



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDING DECEMBER 31, 2012



2012 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= 5,400
Benefit Recipients = 3,783
Terminated Vested = 96
Total Participants = 9,279

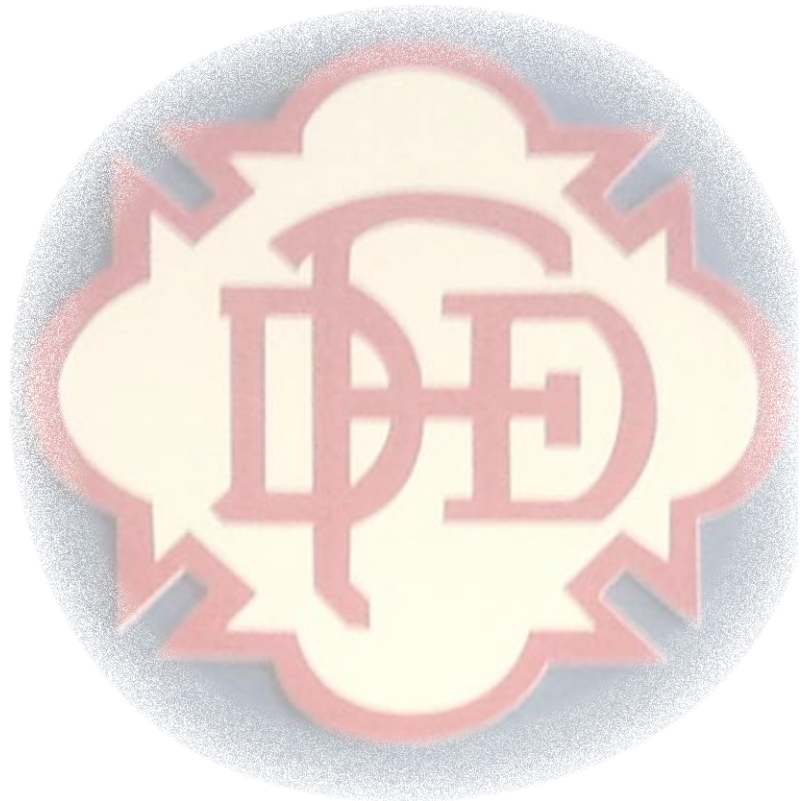
Service Retirements Added

Police = 99
Fire = 57
Total = 156

Disability Retirements Added

Police = 2
Fire = 1
Total = 3

System Net Assets at Market Value = \$3,264,931,084
Benefits Paid = \$201,564,951
Member Contributions = \$22,745,338
City Contributions = \$103,933,961



OUR MISSION

Our singular mission is to protect the financial future of those who protect us, our Police Officers and Firefighters, and that mission is firmly rooted in every decision we make.

OUR CORE VALUES

Fiduciary Accountability

Agility

Patience

Respect

Innovation

Discipline

Integrity

COMPREHENSIVE ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDING
DECEMBER 31, 2012**

**RICHARD L. TETTAMANT,
ADMINISTRATOR**

***DALLAS POLICE & FIRE PENSION SYSTEM
4100 HARRY HINES BLVD., SUITE 100
DALLAS, TEXAS 75219
214.638.3863 OR 1.800.638.3861***

WEBSITE: WWW.DPFP.ORG

E-MAIL: INFO@DPFP.ORG



Serving Those Who Protect the Dallas Community



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INTRODUCTION





Over the last ten years, through the System's diversified investment allocation strategy, the System's assets have almost doubled from \$1.66 billion on December 2002 to \$3.26 billion as of December 31 2012.

George Tomasovic, Chairman



July 12, 2012

Members of the Dallas Police and Fire Pension System:

A STRATEGY OF SUCCESS

Our investment strategy has proved successful. Our ten-year net annualized return is 8.5% as of December 31, 2012 and the Dallas Police and Fire Pension System (the System) ranks in the top 1% of public pension funds (based on the gross return of 9%) as ranked by NEPC, the System's investment consultant. We also were ranked #1 among public pension plans in Texas over 20 years by the Texas Association of Employee Retirement Systems (TEXPERS) based on our investment returns through September 30, 2012. The System achieved a net investment return of 11.4% during 2012, exceeding the actuarial assumed rate of return of 8.5%.

