

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

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

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

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

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

Minimum Benefits

The minimum benefit is $2,200 monthly for 20 years of Pension Service at retirement, and $1,200 monthly for Qualified Surviving Spouses, if there are no Qualified Surviving Children receiving benefits. The minimum benefit is $1,100 monthly for Qualified Surviving Children and Qualified Surviving Spouses if Qualified Surviving Children are receiving benefits. This minimum does not affect the base benefit. The benefit will not increase until the base retirement benefit with annual increases exceeds the minimum.

Benefit Supplement

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

Member or the Member's Non-Qualifying Surviving Spouse for a member who has elected a reduced benefit to obtain coverage for a Non-Qualifying Surviving Spouse.

Group B

Generally applicable to Members hired on or before February 28, 2011.

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 and children that become handicapped before age 23 provided they were born or adopted before the Member terminated his employment.

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

Contribution Rates

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

City	Member
28.5%	9.0%
27.5	8.5
26.0	8.0
24.5	7.5
23.0	7.0
21.5	6.5

The contribution rate for Members not participating in DROP is currently 8.5%. The contribution rate for Members participating in DROP will be 3.0% for pay periods ending on or after October 1, 2011, 6.0% for pay periods ending on or after October 1, 2012, and 8.5% for pay periods ending on or after October 1, 2013.

Service Retirement Benefits

Annual Normal Retirement Pension

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

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

Early Retirement Pension

Condition for Retirement:

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

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

b. 20 years of Pension Service

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

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

Special Rule for Members of former Old Plan or Plan A

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

Disability Retirement Benefits

Service-Related Disability

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

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

Non-Service Related Disability

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

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

Survivor Benefits

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

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

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

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

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

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

Post-Retirement Adjustments

Annually, on the first day of October, benefits in pay status will be increased by an amount equal to 4% of the original pension amount. New Members hired after December 31, 2006 will not be eligible for an automatic increase.

Minimum Benefits

The minimum benefit for normal retirement is $2,200 monthly (prorated if less than 20 years at retirement) and $1,200 monthly for Qualified Surviving Spouses, if there are no Qualified Surviving Children receiving benefits. The minimum benefit is $1,100 monthly for Qualified Surviving Children and Qualified Surviving Spouses if Qualified Surviving Children are receiving benefits. This benefit does not affect the base benefit. The benefit will not increase until the base retirement benefit with annual increases exceeds the minimum.

Benefit Supplement

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

Deferred Retirement Option Plan

As of January 1, 1993, at normal retirement age, a Member may elect to enter the Deferred Retirement Option Plan (DROP). As of January 1, 1999, a member may also elect to enter DROP after 20 years of Pension Service. Retirement benefits will be calculated as if the Member retired on that date. As of October 1, 2011, Members continue making contributions to the Combined Pension Plan while active and participating in DROP. 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.

Group B

For Members hired after February 28, 2011

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 60 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 and children that become handicapped before age 23 provided they were born or adopted before the Member terminated his employment.

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

Contribution Rates

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

City	Member
28.5%	9.0%
27.5	8.5
26.0	8.0
24.5	7.5
23.0	7.0
21.5	6.5

The contribution rate for Members not participating in DROP is currently 8.5%. The contribution rate for Members participating in DROP will be 3.0% for pay periods ending on or after October 1, 2011, 6.0% for pay periods ending on or after October 1, 2012, and 8.5% for pay periods ending on or after October 1, 2013.

Service Retirement Benefits

Annual Normal Retirement Pension

Condition for Retirement: Attainment of age 55 and 20 years of Pension Service.

Amount for Allowance: 2.0% of Average Computation Pay for the first 20 years of Pension Service, 2.5% of Average Computation Pay for the next five years of Pension Service, and 3.0% of Average Computation Pay for every year of Pension Service after 25 years.

Disability Retirement Benefits

Service-Related Disability

Condition for Retirement: Disability preventing the Member from performing his or her duties with his or her department for the first two years. After the initial two years, the disability must prevent the Member from performing any gainful employment for which he or she is qualified by reason of training, education or experience.

Amount of Pension: The greater of 50% of Average Computation Pay and the Normal Retirement Allowance.

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: Normal Retirement Allowance.

Survivor Benefits

Survivor Benefits for Qualified Surviving Spouse: Death in Active Service: The greater of 50% of: (1) the benefit amount that the deceased Member would have received if the Member had left active service and had attained age 55, assuming a benefit based on a minimum of 50% of Average Computation Pay; or (2) as calculated using the benefit calculation formula and actual years of Pension Service.

Survivor Benefits when no Qualified Surviving Spouse: Death in Active Service: The greater of 50% of: (1) the benefit amount that the deceased Member would have received if the Member had left active service and had attained age 55, assuming a benefit based on a minimum of 50% of Average Computation Pay; or (2) as calculated using the benefit calculation formula and actual years of Pension Service. The benefit will be paid as a lump sum equal to the value of the lesser of a 10-year benefit or the remainder of the 10-year period if Qualifying Surviving Children receive benefit.

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

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

Not eligible for an automatic increase.

Minimum Benefits

The minimum benefit for normal retirement is $2,200 monthly 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.

Benefit Supplement

If a Member retires 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

At normal retirement age, a member may elect to enter the DROP. Retirement benefits will be calculated as if the Member retired on that date. Each month, the retirement benefit will be deposited in an account while the active Member is participating in DROP. Upon termination of employment, the Member will have the balance in the account in addition to the monthly benefit payable as though the Member retired at the date the Member entered DROP.

Summary of Actuarial Methods and Assumptions
(Effective as of January 1, 2012)

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 8.5% per annum for Members eligible to receive interest accumulation in their DROP account.

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

Annual Rate per 1,000 Members

	Withdrawal		Disability	
Age	Police	Fire	Police	Fire
20	70.0	23.0	.35	.70
25	70.0	23.0	.37	.75
30	70.0	18.0	.42	.84
35	40.0	18.0	.48	.96
40	30.0	18.0	.57	1.15
45	20.0	18.0	.79	1.58

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

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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:

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

Rates are applied when a member is eligible to retire.

Mortality: According to the RP-2000 Combined Healthy Mortality Table projected to the year 2022 using Scale AA, for healthy retirees and active members. The RP-2000 Combined Healthy Mortality Table with a one-year set forward for disabled members.

DROP Election: Members are assumed to elect DROP at age 50 with five years for Plan B if hired on or before February 28, 2011, age 55 with 20 years for Plan B if hired after February 28, 2011, 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.

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

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

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

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

where:

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

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

In no event is the actuarial value of assets less than 80% nor more than 120% of the market value of assets.

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Comparison of Actual Experience and Actuarial Expectations

Demographic Assumptions

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

Terminations Prior to Retirement
This assumption was changed as of January 1, 2012 in order to better reflect the actual experience of the System and to better anticipate future expectations.

Disability			
This assumption was last changed as of January 1, 1999 to better reflect the actual experience of the System and to better anticipate future expectations. The ratio of actual disability retirements to the expected disability retirements for the period January 1, 2007 through December 31, 2011 shows that during this period there have been about 9% less 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, 2007 through December 31, 2011			
	Actual	Expected	Actual/Expected
Disability Retirements	10	11	91%

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Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2012

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, 2007 through December 31, 2011 shows that during this period there have been about 18% less retirements than expected. Due to the changes in DROP interest rates and Member contributions during the DROP period, we feel that no change is needed at this time due to the expectation that these changes will create an increase in retirement rates.			
January 1, 2007 through December 31, 2011			
	Actual	Expected	Actual/Expected
Retirement	660	801	82%

Death
This assumption was changed as of January 1, 2012 in order to meet current actuarial standards and to take into account mortality improvement.

Age at DROP			
This assumption has not changed since the implementation of DROP in 1993. The actual age at DROP is virtually the same as the assumed age of 50. We do not feel any change in assumption is necessary at this time since there is very little difference in the assumed age at DROP and the actual age at DROP.			
Through December 31, 2011			
	Actual	Expected	Actual/Expected
Age at DROP (from January 1, 1996)	49.8	50.0	100%
Age at DROP (from January 1, 2007)	49.3	50.0	99%

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Economic Assumptions

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

Inflation

The inflation assumption used to value the liabilities of the System is 4%. This assumption was last changed as of January 1, 1999 to better anticipate future expectations. The average annual inflation rate (as measured by CPI-U) over the 60 years ending December 31, 2011 has been 3.65%. 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, 1951 through December 31, 2011

	Actual	Expected	Actual/Expected
Inflation	3.65%	4.00%	91%

Salary Increases

The salary increase assumption used to value the liabilities of the System varies by the service of the Member. This assumption was last changed as of January 1, 2007 to reflect the expected change in future pay increases. Based on our expectations of future promotional and merit salary increases and the assumed rate of inflation, we feel that the current salary increase rates are reasonable. A summary of the actual valuation earnings to the expected valuation earnings over the period January 1, 2007 through December 31, 2011 follows.

January 1, 2007 through December 31, 2011

	Actual	Expected	Actual/Expected
Valuation Compensation	$1,673,917,742	$1,722,002,609	97%

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Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2012

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, 2011 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
1/1/2008	through	12/31/2008	(24.80)
1/1/2009	through	12/31/2009	13.78
1/1/2010	through	12/31/2010	10.72
1/1/2011	through	12/31/2011	(1.78)
10/1/1988	through	12/31/2011	9.25%

Effective for years beginning on October 1, 2011 and each October 1 thereafter, the DROP interest rate will be determined at a daily rate based on the arithmetic average of the annual market return on the System's investments for the preceding ten calendar years. However, the rate shall not be less than 8% nor more than 10%. The ten-year arithmetic average of the annual market return on the System's investments for the preceding ten calendar years is 6.56%. Therefore, the annual DROP interest rate for October 1, 2012 is 8.00%.