Over the past 30 years, the System has grown from \$136 million to approximately \$3.7 billion in managed assets. We are recognized as one of the most innovative and successful public pension plans in the U.S. This is possible because we have put in place a sound, fiduciary decision process that guides every investment.

OUR CORE VALUES GUIDE EVERY INVESTMENT DECISION

When the Board of Trustees makes investment decisions, there are three important aspects to the process:

1. Our fiduciary responsibility to our Police Officers, Firefighters and their families;
2. Use of our carefully vetted and trusted advisors; and
3. Our core values, as shown on page 4, are always our compass. They guide every decision we make.

We believe that successful fiduciary stewardship focuses on the far horizon, not the nearest one. While the volatility of the financial markets, and the sometimes overreaction from the political arena, may appear to threaten defined benefit plans, we are confident that our strategies contribute to the financial stability of the System. The System will maintain the ability to pay the promised pension benefits to our Members for the next thirty years and beyond, as measured by the System's actuary.

The System will maintain the ability to pay the promised pension benefits to our Members for the next thirty years and beyond, as measured by the System's actuary.

Dan Wojcik, Vice Chairman



This Comprehensive Annual Financial Report (the Annual Report) for the fiscal year ended December 31, 2012, 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. As you will read on the following pages, our steadfast adherence to our core values permits the System to achieve and maintain the long term financial health of the System and assure the well being of our Members.

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 divided into six sections:

- 1. 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.
- 2. Financials:** 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.
- 3. Investments:** 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.
- 4. Actuarial Report:** contains the consulting actuary's Certification Letter and the full actuarial valuation report.
- 5. Statistics:** presents membership, benefit payment, and additional financial information in graphic form. Both current and historical data are presented.
- 6. Supplemental Pension Plan:** contains the 2012 Financial Statements with Independent Auditor's Report and the 2012 Actuarial Valuation for the **Supplemental Police and Fire Pension Plan of the City of Dallas.**

Doeren Mayhew, CPAs and Advisors, formerly 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 78.1% funded and a funding period of 23 years to fully fund the System. NEPC, Financial Control System, Inc. 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.

OVERVIEW

With 2012 showing strong signs of global economic recovery, the System continued to maintain its financial condition through diversification and sound management. Improving market conditions helped the System to increase the market value of System assets by about \$250 million during 2012. The overall financial picture of the Pension System remains strong.

HISTORY OF THE SYSTEM

Providing benefits to Police Officers and Firefighters since 1916!

In 2012, the System celebrated its 96th anniversary of ensuring the financial future of City of Dallas Police Officers and Firefighters and their families. A pension plan was first established for Dallas Police Officers and Firefighters under City Ordinance in 1916 with the employees and the City each contributing 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. The System now is a defined benefit plan qualified under section 401(a) of the Internal Revenue Code serving over 9,200 families of Police Officers and Firefighters.

SYSTEM ADMINISTRATION

The System is administered by a professional Board and staff!

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).

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.

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 32 positions assigned among five teams: 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

Our processes and investment strategies work!

The System is able to maintain its investment performance through a highly diversified investment portfolio that is comprised of Global Public Equity, Global Private Equity, Global Fixed Income, Global Natural Resources, Global Asset Allocation, Global Infrastructure, and Global Real Estate.

PROFESSIONAL SERVICE PROVIDERS***Investment Advisors***

Ashmore Investment Management Limited
BankCap Partners
Bentall Kennedy
Brandywine Global Investment Management
Bridgewater Associates
CDK Realty Advisors
Cintra US
Criswell Radovan LLC
Eagle Asset Management
Energy Opportunities Capital Management
Forest Investment Associates
Grantham, Mayo, Van Otterloo & Co. (GMO)
HM Capital Partners
Hancock Agricultural Investment Group
Hearthstone Inc.
Highland Capital Management
Hudson Clean Energy Partners
Hunt Investment Management
Invesco Real Estate
JPMorgan Asset Management
Kainos Capital, LLC
Knudson Luxury Housing
LandBaron Investments

L&B Realty Advisors
Levine Leichtman Capital Partners
Lone Star Funds
Lone Star Investment Advisors
Loomis, Sayles & Company
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
Tradewinds Global Investors
Walter Scott & Partners Limited
W.R. Huff Asset Management
Yellowstone Capital Partners

Actuary

Buck Consultants, Inc.