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TABLE 1

THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(excluding DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2012

POLICE

	YEARS OF SERVICE																			
	Under 1		1 to 4		5 to 9		10 to 14		15 to 19		20 to 24		25 to 29		30 to 34		35 to 39		40 & up	
ATTAINED AGE	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp
Under 25	5	42,743	64	44,301	2	43,034	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	8	42,743	457	44,797	90	49,455	0	0	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	2	42,696	237	44,854	232	52,329	56	58,505	2	56,893	0	0	0	0	0	0	0	0	0	0
35 to 39	1	44,724	113	44,677	124	53,978	208	60,937	38	67,386	0	0	0	0	0	0	0	0	0	0
40 to 44	0	0	59	46,252	71	54,391	126	61,171	176	69,758	135	75,815	2	70,857	0	0	0	0	0	0
45 to 49	0	0	16	44,634	31	54,099	30	62,140	80	71,336	224	77,127	48	80,779	0	0	0	0	0	0
50 to 54	0	0	3	62,878	6	52,564	5	61,931	11	67,644	9	78,382	6	84,517	1	85,173	0	0	0	0
55 to 59	0	0	4	66,642	2	53,381	0	0	1	78,007	1	78,738	1	78,780	0	0	0	0	0	0
60 to 64	0	0	1	46,406	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
65 to 69	0	0	0	0	1	57,273	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, 2012

FIRE

	YEARS OF SERVICE																			
	Under 1		1 to 4		5 to 9		10 to 14		15 to 19		20 to 24		25 to 29		30 to 34		35 to 39		40 & up	
ATTAINED AGE	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp
Under 25	37	41,699	18	44,003	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	66	41,690	171	44,696	18	48,945	1	46,982	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	40	41,690	119	44,694	88	53,319	31	61,295	1	46,014	0	0	0	0	0	0	0	0	0	0
35 to 39	7	41,690	47	44,713	88	54,264	130	62,477	20	68,646	0	0	0	0	0	0	0	0	0	0
40 to 44	0	0	3	44,528	27	54,408	70	63,229	95	71,952	19	78,588	1	96,962	0	0	0	0	0	0
45 to 49	0	0	2	24,979	12	54,860	17	60,263	52	72,248	57	78,562	51	81,284	0	0	0	0	0	0
50 to 54	0	0	0	0	5	52,384	0	0	2	66,596	4	74,895	3	82,011	1	70,465	0	0	0	0
55 to 59	0	0	2	48,672	0	0	0	0	1	70,664	0	0	0	0	0	0	0	0	0	0
60 to 64	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
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

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TABLE 1

THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(excluding DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2012

POLICE AND FIRE

	YEARS OF SERVICE																			
	Under 1		1 to 4		5 to 9		10 to 14		15 to 19		20 to 24		25 to 29		30 to 34		35 to 39		40 & up	
ATTAINED AGE	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp
Under 25	42	41,823	82	44,236	2	43,034	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	74	41,804	628	44,769	108	49,370	1	46,982	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	42	41,738	356	44,801	320	52,601	87	59,499	3	53,267	0	0	0	0	0	0	0	0	0	0
35 to 39	8	42,069	160	44,688	212	54,097	338	61,529	58	67,821	0	0	0	0	0	0	0	0	0	0
40 to 44	0	0	62	46,168	98	54,396	196	61,906	271	70,527	154	76,157	3	79,559	0	0	0	0	0	0
45 to 49	0	0	18	42,450	43	54,311	47	61,461	132	71,695	281	77,418	99	81,039	0	0	0	0	0	0
50 to 54	0	0	3	62,878	11	52,482	5	61,931	13	67,482	13	77,309	9	83,682	2	77,819	0	0	0	0
55 to 59	0	0	6	60,652	2	53,381	0	0	2	74,336	1	78,738	1	78,780	0	0	0	0	0	0
60 to 64	0	0	1	46,406	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
65 to 69	0	0	0	0	1	57,273	0	0	0	0	0	0	0	0	0	0	0	0	0	0
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

TABLE 2

THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(including DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2012

POLICE

	YEARS OF SERVICE																			
	Under 1		1 to 4		5 to 9		10 to 14		15 to 19		20 to 24		25 to 29		30 to 34		35 to 39		40 & up	
ATTAINED AGE	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp
Under 25	5	42,743	64	44,301	2	43,034	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	8	42,743	457	44,797	90	49,455	0	0	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	2	42,696	237	44,854	232	52,329	56	58,505	2	56,893	0	0	0	0	0	0	0	0	0	0
35 to 39	1	44,724	113	44,677	124	53,978	208	60,937	38	67,386	0	0	0	0	0	0	0	0	0	0
40 to 44	0	0	59	46,252	71	54,391	126	61,171	176	69,758	145	76,826	2	70,857	0	0	0	0	0	0
45 to 49	0	0	16	44,634	31	54,099	30	62,140	83	71,410	291	78,695	86	82,615	0	0	0	0	0	0
50 to 54	0	0	3	62,878	10	57,424	15	67,156	31	73,095	123	83,542	188	89,005	101	89,937	0	0	0	0
55 to 59	0	0	4	66,642	4	70,233	0	0	5	75,244	30	83,564	45	88,044	76	88,803	33	91,508	0	0
60 to 64	0	0	1	46,406	1	95,892	1	70,508	0	0	14	85,939	12	87,119	8	87,092	17	90,452	9	88,945
65 to 69	0	0	0	0	1	57,273	0	0	0	0	0	0	1	89,185	1	93,211	1	98,534	4	85,474
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

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TABLE 2

THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(including DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2012

FIRE

	YEARS OF SERVICE																			
	Under 1		1 to 4		5 to 9		10 to 14		15 to 19		20 to 24		25 to 29		30 to 34		35 to 39		40 & up	
ATTAINED AGE	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp
Under 25	37	41,699	18	44,003	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	66	41,690	171	44,696	18	48,945	1	46,982	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	40	41,690	119	44,694	88	53,319	31	61,295	1	46,014	0	0	0	0	0	0	0	0	0	0
35 to 39	7	41,690	47	44,713	88	54,264	130	62,477	20	68,646	0	0	0	0	0	0	0	0	0	0
40 to 44	0	0	3	44,528	27	54,408	70	63,229	95	71,952	20	79,222	1	96,962	0	0	0	0	0	0
45 to 49	0	0	2	24,979	12	54,860	17	60,263	54	72,214	78	80,558	84	84,697	0	0	0	0	0	0
50 to 54	0	0	0	0	6	54,398	1	78,072	22	81,205	46	88,793	153	92,466	60	92,298	1	76,748	0	0
55 to 59	0	0	2	48,672	0	0	0	0	2	87,591	20	88,950	45	93,395	71	93,614	28	90,696	2	90,117
60 to 64	0	0	0	0	0	0	1	77,361	3	97,528	1	71,084	2	105,124	18	89,682	33	91,153	12	92,507
65 to 69	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2	78,325	2	99,255	4	99,401
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

TABLE 2

THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(including DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2012

POLICE AND FIRE

	YEARS OF SERVICE																			
	Under 1		1 to 4		5 to 9		10 to 14		15 to 19		20 to 24		25 to 29		30 to 34		35 to 39		40 & up	
ATTAINED AGE	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp
Under 25	42	41,823	82	44,236	2	43,034	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	74	41,804	628	44,769	108	49,370	1	46,982	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	42	41,738	356	44,801	320	52,601	87	59,499	3	53,267	0	0	0	0	0	0	0	0	0	0
35 to 39	8	42,069	160	44,688	212	54,097	338	61,529	58	67,821	0	0	0	0	0	0	0	0	0	0
40 to 44	0	0	62	46,168	98	54,396	196	61,906	271	70,527	165	77,116	3	79,559	0	0	0	0	0	0
45 to 49	0	0	18	42,450	43	54,311	47	61,461	137	71,727	369	79,089	170	83,644	0	0	0	0	0	0
50 to 54	0	0	3	62,878	16	56,289	16	67,838	53	76,462	169	84,971	341	90,558	161	90,817	1	76,748	0	0
55 to 59	0	0	6	60,652	4	70,233	0	0	7	78,772	50	85,718	90	90,719	147	91,127	61	91,135	2	90,117
60 to 64	0	0	1	46,406	1	95,892	2	73,935	3	97,528	15	84,949	14	89,691	26	88,885	50	90,915	21	90,981
65 to 69	0	0	0	0	1	57,273	0	0	0	0	0	0	1	89,185	3	83,287	3	99,014	8	92,438
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

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TABLE 3

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS
BY AGE AS OF JANUARY 1, 2012

POLICE AND FIRE

AGE	NUMBER		BENEFIT		AVERAGE BENEFIT
Less than 50	37		1,104,459		29,850
50 to 54	118		4,671,682		39,591
55 to 59	301		16,873,313		56,058
60 to 64	672		35,981,252		53,544
65 to 69	533		26,160,222		49,081
70 to 74	380		18,959,312		49,893
75 to 79	262		11,687,647		44,609
80 to 84	195		7,461,900		38,266
85 to 89	71		2,720,175		38,312
Greater than or equal to 90	22		808,283		36,740
TOTAL	2,591		126,428,245		48,795
POLICE	1,517	$	71,457,613	$	47,105
FIRE	1,074	$	54,970,632	$	51,183

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TABLE 4

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF DISABLED MEMBERS
BY AGE AS OF JANUARY 1, 2012

POLICE AND FIRE

AGE	NUMBER		BENEFIT		AVERAGE BENEFIT
Less than 40	5		152,467		30,493
40 to 44	9		329,752		36,639
45 to 49	12		451,148		37,596
50 to 54	9		285,370		31,708
55 to 59	15		507,712		33,847
60 to 64	30		1,279,469		42,649
65 to 69	18		643,545		35,753
70 to 74	31		1,392,236		44,911
75 to 79	17		663,653		39,038
Greater than or equal to 80	30		1,099,862		36,662
TOTAL	176		6,805,214		38,666
POLICE	68	$	2,333,471	$	34,316
FIRE	108	$	4,471,743	$	41,405

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TABLE 5

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF BENEFICIARIES
BY AGE AS OF JANUARY 1, 2012

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
Less than 50	69	1,084,086	15,711
50 to 54	44	985,563	22,399
55 to 59	51	1,115,730	21,877
60 to 64	95	2,189,654	23,049
65 to 69	110	2,539,028	23,082
70 to 74	130	3,216,296	24,741
75 to 79	130	2,699,759	20,767
80 to 84	128	2,627,425	20,527
85 to 89	102	1,957,783	19,194
Greater than or equal to 90	43	794,760	18,483
TOTAL	902	19,210,084	21,297
POLICE	525	$ 10,926,866	$ 20,813
FIRE	377	$ 8,283,218	$ 21,971

TABLE 6

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS,
DISABLED MEMBERS AND BENEFICIARIES
BY AGE AS OF JANUARY 1, 2012

POLICE AND FIRE

AGE	NUMBER		BENEFIT		AVERAGE BENEFIT
Less than 50	132		3,121,912		23,651
50 to 54	171		5,942,615		34,752
55 to 59	367		18,496,755		50,400
60 to 64	797		39,450,375		49,499
65 to 69	661		29,342,795		44,392
70 to 74	541		23,567,844		43,563
75 to 79	409		15,051,059		36,800
80 to 84	339		10,716,657		31,613
85 to 89	184		5,052,624		27,460
Greater than or equal to 90	68		1,700,907		25,013
TOTAL	3,669		152,443,543		41,549
POLICE	2,110	$	84,717,950	$	40,151
FIRE	1,559	$	67,725,593	$	43,442

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TABLE 7

THE NUMBER AND FUTURE ANNUAL
ALLOWANCE OF TERMINATED MEMBERS
ENTITLED TO A FUTURE BENEFIT
BY AGE AS OF JANUARY 1, 2012

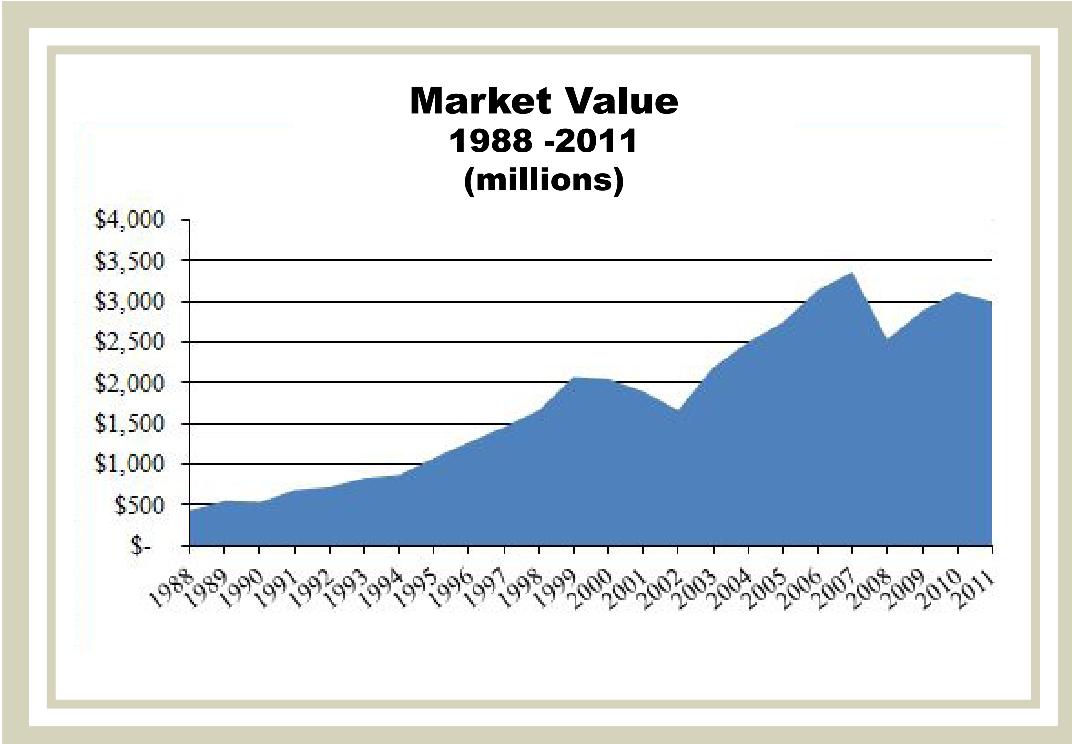
POLICE AND FIRE

AGE	NUMBER		BENEFIT		AVERAGE BENEFIT
Less than 40	30		258,934		8,631
40 to 44	40		490,371		12,259
45 to 49	41		593,674		14,480
Greater than or equal to 50	17		204,096		12,006
Total	128		1,547,075		12,087
POLICE	107	$	1,336,395	$	12,490
FIRE	21	$	210,680	$	10,032

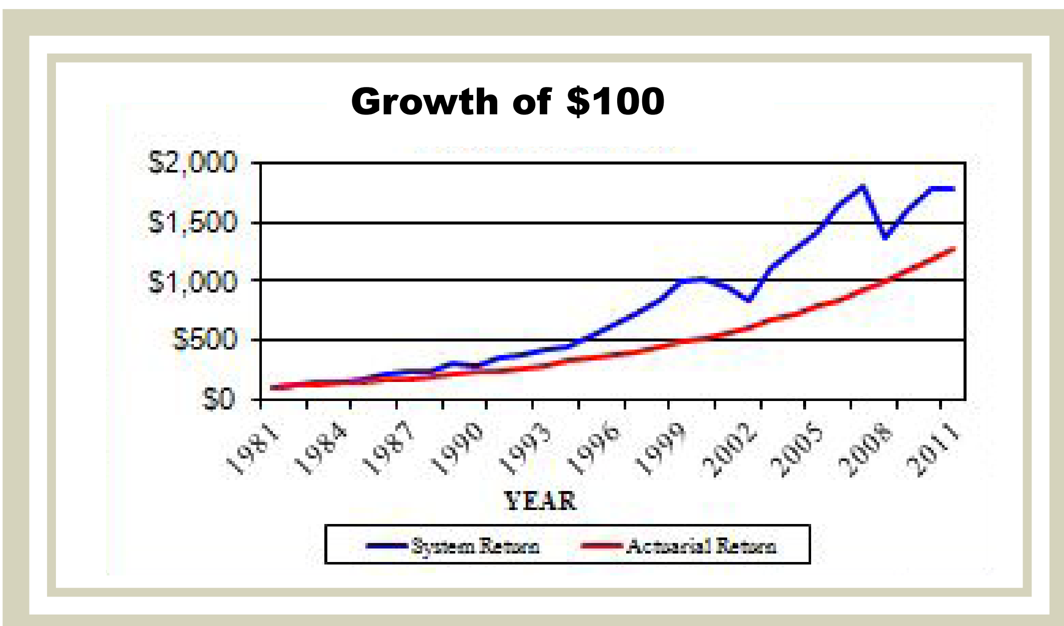

DALLAS FIRE RESCUE

Statistics


Dallas



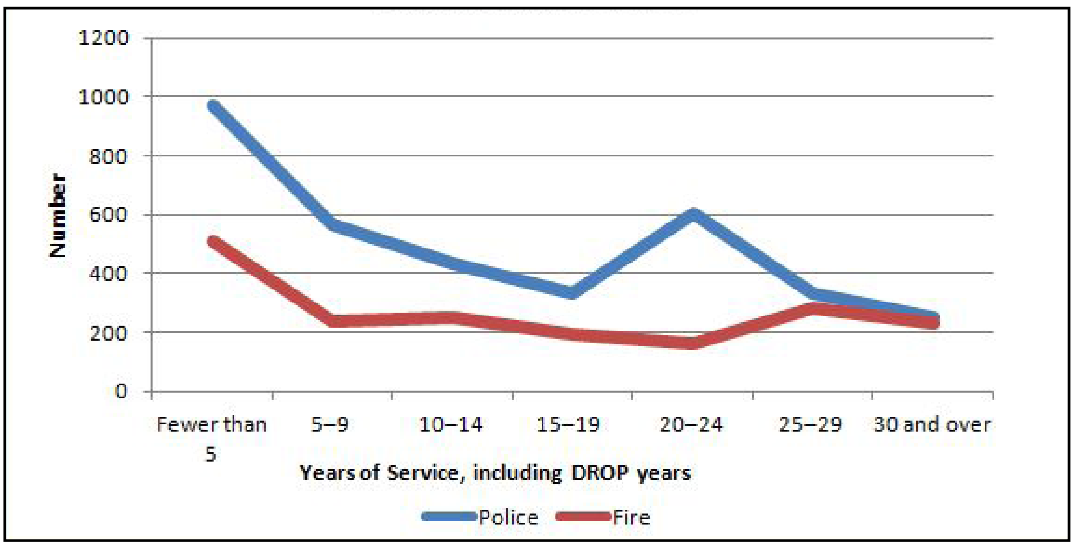
The graph above indicates the growth in market value of the System's assets since 1988. The market value of System assets has grown from under $500 million in 1988 to over $3.02 billion as of December 31, 2011.



The System's investment return has exceeded the actuarial assumed return rate over the period from 1981 through 2011. One hundred dollars invested in the Pension System's portfolio in 1982 would be worth $1,784.17 as of December 31, 2011. If the $100 had earned the actuarial interest rate, it would be worth $1,272.73.

Active Membership By Service
Including DROP
As of December 31, 2011

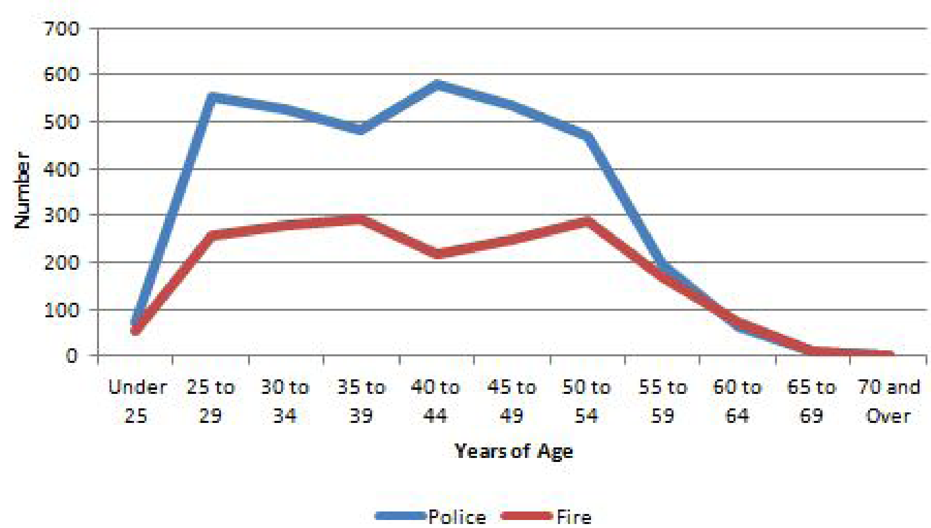
Years of Service	Police	Fire	Total
Fewer than 5	970	512	1482
5–9	566	239	805
10–14	436	251	687
15–19	335	197	532
20–24	603	165	768
25–29	334	285	619
30 and over	250	233	483
TOTAL	3,494	1,882	5376



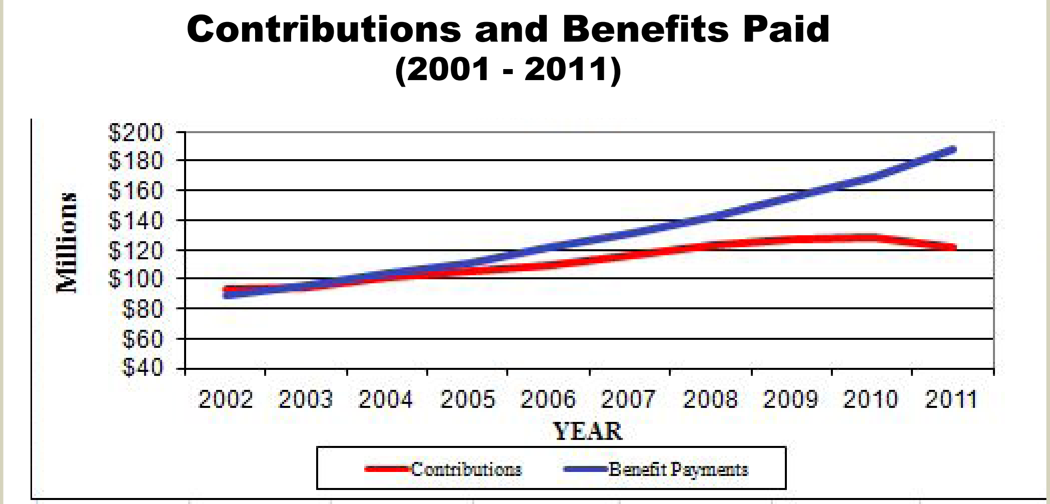
The charts above report the number of Active Members by Department according to years of service. The average service for all Active Members is 14.53 years, 14.07 years of service for Police Officers, and 15.37 for Firefighters. There were 5,376 Active Members as of December 31, 2011.