Auditor

Doeren Mayhew, P.C.

Custodian Bank

JP Morgan Chase Bank

Other Banking Relationships

Bank of America, N.A.
BBVA Compass Bancshares, Inc.
Texas Capital Bank, N.A.

Investment Consultants

NEPC
The Townsend Group
Robert Harrell, Inc.

Performance Measurement Consultants

Financial Control Systems Inc. (FCS)

Legal Advisors

Strasburger & Price, LLP
Travis & Calhoun

Legislative Consultants

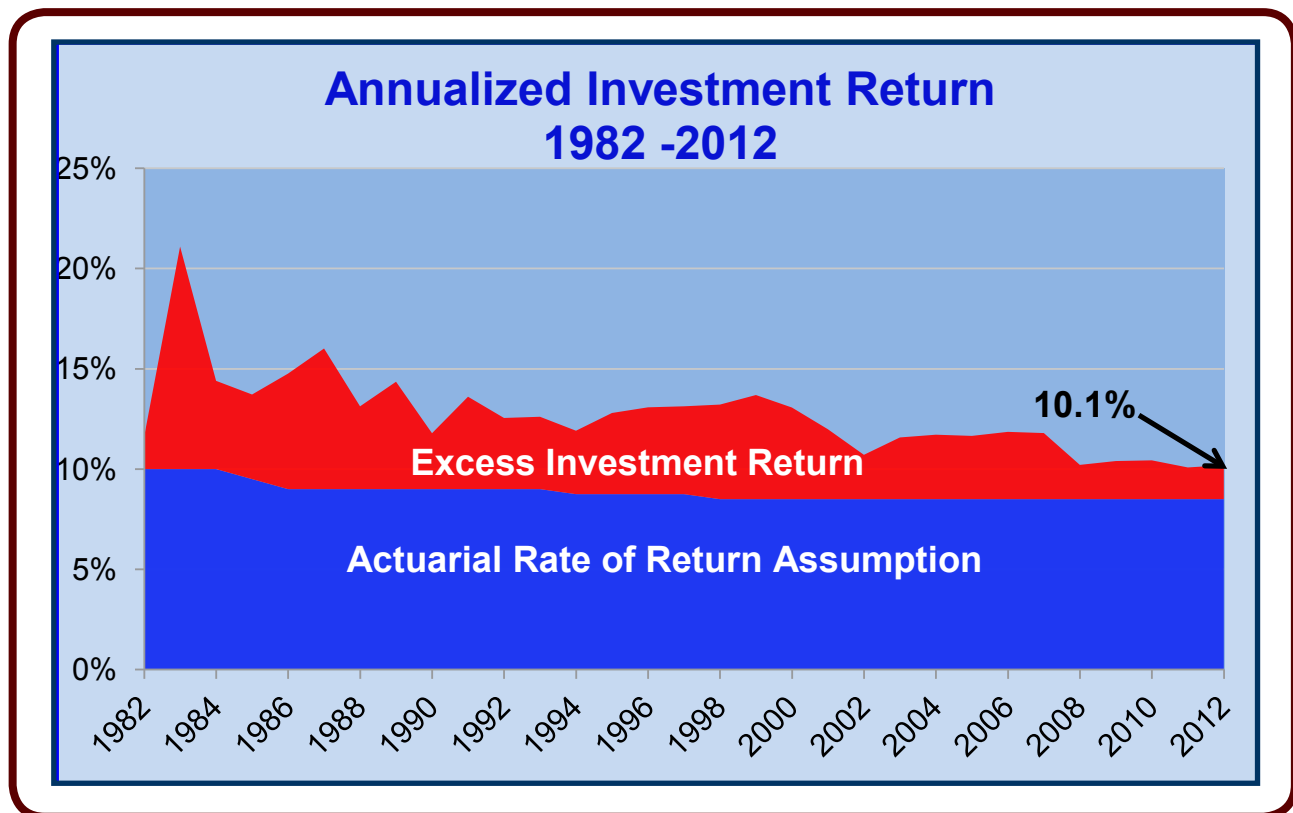
Locke Lord LLP
Hillco Partners

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As stated earlier in this report, our rate of return on System investments during 2012 was 11.4%, net of fees, and over the past ten year time period, the System ranks in the top 1% of all public pension plans with assets over \$1 billion, as ranked by NEPC. Over the last 30 years, the System has achieved an annualized return of 10.1%. Based on a report by the Texas Association of Public Employees Retirement Systems (TEXPERS), the System achieved the highest return among all its peers in the state of Texas over the past 20 years as of September 30, 2012. The actuarial assumed rate of return was 8.5%. As of December 31, 2012, the System's net assets were valued at approximately \$3.28 billion.