Active Membership By Age
Including DROP
As of December 31, 2011

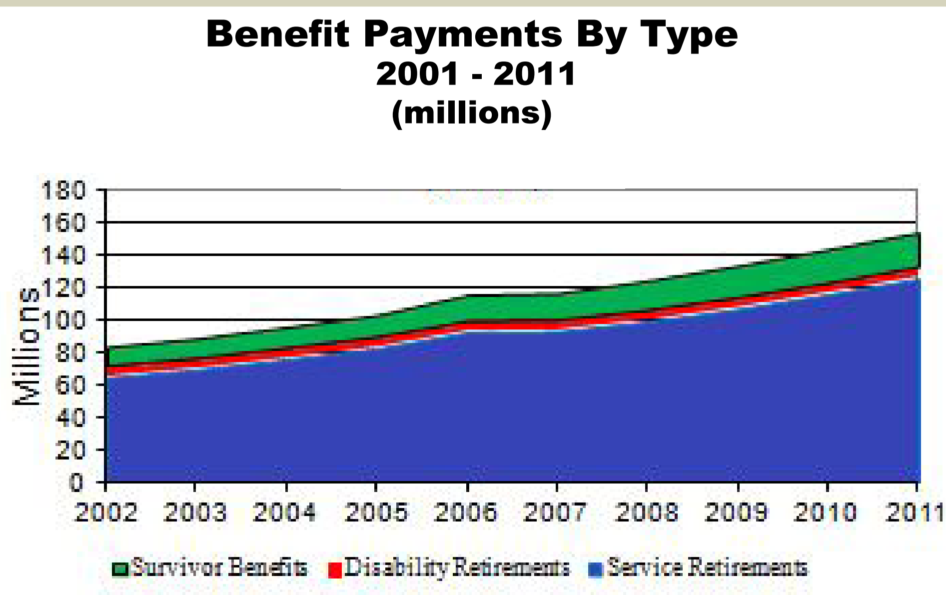
Years of Age	Police	Fire	Total
Under 25	71	55	126
25 to 29	555	256	811
30 to 34	529	279	808
35 to 39	484	292	776
40 to 44	579	216	795
45 to 49	537	247	784
50 to 54	471	289	760
55 to 59	197	170	367
60 to 64	63	70	133
65 to 69	8	8	16
70 and Over	0	0	0
TOTAL	3,494	1,882	5376



The charts above report the number of Active Members by Department according to age. The average age for all Active Members is 41.25 — 40.85 for Police Officers and 41.99 for Firefighters. There were 5,376 Active Members as of December 31, 2011.

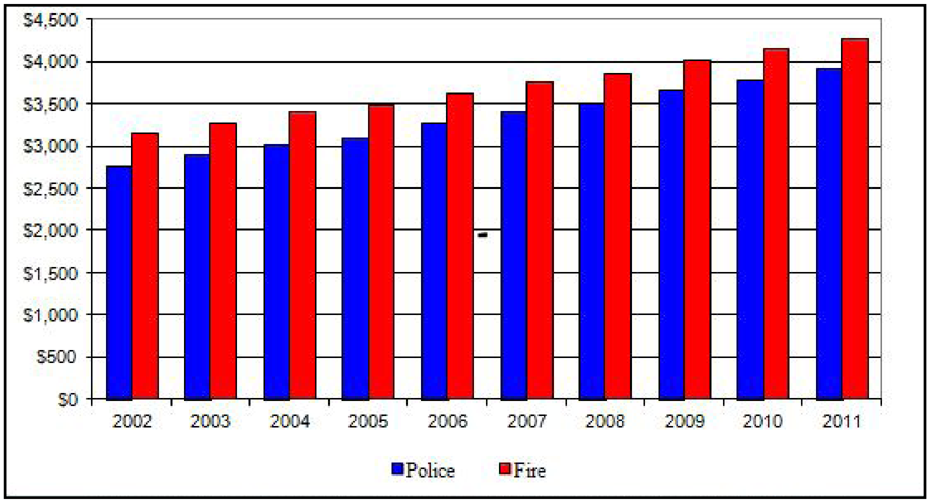


As the System matures, total benefit payments have grown faster over the last ten years than contributions received. Investment income pays benefits not covered by contributions received.



The ten year history of benefit payments by type, excluding lump sum DROP distributions, demonstrates that payments have increased from $79.0 Million in 2001 to $154.8 Million in 2011.

Average Monthly Retirement Benefits
2002 - 2011



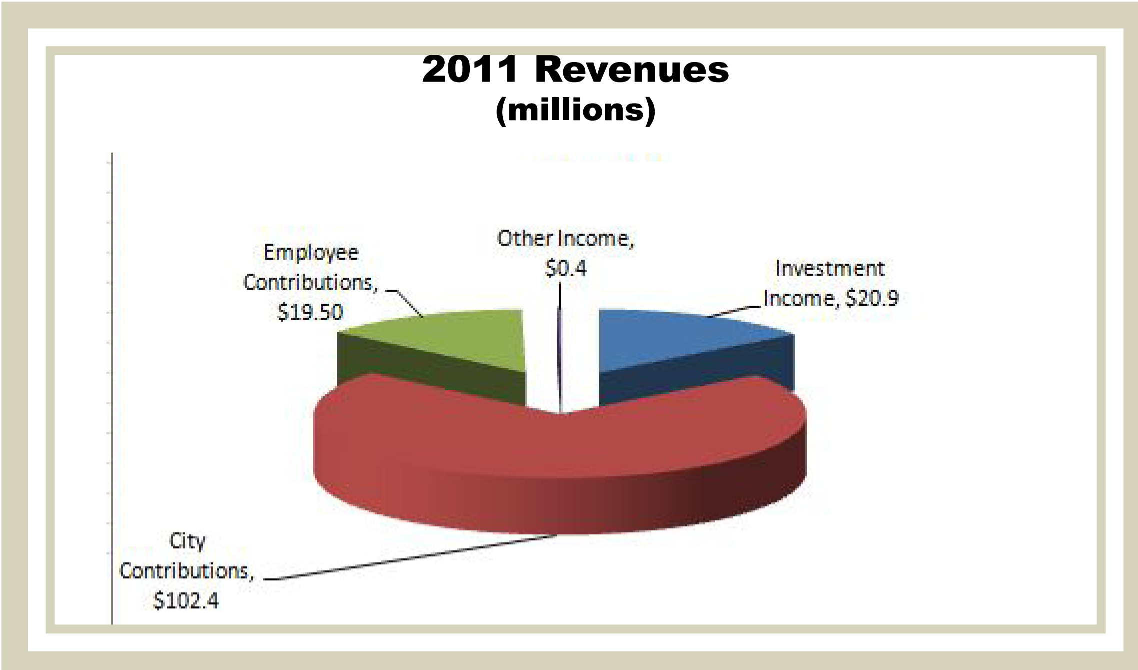
Benefit payments for both Police and Fire Retired Members have increased steadily over the last ten years. As of the end of 2011, the average monthly benefit of retired Police Officers was $3,925 and of Fiefighters was $4,265.

Actuarial Summary Information

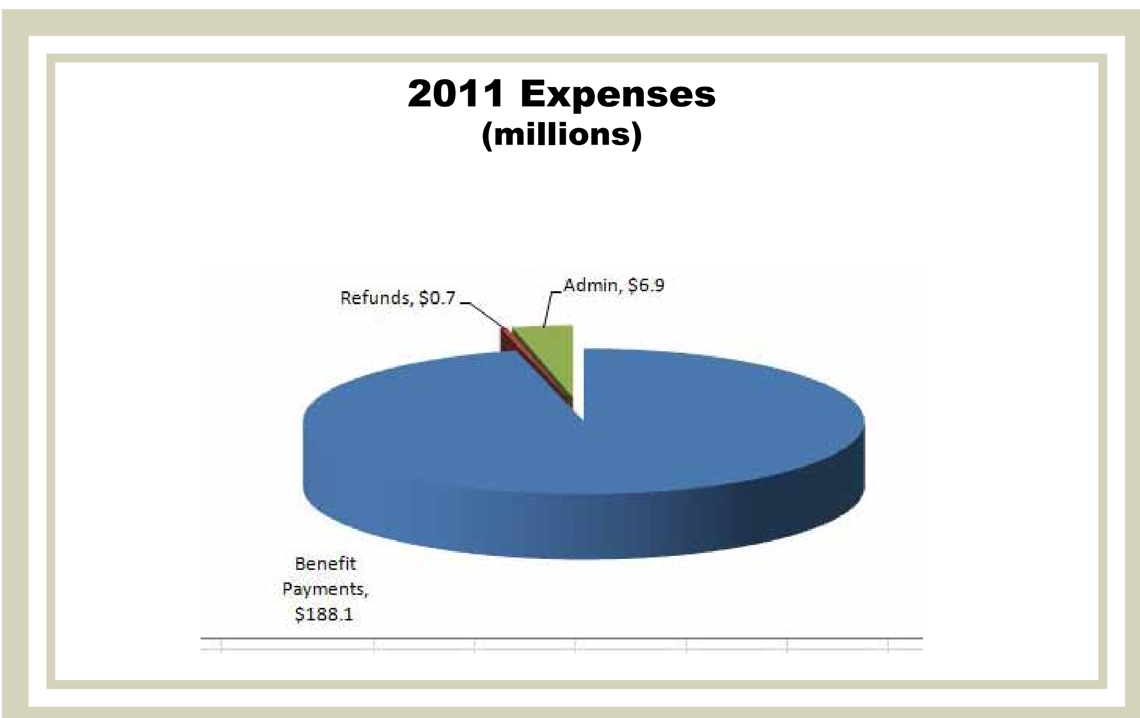
Actuarial Valuation Results	January 1, 2010 Valuation	January 1, 2011 Valuation	January 1, 2012 Valuation
UAAL 1	$ 744,774,235	$ 885,530,459	$ 1,190,369,365
Actuarial Value 2	$ 3,382,907,776	$ 3,430,818,823	$ 3,378,481,222
Market Value 3	$ 2,851,645,944	$ 3,112,686,542	$ 2,990,943,353
AAL Ratio 4	81.8%	79.5%	73.9%
Years To Fund 5	26	21	30

1 Unfunded Actuarial Accrued Liability
2 Actuarial Value of Assets
3 Market Value of Assets
4 Actuarial Accrued Liability (GASB 25)
5 Projected Years to Fund Level Funding

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



Revenues totaled $143.5 million in 2011. There was $(44.9) million in net appreciation.



Expenses totaled $195.7 million in 2011


DALLAS FIRE-RESCUE
"Caring, Serving,
and Protecting"


DALLAS
POLICE

Supplemental Pension Plan

DALLAS POLICE AND FIRE PENSION SYSTEM
SUPPLEMENTAL PLAN

ACTUARIAL VALUATION

AS OF JANUARY 1, 2012

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May 31, 2012

Mr. Richard L. Tettamant
Administrator
Dallas Police & Fire Pension System
4100 Harry Hines Blvd., Suite 100
Dallas, TX 75219

Re: Dallas Police and Fire Pension System Supplemental Plan Actuarial Valuation as of January 1, 2012

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, 2012.

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 ten years (five years for plan years prior to January 1, 2012), including the normal cost. However, in no event will the City's contribution be less than the amount necessary to satisfy GASB 27. For 2012, the contribution is $1,643,717 if contribution is limited to be within $100,000 of the previous year's contribution. If the $100,000 limit is removed, the 2012 contribution is $1,954,022.

Funding Progress

As of January 1, 2012, the City's contribution rate needed in order to meet the funding goal is 264.86% of covered payroll if the $100,000 limit is still in place and 314.87% if it is not. These amounts are greater than the 174.20% employer rate calculated as of January 1, 2011. The current contribution rates for 2012 noted above cover the normal cost and the amortization of the Unfunded Actuarial Accrued Liability (UAAL).

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Mr. Richard Tettamant
May 31, 2012
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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

New actuarial standards require actuaries to consider the effect of mortality improvement both prior to and subsequent to the valuation date. The mortality assumption for healthy retirees and active members was changed to the RP-2000 Combined Healthy Mortality Table projected to the year 2022 using Scale AA. In addition, the mortality table for disabled members was changed to the RP-2000 Combined Healthy Mortality Table with a one-year set forward.

In addition, the assumption for terminations prior to retirement for Police members was changed in order to better reflect the actual experience of the System and to better anticipate future expectations.

The funding policy was changed as of January 1, 2012, so that the City's contribution rate is intended to be sufficient to amortize the unfunded actuarial accrued liability over ten years rather than five years.

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, 2012, 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.

We are Enrolled Actuaries, Fellows of the Society of Actuaries, and Members of the American Academy of Actuaries. We meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. To the best of our knowledge, this report is complete and accurate and has been prepared in accordance with generally accepted actuarial principles and practice, and we are available to answer questions about it.

Respectfully submitted,

David L. Driscoll

David L. Driscoll, FSA, EA, MAAA
Principal, Consulting Actuary

David Kent, FSA, EA, MAAA
Director, Retirement

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Enclosures

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Summary of Principal Results

	January 1, 2012	January 1, 2011
Membership		
Active	37	39
Retired and terminated members and beneficiaries	113	113
Compensation		
Total	$ 620,590	$ 886,150
Average	$ 16,773	$ 22,722
Assets		
Market value	$ 20,822,569	$ 21,119,036
Valuation Results		
Unfunded actuarial accrued liability (UAAL)	$ 15,507,036	$ 13,189,869
City's normal cost contribution	$ 91,493	$ 145,714
Funding Policy contribution*	$ 1,643,717	$ 1,543,717
Funding Policy contribution**	$ 1,954,022	
GASB No. 25		
Actuarial accrued liability (AAL)	$ 36,329,605	$ 34,308,905
Assets	$ 20,822,569	$ 21,119,036
GASB ratio	57.3%	61.6%
Unfunded AAL	$ 15,507,036	$ 13,189,869

* Assuming $100,000 cap is in place.
** Assuming no cap is in place.

Comments on the Valuation

Overview

The current valuation indicates that a total contribution of $1,643,717 should be contributed during 2012, assuming the $100,000 cap is in place and $1,954,022 assuming it is not.

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

New actuarial standards require actuaries to consider the effect of mortality improvement both prior to and subsequent to the valuation date. The mortality assumption for healthy retirees and active members was changed to the RP-2000 Combined Healthy Mortality Table projected to the year 2022 using Scale AA. In addition, the mortality table for disabled members was changed to the RP-2000 Combined Healthy Mortality Table with a one-year set forward.

In addition, the assumption for terminations prior to retirement for Police members was changed in order to better reflect the actual experience of the System and to better anticipate future expectations.

The funding policy was changed as of January 1, 2012, so that the City's contribution rate is intended to be sufficient to amortize the unfunded actuarial accrued liability over ten years rather than five years.

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

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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 158.80% will be required for the City to avoid showing an accrued pension liability on its financial statements for the fiscal year beginning in 2012, 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 2011 and 2012. The estimated rate of return for 2011 was 1.21%.

Membership Statistics

Data on active members and on retired members was supplied by the Administrator. The active membership decreased from 39 members as of January 1, 2011, to 37 members as of January 1, 2012. The payroll decreased from January 1, 2011 to January 1, 2012 ($886,150 for 2011 and $620,590 for 2012). Schedule A shows a summary of the membership data.

Actuarial Cost

		January 1, 2012	January 1, 2011
1.	Covered Payroll	$ 620,590	$ 886,150
2.	Actuarial present value of future benefits	$ 37,059,336	$ 35,372,757
3.	Actuarial present value of future normal costs	$ 729,731	$ 1,063,852
4.	Actuarial accrued liability (2 - 3)	$ 36,329,605	$ 34,308,905
5.	Actuarial value of assets	$ 20,822,569	$ 21,119,036
6.	Unfunded actuarial accrued liability (UAAL) (4 - 5)	$ 15,507,036	$ 13,189,869
7.	City's normal cost contribution	$ 91,493	$ 145,714
8.	Funding Policy contribution with cap	$ 1,643,717	$ 1,543,717
9.	Total contribution as a percentage of covered payroll (8 ÷ 1)	264.86%	174.20%
10.	Funding Policy contribution without cap	$ 1,954,022	
11.	Total contribution as a percentage of covered payroll (10 ÷ 1)	314.87%	

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Analysis of Change in UAAL

1.	UAAL as of January 1, 2011	$13,189,869
2.	Changes due to:	
	a. Expected increase/(amortization)	$ (331,053)
	b. Actual contributions (greater)/less than expected	5,065
	c. Assumption change	124,241
	d. Liability experience	999,162
	e. Asset experience	1,519,751
	f. Total changes	$ 2,317,167
3.	UAAL as of January 1, 2012	$15,507,036

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Historical Trend Information

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

Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 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%
January 1, 2009	18.140	32.053	13.913	56.6%	1.043	1,333.9%
January 1, 2010	20.681	33.449	12.768	61.8%	1.044	1,223.0%
January 1, 2011	21.119	34.309	13.190	61.6%	0.886	1,488.7%
January 1, 2012	20.823	36.330	15.507	57.3%	0.621	2,497.1%

GASB #25 Schedule of Employer Contributions for Year Ending December 31, 2011

Annual Required Contribution	Percentage Contributed
$1,543,717	100%

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Summary of Accumulated Benefits
(FASB ASC 960)

Accumulated Benefits at January 1, 2012

Vested benefits of participants and beneficiaries currently receiving payments	$	28,000,960
Other vested benefits		8,448,670
Nonvested benefits		155,860
Total benefits	$	36,605,490

ASC 960 Reconciliation

Accumulated benefits at January 1, 2011			$	34,932,918
Benefits accumulated and actuarial gains/losses	$	790,180		
Interest		2,881,076		
Benefits paid		(2,119,029)		
Plan amendment		0		
Assumption changes		120,345		
Total change		1,672,572		
Accumulated benefits at January 1, 2012			$	36,605,490

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Reconciliation of Fund Assets

	Year Ending December 31, 2011
1. Value of fund at beginning of year	$ 21,119,036
2. Contributions	
a. City	1,543,717
b. Member	26,791
c. Total	$ 1,570,508
3. Benefit payments	(2,119,029)
4. Refunds	0
5. Gross earnings	297,259
6. Expenses	(45,205)
7. Value of assets at end of year	20,822,569
8. Estimated rate of return	1.21%

Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2012

Schedule A

Membership Data

	January 1, 2012	January 1, 2011
1. Active members (excluding DROP)		
a. Number	9	11
b. Compensation	$ 289,660	$ 372,354
c. Average compensation	$ 32,184	$ 33,850
d. Average age	46.33	45.73
e. Average service (years)	21.00	18.91
2. Active members (DROP only)		
a. Number	28	28
b. Compensation	$ 330,930	$ 513,796
c. Average Compensation	$ 11,819	$ 18,350
d. Average age	55.28	54.64
e. Average total service	31.57	30.93
f. DROP account balance	$ 2,318,968	$ 1,934,159
3. Inactive members		
a. Number	113	113
b. Total annual benefit	$ 1,877,244	$ 1,804,837
c. Average annual benefit	$ 16,613	$ 15,972

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Summary of Benefit Provisions
As of January 1, 2012
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.

For Members Hired on or Before February 28, 2011

Definitions

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

Average Computation Pay: Computation Pay averaged over 36 months.

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

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

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

Qualified Surviving Children: All surviving unmarried children under 19 years of age and children that become handicapped before age 23 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 contribution rate for Members not participating in DROP is currently 8.50%. The contribution rate for Members participating in DROP will be 3.0% for pay periods ending on or after October 1, 2011, 6.0% for pay periods ending on or after October 1, 2012, and 8.5% for pay periods ending on or after October 1, 2013.

Service Retirement Benefits

Annual Normal Retirement Pension

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

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

Early Retirement Pension

Condition for Retirement:

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

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

b. 20 years of Pension Service

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

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

Special Rule for Members of former Old Plan or Plan A

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

Disability Retirement Benefits

Service-Related Disability

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

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

Non-Service Related Disability

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

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

Survivor Benefits

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

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

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

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

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

Post-Retirement Adjustments

Annually, on the first day of October, benefits in pay status will be increased by an amount equal to 4% of the original pension amount. New Members hired after December 31, 2006 will not be eligible for an automatic increase.

Benefit Supplement

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

Deferred Retirement Option Plan

As of January 1, 1993, at normal retirement age, a Member may elect to enter the Deferred Retirement Option Plan (DROP). As of January 1, 1999, a member may also elect to enter DROP after 20 years of Pension Service. Retirement benefits will be calculated as if the

Member retired on that date. Employee contributions made under the Combined Pension Plan will cease, as will accruals under the Combined Pension Plan. Each month, the retirement benefit will be accumulated in an account earning interest based on a ten-year average of the System's actual market return. Upon termination of employment, the Member will have the balance in account in addition to the monthly benefit payable as though the Member retired at the date the Member entered DROP.

For Members Hired After February 28, 2011

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 60 months.

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

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

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

Qualified Surviving Children: All surviving unmarried children under 19 years of age and children that become handicapped before age 23 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 contribution rate for Members not participating in DROP is currently 8.5%. The contribution rate for Members participating in DROP will be 3.0% for pay periods ending on or after October 1, 2011, 6.0% for pay periods ending on or after October 1, 2012, and 8.5% for pay periods ending on or after October 1, 2013.