During 2012, the System approved several new investments amounting to over \$100 million in commitments, performed due diligence on current and prospective investments and managers, and revised the portfolio's asset allocation. A review of relevant long-term return measures shows that the System clearly has outperformed peer plans.

See Section #3, **Investments**, for a detailed review of the System's asset allocation and performance by asset class.



The System has exceeded its actuarial assumed rate of return over the last thirty years, achieving an annualized investment return of 10.1% over that period. The System's assumed rate of return has been 8.5%.

Over the past ten year time period, the System ranks in the top 1% of all public pension plans with assets over \$1 billion, as ranked by NEPC. The annualized return over the last 30 years was 10.1%.

Rick Salinas, Deputy Vice Chairman



PLAN MEMBERSHIP

The System serves over 9,200 families!

The System provides comprehensive retirement, disability and survivor benefits for the City's 9,279 Police Officers, Firefighters, Pensioners and their beneficiaries and deferred vested Members. As of December 31, 2012, the active membership of the Pension System included 3,482 Police Officers and 1,918 Firefighters. The total of 5,400 Active Members reflects an increase of 24 from last year's total of 5,376 (3,494 Police Officers and 1,882 Firefighters).

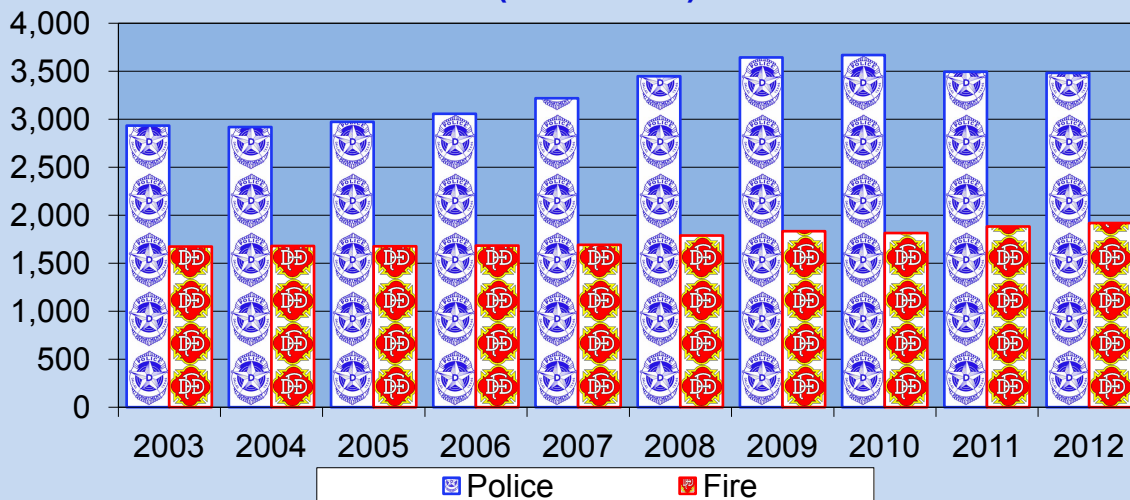
The average Police Officer is 40.98 years of age with 14.23 years of pension service and the average Firefighter is 41.76 years of age with 15.04 years of pension service.

The System paid pension benefits to 3,783 recipients in 2012. At the end of the year, benefit payments were being made to 2,684 service Pensioners, 170 disability Pensioners, and 929 beneficiaries. The total number of benefit recipients increased by 27.

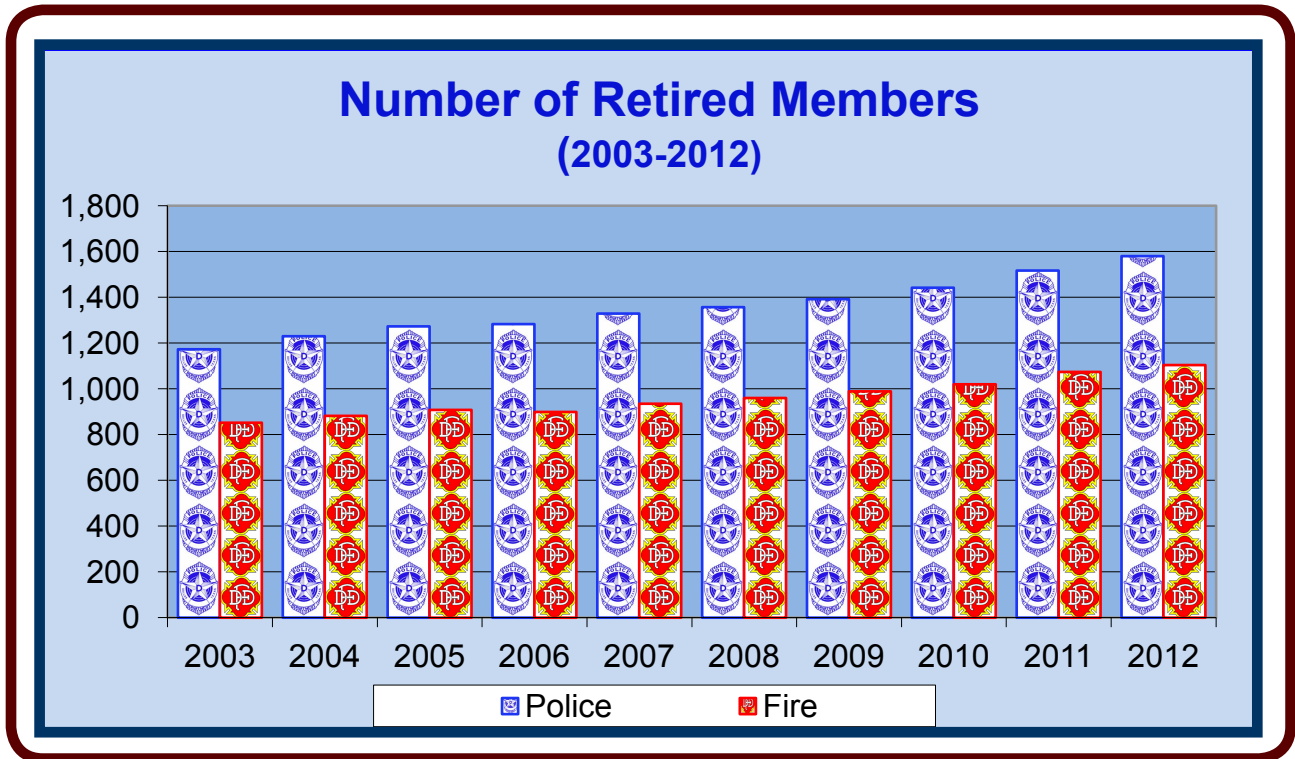
| Active Members | 2012 | 2011 | Difference |
|-----------------------|-------------|-------------|-------------------|
| Police | 3,482 | 3,494 | -12 |
| Fire | 1,918 | 1,882 | +36 |
| Total | 5,400 | 5,376 | +24 |



Active Membership in the System (2003-2012)



Total Active Membership increased by over 700 Members over the last ten years from 4,665 Members at the end of 2002 to 5,400 Members as of December 31, 2012, 3,482 Police Officers and 1,918 Firefighters. The number of Active Police Officers decreased by 12 in 2012, while the number of Firefighters increased by 36.



The total number of Members on Service Retirement increased steadily over the last ten years from 1,954 in 2002 to 2,684 as of December 31, 2012, including 1,580 retired Police Officers and 1,104 retired Firefighters.

FINANCIAL HIGHLIGHTS

Our Members pay for their benefits!

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. Active Members are required to pay 8.5% of computation pay (base pay plus education pay and state longevity pay). Active Members in Active DROP began paying contributions at the rate of 3% of computation pay with the first pay period ending after October 1, 2011. The rate for Active DROP participants increased to 6% effective with the first pay period that ended after October 1, 2012 and will increase to the full 8.5% with the first pay period that ends after October 1, 2013. The City is required to pay 27.5% on total gross payroll for Members. The System pays benefits calculated on the basis of a Member's age, average computation pay, eligible service credit and a service multiplier percentage.