Service Retirement Benefits

Annual Normal Retirement Pension

Condition for Retirement: Attainment of age 55 and 20 years of Pension Service.

Amount for Allowance: 2.0% of Average Computation Pay for the first 20 years of Pension Service, 2.5% of Average Computation Pay for the next five years of Pension Service, and 3.0% of Average Computation Pay for every year of Pension Service after 25 years.

Disability Retirement Benefits

Service-Related Disability

Condition for Retirement: Disability preventing the Member from performing his or her duties with his or her department for the first two years. After the initial two years, the disability must prevent the Member from performing any gainful employment for which he or she is qualified by reason of training, education or experience.

Amount of Pension: The greater of 50% of Average Computation Pay and the Normal Retirement Allowance.

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: Normal Retirement Allowance.

Survivor Benefits

Survivor Benefits for Qualified Surviving Spouse: Death in Active Service: The greater of 50% of: (1) the benefit amount that the deceased Member would have received if the Member had left active service and had attained age 55, assuming a benefit based on a minimum of 50% of Average Computation Pay; or (2) as calculated using the benefit calculation formula and actual years of Pension Service.

Survivor Benefits when no Qualified Surviving Spouse: Death in Active Service: The greater of 50% of: (1) the benefit amount that the deceased Member would have received if the Member had left active service and had attained age 55, assuming a benefit based on a minimum of 50% of Average Computation Pay; or (2) as calculated using the benefit calculation formula and actual years of Pension Service. The benefit will be paid as a lump sum equal to the value of the lesser of a 10-year benefit or the remainder of the 10-year period if Qualifying Surviving Children receive benefit.

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

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

Not eligible for an automatic increase.

Benefit Supplement

If a Member retires 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

At normal retirement age, a member may elect to enter the DROP. Retirement benefits will be calculated as if the Member retired on that date. Each month, the retirement benefit will be deposited in an account while the active Member is participating in DROP. Upon termination of employment, the Member will have the balance in the account in addition to the monthly benefit payable as though the Member retired at the date the Member entered DROP

Summary of Actuarial Methods and Assumptions
(Effective as of January 1, 2012)

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 8.5% per annum.

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

Annual Rate per 1,000 Members

	Withdrawal		Disability	
Age	Police	Fire	Police	Fire
20	70.0	23.0	.35	.70
25	70.0	23.0	.37	.75
30	70.0	18.0	.42	.84
35	40.0	18.0	.48	.96
40	30.0	18.0	.57	1.15
45	20.0	18.0	.79	1.58

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

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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:

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

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

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Dallas Police and Fire Pension System Supplemental Plan — **Schedule C**
Actuarial Valuation - January 1, 2012 — **(continued)**

Mortality: According to the RP-2000 Combined Healthy Mortality Table projected to the year 2022 using Scale AA, for healthy retirees and active members. The RP-2000 Combined Healthy Mortality Table with a one-year set forward for disabled members.

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 Postretirement 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 for eligible Members. New Members hired after December 31, 2006 will not be eligible for an automatic increase.

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.

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

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


POLICE

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Financial Statements and
Required Supplemental Information

December 31, 2011 and 2010
(With Independent Auditors' Report Thereon)

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

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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, 2011 and 2010, 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 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and 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 Supplemental Plan as of December 31, 2011 and 2010, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (MD&A) and the schedules of funding progress and employer contributions be presented to supplement the basic financial statements. Such information although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A and required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

MFR, P.C.

June 29, 2012

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Member of the American Institute of Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

OVERVIEW

The Management's Discussion and Analysis (MD&A) of the Supplemental Police and Fire Pension Plan of the City of Dallas's (the Supplemental Plan) financial position and performance provides an overview of the Supplemental Plan's financial activities for the fiscal years ended December 31, 2011 and 2010. 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 basic financial statements, notes to the basic financial statements and required supplemental information.

FINANCIAL STATEMENTS

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

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

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

The Required Supplemental Information consists of Schedules of Funding Progress and Employer Contributions and Note to Required Supplemental Information.

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.

CONDENSED FINANCIAL INFORMATION

	2011	2010	2009
Assets	$ 20,369,200	21,119,411	20,680,579
Liabilities	14,192	375	1,953
Net Assets Held in Trust for Pension Benefits	20,355,008	21,119,036	20,678,626
Contributions	1,570,508	1,477,946	1,399,978
Investment and Other (Loss) Income	(167,129)	970,744	2,701,834
Benefit Payments	2,119,029	1,964,422	1,471,644
Administrative Expenses and Professional Fees	48,378	43,858	46,766

Continued

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), CONTINUED

FINANCIAL HIGHLIGHTS

- The Supplemental Plan's net assets decreased $764 thousand in 2011 to $20.4 million. Net assets increased $440 thousand in 2010 to $21.1 million. The decrease in plan net assets reflects continued volatility in the financial markets in 2011.

- The assets of the Dallas Police and Fire Pension System (the System) and Supplemental Plan are co-invested through a Group Trust. The two plans are separate legal entities. The rate of return on the Group Trust investments during 2011 was 0.3% net of fees, compared to a rate of return of 11.4% for 2010. The performance numbers are provided by the Supplemental Plan's general investment consultant. The actuarial expected rate of return for both years was 8.5%. The investment return for 2011 represents a global economic slowdown during the second half of 2011. Domestically, despite strong corporate earnings, a lingering high unemployment rate and diminished growth prospects provided headwinds to any meaningful equity appreciation. Globally, the sovereign debt crisis in Europe remained the focal point. The Supplemental Plan's financial composite, comprised of Global Equity, Global Fixed Income, Global Asset Allocation, and the public portion of Global Natural Resources returned (0.2%) net of fees for 2011, outperforming the allocation index by 8.4%. Global equity markets, as measured by the MSCI World Index, were (5.5%) in 2011. Domestic equity markets, as measured by the S&P 500, returned 2.1% in 2011. The Supplemental Plan's private equity portfolio returned .03%, underperforming the public markets as measured by the S&P 500 by 2.07%, and outperforming the MSCI World Index by 5.58%. The Supplemental Plan's real estate portfolio returned (6.44%), underperforming the NCREIF Property Index by 20.7%. Longer term, the Supplemental Plan's real estate portfolio has been on par with the index, returning 7.3% versus a return of 8.1% for the NCREIF over a 10-year period.

- The Supplemental Plan had $14,192 in liabilities as of December 31, 2011, and $375 in liabilities as of December 31, 2010.

- The Supplemental Plan received employee contributions of $26,791 in 2011 and $34,229 in 2010. The Supplemental Plan received employer contributions from the City of Dallas (the City) in the amount $1.54 million in 2011, an increase of $100,000 over the $1.44 million received in 2010. The 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 also is limited to be within $100,000 of the previous year's contribution.

- The Supplemental Plan paid $2,119,029 in service retirement, disability retirement and survivor benefits during 2011, compared to $1,964,422 in 2010. No changes to benefit provisions were implemented in 2011 or 2010.

- The cost of administering the benefit programs of the Supplemental Plan, including administrative costs and professional fees, was $48,378 in 2011 compared to $43,858 for 2010. A pro rata share of the total expenses of the Group Master Trust 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 two to 37 members as of the end of 2011. There were 39 active members at December 31, 2010. The number of retired, terminated vested and beneficiaries was 113 as of December 31, 2011 and 2010.

Continued

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), CONTINUED

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, 2012.

The ratio of a plan's actuarial value of assets (AVA) to the actuarial accrued liability (AAL), expressed as a percentage, is an indicator of the plan's funding status. Generally, the larger the percentage, the stronger the financial health of the plan. The Supplemental Plan's AAL ratio decreased to 57.3% for 2011 compared to 61.6% for 2010.

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, 2012, the Supplemental Plan's UAAL was $15,507,036, an increase of $2.3 million from a UAAL of $13,189,869 as of January 1, 2011.

CONTACTING THE SUPPLEMENTAL PLAN'S FINANCIAL MANAGEMENT

This financial section is designed to provide our members and other users with a general overview of the Supplemental Plan's financial activities. If you have questions about this report or need additional financial information, contact the Administrator of the Supplemental Police and Fire Pension Plan of the City of Dallas at 4100 Harry Hines Blvd, Suite 100, Dallas, Texas 75219.

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Statements of Plan Net Assets
December 31, 2011 and 2010

Assets	2011	2010
Plan interest in Group Master Trust, at fair value (notes 2, 3, 4, 6, 7 and 8)	$ 20,368,502	21,118,540
Accrued member contributions receivable (note 5)	698	871
Total assets	20,369,200	21,119,411
Liabilities and Plan Net Assets		
Administrative expenses payable	14,192	375
Plan net assets held in trust for pension benefits	$ 20,355,008	21,119,036

See accompanying notes to basic financial statements.

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SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Statements of Changes in Plan Net Assets
Years Ended December 31, 2011 and 2010

	2011	2010
Additions to plan net assets:		
Net investment income -		
net investment (loss) gain from the Group Master Trust (note 3)	$ (167,129)	970,744
Contributions:		
Employer (note 5)	1,543,717	1,443,717
Member (note 5)	26,791	34,229
Total contributions	1,570,508	1,477,946
Total additions to plan net assets	1,403,379	2,448,690
Deductions from plan net assets:		
Benefit payments	2,119,029	1,964,422
Administrative and professional fees	48,378	43,858
Total deductions from plan net assets	2,167,407	2,008,280
Net (decrease) increase in plan net assets	(764,028)	440,410
Plan net assets held in trust for pension benefits:		
Beginning of year	21,119,036	20,678,626
End of year	$ 20,355,008	21,119,036

See accompanying notes to basic financial statements.

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SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements
December 31, 2011 and 2010

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, 2011 and 2010, the Supplemental Plan membership consisted of:

	2011	2010
Non-active members -		
pensioners and qualified survivors currently receiving benefits:		
Firefighters	50	49
Police officers	63	64
Total non-active members	113	113
Current employees -		
vested:		
Firefighters	16	17
Police officers	21	22
Total current employees	37	39

In 1992, an amendment to Article 6243a-1 was approved by the members of the Combined Pension Plan allowing for a Deferred Retirement Option Plan (DROP). The amendment automatically modified the Supplemental Plan so members that enter the DROP program in the Combined Pension Plan also enter the DROP program in the Supplemental Plan. DROP Members have their contribution discontinued but the City's portion of the total contribution continues. The Member's monthly benefit remains in the plan and accumulates interest. Upon retirement from the City, the Member is able to withdraw from their DROP Account along with the Member's normal benefits. Amounts included in these basic financial statements related to DROP members are $4,637,935 and $8,104,067 for December 31, 2011 and 2010, 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 on 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.

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.

Continued

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

Basis of presentation

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

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.

Additionally, within the Group Trust, 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.

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.

 Continued

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

Plan interest in Group Trust

Beginning January 1, 2006, the Supplemental Plan's investments are held in the Group Trust. JPMorgan Chase served as custodian for the years ended December 31, 2011 and 2010. The fair value of the Supplemental Plan's interest in the Group Trust is based on the unitized interest that the Supplemental Plan has in the Group Trust. The Supplemental Plan's interest in the Group Trust was approximately 0.691% and 0.615% at December 31, 2011 and 2010, respectively. The allocation of income between the System and the Supplemental Plan is based on the number of units owned of the Group Trust. Benefits, contributions and administrative expenses are allocated to each plan directly.

Investments valuation and income recognition

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

Investments are reported at fair value. The Supplemental Plan's interest in the Group Trust is based on the fair value of the unitized interest held by the Supplemental Plan. The underlying investments included in the Group 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.

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.

Benefits

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

Foreign currency transactions

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

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

 Continued

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

Investments and broker accounts denominated in foreign currencies outstanding at December 31, 2011 and 2010 were converted to the Group Trust's and the Supplemental Plan's functional currency (United States dollars) at the foreign exchange rates quoted at December 31, 2011 and 2010, respectively. These foreign exchange gains and losses are included the in Group Trust net (depreciation)/appreciation in fair value of investments in the accompanying disclosures of the Group Trust.

Administrative expenses

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

Recent accounting pronouncements

GASB Statement No. 59, *Financial Instruments Omnibus.*

This statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools by amending the following pronouncements:

- GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, to clarify that unallocated insurance contracts should be reported as interest-earning investment contracts,
- GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, to emphasize the applicability of SEC requirements to certain external investment pools - known as 2a7-like pools,
- GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, to clarify that interest rate risk disclosure for a government's investments pools should be limited to its debt investment pools,
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, to clarify (1) which financial guarantee contracts, revenue-based contracts, and hybrid instruments are within the scope of the statement and (2) whether contracts that include nonperformance penalties meet the net settlement characteristics, and
- National Council on Governmental Accounting (NCGA) Statement 4, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*, to conform with the amendments made to GASB Statement No. 53.

The requirements of this statement were adopted during 2011.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

This statement is intended to enhance the usefulness of the GASB Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. By incorporating and maintaining this guidance in a single source, this statement improves financial reporting and reduces the complexity of locating and using authoritative literature needed to prepare governmental financial reports. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2011. Management does not believe that GASB Statement No. 62 will have a material effect on the Supplemental Plan's financial statements when adopted in fiscal year 2012.

Continued

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Positions.*

This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011. Management does not believe that GASB Statement No. 63 will have a material effect on the Supplemental Plan's financial statements when adopted in fiscal year 2012.

GASB Statement No. 67, *Financial Reporting for Pension Plans.*

This statement replaces the requirements of GASB Statement No. 25, building upon the existing framework for financial reports of defined benefit pension plans, including enhanced disclosures and the presentation of new information about annual money-weighted rates of return. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2013. Management is currently assessing the impact that GASB Statement No. 67 will have on the Supplemental Plan's financial statements when adopted in fiscal year 2014.

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform with the current year presentation.

2. **Cash and Cash Equivalents**

For cash deposits and cash equivalents, custodial credit risk is the risk that in the event of a bank failure, the Group Trust's and the Supplemental Plan's deposits may not be returned to it. The Group Trust's and the Supplemental Plan's deposits are held by the custodian, JPMorgan Chase. As of December 31, 2011 and 2010, the Group Trust had bank balances of $15,765,821 and $4,164,365, respectively, that are in demand deposit accounts subject to coverage by the Federal Deposit Insurance Corporation, but not collateralized. The Group Trust and the Supplemental Plan do not have a deposit policy for custodial credit risk; however, management believes that the Group Trust's and the Supplemental Plan's credit risk exposure is mitigated by the financial strength of the banking institution in which the deposits are held.

 Continued

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

3. **Investments and Plan Interest in Group Master Trust**

The following disclosures on investments and the Supplemental Plan's interest in the Group Trust are made for the Group Trust as of and for the years ended December 31, 2011 and 2010. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Short-term investments are government and corporate bonds with a maturity of less than one year and are valued based on current market rates. The fair value of limited partnerships, real estate trusts, and real estate loans is based on independent appraisals and recent financial results. Investments that do not have an established market are reported at their estimated fair values. Unrealized gains and losses are presented as net (depreciation)/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. Dividend income is recorded on the ex-dividend date. Interest and income from other investments are recorded as earned.

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

	2011	2010
Assets		
Investments, at fair value (notes 2, 3 and 4):		
Cash and cash equivalents	$ 212,012,476	216,646,496
United States government securities	11,185,810	13,720,331
United States government sponsored enterprises	1,025,208	1,161,739
Foreign government securities	97,750,603	101,358,508
Commingled funds - equity	910,925,729	1,001,915,984
Commingled funds - fixed	118,429,338	91,809,624
Domestic equities	436,012,638	655,491,225
International equities	307,583,199	308,299,085
Corporate securities	202,536,628	309,833,860
Investments, at appraised value - real estate equity funds	1,383,849,615	1,082,549,559
Total investments	3,681,311,244	3,782,786,411
Receivables:		
Accrued interest and dividends	7,024,601	7,268,566
Forward currency contracts (note 6)	35,486,325	132,126,580
Securities sold	3,317,375	3,407,551
Total receivables	45,828,301	142,802,697
Total assets	3,727,139,545	3,925,589,108
Liabilities and Net Assets		
Repurchase loan agreement (note 7)	24,644,300	29,957,000
Payable for securities purchased	3,796,351	3,641,324
Professional fees payable	6,866,248	7,118,538
Forward currency contracts (note 6)	35,772,079	132,259,801
Securities lending collateral (note 4)	157,129,466	160,248,227
Line of credit and other bank loans (note 8)	465,011,200	461,926,000
Total liabilities	693,219,644	795,150,890
Net assets in the Group Trust	$ 3,033,919,901	3,130,438,218

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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:

	2011	2010
Investment income:		
Interest	$ 21,145,839	21,861,080
Dividends	28,853,282	29,862,794
Real estate income	2,742,140	6,775,774
Net (depreciation)/appreciation in fair value of investments	(45,186,741)	260,327,583
Securities lending income	608,035	599,936
Less investment expenses:		
Custody fees	(278,628)	(373,660)
Investment services	(32,057,338)	(30,931,750)
Total investment (loss) income in Group Trust	(24,173,411)	288,121,757
Benefit payments in excess of contributions received for System and Supplemental Plan	(72,344,906)	(48,388,619)
Plan net assets held in trust for pension benefits:		
Beginning of year	3,130,438,218	2,890,705,080
End of year	$ 3,033,919,901	3,130,438,218

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

	2011	2010
Group Trust interest held by the System	$ 3,013,551,399	3,109,319,678
Group Trust interest held by the Supplemental Plan	20,368,502	21,118,540
Total net assets of Group Trust	$ 3,033,919,901	3,130,438,218

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, 2011 and 2010 are presented by type, as follows:

	2011	2010
Cash and cash equivalents	$ 212,012,476	216,646,496
United States government securities	11,185,810	13,720,331
U.S. government sponsored enterprises	1,025,208	1,161,739
Foreign government securities	97,750,603	101,358,508
Commingled funds - equity	910,925,729	1,001,915,984
Commingled funds - fixed	118,429,338	91,809,624
Domestic equities	436,012,638	655,491,225
International equities	307,583,199	308,299,085
Corporate bonds	202,536,628	309,833,860
Investments, at appraised value - real estate equity funds	1,383,849,615	1,082,549,559
Total investments	$ 3,681,311,244	3,782,786,411

Continued

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

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 JPMorgan Chase and under such agreements JPMorgan 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.

Group Trust investments that individually represent market value of 5% or more of the net assets available for benefits as of December 31, 2011 and 2010 were $157,129,466 and $160,248,227, respectively.

Custodial credit risk

For an investment, custodial credit is the risk that, in the event of the failure of the counterparty, the Group Trust and the Supplemental Plan will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Group Trust or the Supplemental Plan, and are held by either the counterparty or the counterparty's trust department or agent but not in the Group Trust's or the Supplemental Plan's name. At December 31, 2011 and 2010, the Group Trust's and the Supplemental Plan's security investments that were not subject to custodial credit risk were the investments in fixed income and equity investments.

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 a 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 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.

Continued

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

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.
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's 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 System Board, System Administrator, General Counsel, and the investment manager execute this document.

2. In case of conflict between the specific manager guidelines and the general guidelines, the specific guidelines, as approved by the System's 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 System 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.

Continued

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

Interest rate risk and foreign currency risk

The Group Trust and the Supplemental Plan invest 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 Supplemental Plan'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 comes due and payable) in years, weighted to reflect the dollar size of individual investments within the investment type. The Supplemental Plan does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates, but rather mandates such limits within the Investment Management Services Contract.

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

At December 31, 2011, the following table shows 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
Fixed maturity domestic:					
U.S. Treasury securities	$	2,462,978		8,722,832	11,185,810
U.S. Government agency securities				1,025,208	1,025,208
Corporate bonds	6,155,305	56,586,640	71,356,928	68,437,755	202,536,628
Total fixed maturity domestic	6,155,305	59,049,618	71,356,928	78,185,795	214,747,646
Foreign government securities:					
Australian Dollar		4,948,413	3,517,812		8,466,225
Brazil Real	670,151			4,220,185	4,890,336
British Pound Sterling	5,837,652				5,837,652
Canadian Dollar	2,847,332	2,752,566			5,599,898
EURO Currency	1,056,878	10,156,036	6,109,484	2,069,424	19,391,822
Hungary	1,357,825				1,357,825
Indonesian Rupiah		2,823,793			2,823,793
Japanese Yen	2,912,375	11,629,592	2,828,906		17,370,873
Malaysian Ringgit	1,979,871	1,390,788			3,370,659
Mexican New Peso		2,692,745		5,492,659	8,185,404
New Zealand Dollar		1,014,493	1,964,487		2,978,980
Norway Krone	2,857,274				2,857,274
Poland New Zloty		3,597,399	5,264,208		8,861,607
South Africa			1,973,198	590,364	2,563,562
South Korea	888,762	2,305,931			3,194,693
Total foreign government securities	20,408,120	43,311,756	21,658,095	12,372,632	97,750,603
Total fixed maturity	$ 26,563,425	102,361,374	93,015,023	90,558,427	312,498,249

 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, 2011 is as follows:

Quality Rating	Corporate Bonds	U.S. Government Treasury Securities	U.S. Government Agencies	Foreign Government Securities	Grand Total Fair Value	Percentage of Holdings
AAA	$ 9,553,419	11,185,810	1,025,208	12,130,741	33,895,178	10.85%
AA+	1,318,962			5,147,384	6,466,346	2.07%
AA	2,170,875				2,170,875	0.69%
AA-				947,216	947,216	0.30%
A+	4,224,717			3,170,248	7,394,965	2.37%
A	3,353,981			15,207,819	18,561,800	5.94%
A-	4,581,702			9,634,205	14,215,907	4.55%
BBB+	7,291,975			1,463,579	8,755,554	2.80%
BBB	5,099,731				5,099,731	1.63%
BBB-	5,454,559			771,568	6,226,127	1.99%
BB+	12,886,285			1,357,825	14,244,110	4.56%
BB	34,397,441				34,397,441	11.01%
BB-	18,614,400			2,752,566	21,366,966	6.84%
B+	13,304,462				13,304,462	4.26%
B	20,679,366			36,792	20,716,158	6.63%
B-	13,091,316				13,091,316	4.19%
Below CCC	33,026,806			208,476	33,235,282	10.63%
NA	13,486,631			44,922,184	58,408,815	18.69%
Subtotal	$ 202,536,628	11,185,810	1,025,208	97,750,603	312,498,249	100.00%

Total credit risk debt securities	312,498,249	8.49%
Other investments	3,368,812,995	91.51%
Total investments	3,681,311,244	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 JPMorgan Chase (JPMorgan) 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 2006, JPMorgan lent, on behalf of the Group Trust, securities held by JPMorgan as the Group Trust's custodian, and received United States dollar cash and United States government securities as collateral. JPMorgan 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 2011 and 2010 on the amount of the loans that JPMorgan made on its behalf. There were no failures by any borrowers to return the loaned securities or pay distributions thereon during the fiscal years 2011 and 2010. Moreover, there were no losses during the 2011 and 2010 fiscal years resulting from a default of the borrower. JPMorgan indemnifies the Group Trust in respect of any loan related to any non-cash distribution and return of securities.

During 2011 and 2010, 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 JPMorgan. The relationship between the average maturities of the investment pool and the Group Trust'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, 2011 and 2010, the Group Trust and the Supplemental Plan had no credit risk exposure to borrowers. The market value of securities on loan for the Group Trust were $152,361,948 and $155,506,124 at December 31, 2011 and 2010, respectively. The collateral held for the Group Trust were $157,129,466 and $160,248,227 at December 31, 2011 and 2010, 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, 2011 and 2010.

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, 2011 and 2010. The contribution is also limited to be within $100,000 of the previous year's contribution. The funding policy was changed as of January 1, 2012, so that the City's contribution rate is intended to be sufficient to amortize the unfunded actuarial accrued liability over ten years rather than five years.

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, 2012, consists of 264.86% of covered members' salaries and is an increase of 90.66% from the 174.20% of covered members salaries as of January 1, 2011.

Funded status

Information regarding the actuarial funding status of the Supplemental Plan as of January 1, 2012, the most recent actuarial valuation date, is as follows (dollar amounts in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	AVA as a Percentage of AAL	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/01/12	$20,823	$36,330	$15,507	57.30%	$621	2,497.1%

The January 1, 2012 actuarial valuation used the following significant assumptions:

Investment rate of return	8.5% per year, net, compounded annually
General inflation rate	4% per year
Mortality, retirement, disability and separation rates	Graduated rates
Actuarial cost method	Entry age normal cost method
Post retirement benefit increases:	
Group A (former Plan A) and Group B	4% per year of original pension annually
Group A (former Old Plan) members	4% compounded annually
Asset valuation	Fair market value
Amortization method	Open level fixed percent
Remaining amortization period	30 years
DROP account returns	8.5% per year
Post retirement mortality	RP-2000 Combined Healthy Mortality Table projected to the year 2022 using Scale AA for healthy retirees and active members and RP-2000 Combined Health Mortality Table with a one year set forward for disabled members

Historical trend information

Historical trend information is provided as supplemental information on pages 25 through 27. 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.

Continued

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

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 2011 and 2010, 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, 2011 and 2010.

During 2011 and 2010, the Group Trust recognized net realized gains and losses on foreign currency forward contracts of $(131,608) and $911,553, respectively. At December 31, 2011 and 2010, the Group Trust had net unrealized gains and losses on forward currency contracts reflected in the accompanying Group Trust summary information of $(480,692) and $(1,118,863), respectively, included in net (depreciation)/appreciation in fair value of investments.

7. **Obligation Under Reverse Repurchase Agreements**

State statutes permit the Supplemental Plan to enter into reverse repurchase agreements. The credit exposure at year end 2011 and 2010 related to these agreements was $24,644,300 and $29,957,000, 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 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, 2011 and 2010.

8. **Line of Credit and Other Bank Loans**

The Group Trust has a credit agreement with a commercial bank which provides for a revolving line of credit bearing interest at the 30 day floating LIBOR plus 75 basis points at December 31, 2011 and 2010, payable quarterly. At December 31, 2011 and 2010, the Group Trust had borrowed approximately $353,340,200 and $344,666,000, respectively, related to the revolving credit line, which provides for a maximum borrowing of $400,000,000. The revolving credit line was opened on November 1, 2006, and expires on March 31, 2014. The Group Trust and the System also pay a quarterly fee on the unused portion of the line of credit equaling 20 basis points. The line of credit agreement contains various covenants under the terms of the agreement in which the bank may call the line of credit, if the Group Trust is in violation of any restrictive covenants.

Continued

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

The Group Trust has a credit agreement with a commercial bank which provides for a revolving line of credit bearing interest at the PRIME rate and a floor rate of 5% as of December 31, 2011 and 2010, payable monthly. At December 31, 2011 and 2010, the Group Trust had borrowed $40,000,000 related to the revolving credit line, which provides for a maximum borrowing of $40,000,000. The revolving credit line expires on June 29, 2012. The Group Trust and the System also pay a monthly fee on the unused portion of the line of credit equaling 50 basis points. On March 1, 2012, the credit agreement was renewed with revised terms. The renewed credit agreement bears interest at the PRIME rate minus 26 basis points with a floor rate of 2.5% and a maximum rate of 5.0% with no fee on the unused portion of the line of credit. The renewed credit agreement expires on April 1, 2017.

The Group Trust has a credit agreement with a commercial bank which provides for a revolving line of credit bearing interest at the PRIME rate as of December 31, 2011 and 2010, payable quarterly. At December 31, 2011 and 2010, the Group Trust had borrowed $40,000,000 and $40,000,000, respectively, related to the revolving credit line, which provides for a maximum borrowing of $40,000,000. The credit agreement has no monthly fee for the unused portion of the line of credit. On February 14, 2012, the credit agreement was extended to mature on September 14, 2012.

In addition to the line of credit, the Group Trust has an additional loan agreement with the commercial bank bearing interest per annum at the LIBOR rate plus 75 basis points at December 31, 2011 and 2010, payable quarterly. At December 31, 2011 and 2010, the loan balance outstanding was $31,671,000 and $37,260,000, respectively. The loan is secured by real property and matures on March 31, 2014. The bank loan agreement contains various covenants under the terms of the agreement in which the bank may call the loan if the Group Trust is in violation of any restrictive covenants.

Maturities of debt at December 31 are as follows:

Year		Amount
2012	$	40,000,000
2013		-
2014		385,011,200
2015		-
2016		-
Thereafter		40,000,000
Total	$	465,011,200

9. **Federal Income Tax Status**

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

Continued

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

10. **Commitments and Contingencies**

As described in note 1, certain members of the Supplemental Plan are entitled to refunds of their accumulated contributions upon termination of employment with the City, prior to being eligible for pension benefits. As of December 31, 2011 and 2010, aggregate contributions from active members of the Supplemental Plan with less than five years of service were $13,475 and $89,710, respectively. The Group Trust had outstanding investment commitments to various limited partnerships and international investment advisors of approximately $516,000,000 and $422,000,000 at December 31, 2011 and 2010, respectively.

11. **Risks and Uncertainties**

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

The Supplemental Plan contribution rates and the actuarial information included in the schedule of employer contributions, page 26, and schedule of funding progress, page 25, are based on certain assumptions pertaining to interest rates, inflation rates and participant demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term could be material to the basic financial statements.

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

The Supplemental Plan has intervened in the above lawsuits to protect the Supplemental Plan's right to members and City contributions which the Supplemental Plan believes will be due if the police officers' and firefighters' claims are successful. The ultimate outcome of these lawsuits cannot be determined at this time and, accordingly, no amounts related to these claims have been accrued in the Supplemental Plan's basic financial statements as of December 31, 2011 and 2010.

12. **Subsequent Events**

Management has evaluated subsequent events through June 29, 2012, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed, except for noted in the above notes, or that would have a material impact on reported net assets or changes in net assets.

REQUIRED SUPPLEMENTAL INFORMATION

Schedule 1

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

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

GASB required supplementary information (unaudited) related to the Supplemental Plan's funding progress is as follows (amounts in 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)
1/1/2003	$ 14,081	22,398	8,317	63 %	$ 858	970 %
1/1/2004	16,950	23,325	6,375	73 %	730	873 %
1/1/2005	18,720	24,496	5,776	76 %	818	706 %
1/1/2006	19,961	26,370	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 %
1/1/2009	18,140	32,053	13,913	57 %	1,043	1,334 %
1/1/2010	20,681	33,449	12,768	62 %	1,044	1,223 %
1/1/2011	21,119	34,309	13,190	62 %	886	1,489 %
1/1/2012	20,823	36,330	15,507	57 %	621	2,497 %

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

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

Year ended December 31,	Annual required contribution	Percentage contributed
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 %
2008	1,243,717	100 %
2010	1,343,717	100 %
2011	1,443,717	100 %
2012	1,543,717	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 note to required supplemental schedules.
See accompanying independent auditors' report.

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, 2012 and 2011 is as follows:

Actuarially assumed investment rate of return *	8.5% per annum, net, compounded annually
Mortality, retirement, disability and separation rates	Graduated rates detailed in actuary's report
Actuarial cost method	Entry age normal cost method
Post retirement benefit increases	4% per annum of original pension amount
Asset valuation	Fair market value
Amortization method	Open level fixed %
Remaining amortization period	30 years for 2012 and 5 for 2011
DROP account returns	8.5% per annum
Post retirement mortality	RP-2000 Combined Healthy Mortality Table projected to the year 2022 using Scale AA for healthy retires and active members and RP-2000 Combined Health Mortality Table with a one year set forward for disabled members for 2012. 1994 Group Annuity Mortality Table for 2011

* Includes inflation rate of 4% and a real rate of return of 4.5%. DROP balances are assumed to earn 8% per annum for the 2012 report and 8.5% per annum for the 2011 report. Total payroll is assumed to increase 4% per year. Overtime is assumed to be 11% of base pay per the January 1, 2012 actuary report and 11% of base pay per the January 1, 2011 actuary report.

The actuarial information presented was determined by the actuarial firm Buck Consultants, Inc. 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, 2012 and 2011, and are not materially different from what they would have been had they been calculated on December 31, 2011 and 2010, 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.

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POLICE & FIRE
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