The System received \$126.7 million in Member and City contributions, and earned investment income, net of fees, of \$330.3 million in 2012.

Richard Tettamant, Administrator



In 2012, benefit payments exceeded contributions received by approximately \$75 million. This is a normal situation for a mature pension plan like the System. 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** (page 95) and the **Notes to Financial Statements** (page 51). You may obtain more information in the Statistics Section of this report and on the Pension System's Web site under the "Publications" tab at www.dpfp.org.

Additions to Plan Net Assets

During 2012, the System received \$126.7 million in Member and City contributions. The System also earned investment income, net of fees, of \$330.3 million and other income of \$2.1 million. Net additions to Plan Net Assets totaled \$ 459.1 million.

Additions to Plan Net Assets

Investment Income

| | |
|--|---------------|
| Net Investment (loss) gain from the Group Master Trust | \$330,272,142 |
| Other Income | 2,143,296 |

Contributions:

| | |
|----------|---------------|
| Employer | \$103,933,961 |
| Member | 22,745,338 |

| | |
|----------------------------|----------------------|
| Total Contributions | \$126,679,299 |
|----------------------------|----------------------|

| | |
|---|----------------------|
| Total additions to plan net assets | \$459,094,736 |
|---|----------------------|

Deductions from Plan Net Assets

The System paid out over \$201.6 million in 2012 in service and disability retirement benefits and survivor benefits. The System also refunded Member contributions of about \$1.5 million to terminated Members. System administrative expenses totaled \$6.3 million. Total deductions from Plan Net Assets were \$209.4 million.

Plan Net Assets increased by \$250 million over the year.

Deductions from Plan Net Assets

| | |
|--|----------------------|
| Benefit Payments: | \$201,564,951 |
| Refunds of Contributions: | 1,535,560 |
| Administrative Expenses and Professional Fees: | 6,314,669 |
| Total deductions from plan net assets: | \$209,415,180 |

PLAN AMENDMENTS

There were no changes to the Plan during 2012.

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.

The System paid out over \$201.6 million in 2012 in service and disability retirement benefits and survivor benefits.

**Don Rohan, Assistant Administrator ,
Operations**

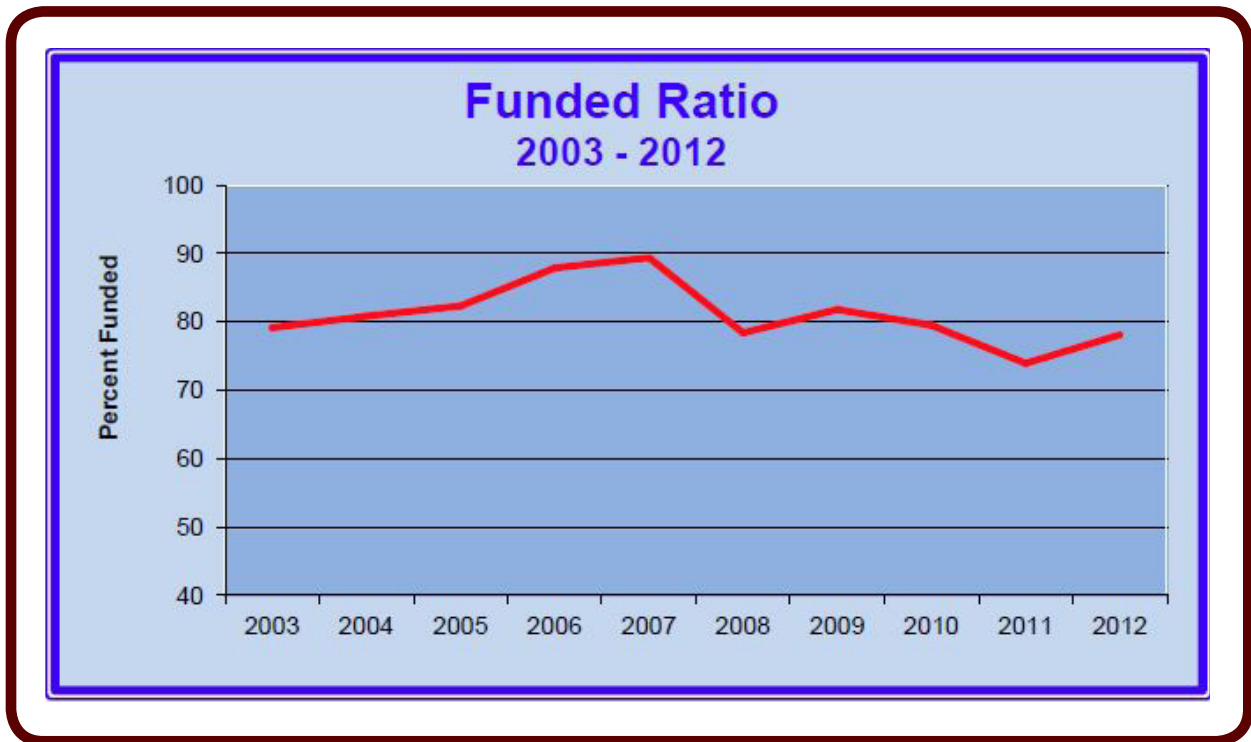


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SUMMARY

The System's 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%.

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.



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





Based on the current funding level as of December 31, 2012, the System is on schedule to be fully funded by the year 2036.

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.

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

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

"Serving Those Who Protect the Dallas Community."

Respectfully submitted,

George Tomasovic

Chairman of the Board of Trustees

Richard L. Tettamant

Administrator





STATE PENSION REVIEW BOARD OF TEXAS

7/18/2013

Dallas Police & Fire Pension System-Combined Plan
4100 Harry Hines Blvd Ste 100
Dallas, TX 75219

The State Pension Review Board (PRB) has received and reviewed the documentation you recently submitted. At this time, your plan is currently in compliance with Government Code §802.103 and §802.104 and we have updated our records based on this information.

The membership and assets information is displayed on two tables on the following page; please review the information in order to verify that it is correct. The third table shows the dates of the most recent actuarial valuation, benefits summary and investment policy that have been received by our office for your plan. If any of these documents have been updated, please submit the most recent copy to our office.

Please feel free to contact our office at one of the numbers shown below if you have any questions regarding the information shown.

Sincerely,

State Pension Review Board
(800) 213-9425
(512) 463-1736

2012 BOARD OF TRUSTEES

(As of 12/31/2012)



*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*



*Scott Griggs
City Council*



*Delia Jasso
City Council*



*Sheffie Kadane
City Council*



*John Mays
Police Pensioner*



*Richard Wachsman
Fire Pensioner*



*Thomas L. White
Police Trustee*



*Daniel Wojcik
Police Trustee*

2012 Administrative Staff (As of 12/31/2012)



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



Greg Irlbeck
Investments Manager-
Infrastructure and Public
Securities



Pat McGennis
Benefits
Manager



Linda Rickley
Board Coordination
Manager



Bill Scoggins, Jr.
Accounting Manager



Christina Wu
Investments Manager-
Real Assets



Laura Banda
Admin. Clerk



Larissa Branford
Accountant



Jerry Chandler
Systems Analyst



Aimee Crews
Benefits Counselor



Kristen Holcomb
Admin. Clerk



Carol Huffman
Executive Secretary



Chang Huynh
Admin. Clerk



Vickie Johnson
Accounting
Specialist



Kevin Killingsworth
Communications
Specialist



Larry Landfried
Investment Analyst



Genieva Lopez
Admin. Clerk



Ann Matthews
Benefits Counselor



John McBrine
Admin. Clerk



Alberta Patterson
Admin. Clerk



Rosa Perez
Admin. Clerk



Cynthia Reyes
Admin. Clerk/Receptionist



Milissa Schmidt
Benefits Counselor



Corina Terrazas
Data Control Clerk



Cynthia Thomas
Benefits Counselor



Ryan Wagner
Investment Analyst



Cecily Warren
Pensioner Liaison



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)

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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)
 - 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)

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1993

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

1994

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

1995

- Initiation of Periodic Retirement Education and Planning seminars (PREP, Jr.) for active employees with 5–15 years of service
- Retention of LRS' Pension Plus for new automated pension administration
- System's assets topped \$1 billion in July
- System's assets exceeded \$1.077 billion (12-31-95)

1996

- Amendment of Plan to correct, clarify, and delete inoperative provisions, initiate excess benefit plan, and authorize pretax contributions
- System's assets exceeded \$1.268 billion (12-31-96)

1997

- Initiation of Member contributions being paid on pre-tax basis
- Completion of DROP five-year actuarial review
- System's assets exceeded \$1.452 billion (12-31-97)

1998

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

1999

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



2000

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

2001

- Relocation of Pension System office to 2301 North Akard Street
- Election of first Police Pensioner and Firefighter Pensioner Trustees to the Board
- Plan amendment election held December 2001
 - Permitted purchase of Pension Service on a pretax basis through payroll deductions or rollover
 - Permitted Members to purchase Pension Service in whole year increments
 - Permitted Member disabled while on military leave of absence to receive a non-service disability pension
 - Added 100% joint and survivor annuity option
 - Increased minimum benefit to \$2,200 per month
 - Changed calculation of DROP interest rate to average of System's 10-year investment return as calculated by the System's actuary
 - Provided for special election to fill vacant Trustee positions
- System's assets totaled \$1.9 billion (12-31-01)

2002

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

2003

- Re-election of four Trustees
- Initiation of Pensioner Advocate Program
- Initiation of Financial Planning and Pensioner Financial Planning Programs
- System assets totaled \$2.2 billion (12-31-03)

2004

- Established loan program to enhance real estate investment return
- Moved Pensioner Financial Planning education program to 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 Pension System assets, co-investing the assets of the System and the Supplemental Plan
- System assets totaled \$3.13 billion (12-31-06)

DPPF 2012 ANNUAL REPORT

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
- Established two new investments:
 - LBJ Infrastructure Group
 - JPMorgan Global Maritime Investment Fund
- 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 three 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
 - Survivor benefits for members who die while on active service will be based on a minimum of 25% of average computation pay.
- System Assets (Group Trust) totaled \$3.01 billion (12-31-11)

2012

- New asset allocation policy
- Established “Prepare for Tomorrow Today” seminar, a financial planning class geared toward Members in the earlier stages of their career (5 to 10 years)
- System Assets (Group Trust) totaled \$3.28 billion (12-31-12)





FINANCIALS





DALLAS POLICE AND FIRE PENSION SYSTEM

Financial Statements and
Required Supplemental Information

December 31, 2012 and 2011
(With Independent Auditors' Report Thereon)

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CPAs AND ADVISORS

DALLAS POLICE AND FIRE PENSION SYSTEM

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying basic financial statements of Dallas Police and Fire Pension System (the System), which comprise the statement of plan net position as of December 31, 2012, and the related statement of changes in plan net position for the year then ended, and the related notes to the basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these basic financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of basic financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012, and the changes in its financial status for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Supplemental Information

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 schedules of funding progress and employer contributions 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.

Other Matter – 2011 Financial Statements

The basic financial statements of the System as of December 31, 2011, were audited by other auditors whose report dated June 29, 2012, expressed an unmodified opinion on those statements.



Houston, Texas
June 28, 2013

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

December 31, 2012 and 2011

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, 2012 and 2011.

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 basic 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 Position presents the System's assets and liabilities and reflects the plan net position as of the end of the year for the payment of pension benefits and other expenses. The Statement of Changes in Plan Net Position summarizes additions to and deductions from System assets during the year. Net position at the beginning of the year plus additions and minus deductions during the year equals plan net position at the end of the year and available to pay pension benefits and other expenses. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

December 31, 2012 and 2011

CONDENSED FINANCIAL INFORMATION

(in thousands)

| | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|--|--------------|--------------|--------------|
| Assets | \$ 3,265,922 | \$ 3,017,290 | \$ 3,112,742 |
| Liabilities | 991 | 2,039 | 55 |
| Net Position - Restricted for Pension Benefits | 3,264,931 | 3,015,252 | 3,112,687 |
| Contributions | 126,679 | 121,931 | 128,088 |
| Investment and Other Income (Loss) | 332,415 | (23,587) | 288,389 |
| Benefit Payments | 201,565 | 188,093 | 169,459 |
| Withdrawals and Refunds of Contributions | 1,536 | 736 | 814 |
| Administrative Expenses and Professional Fees | 6,315 | 6,949 | 6,457 |

FINANCIAL HIGHLIGHTS

- The System's plan net position increased \$250 million in 2012 and decreased \$97 million in 2011. Plan net position totaled \$3.26 billion at the end of 2012 and \$3.02 billion at the end of 2011. The increase in plan net position reflects continued recovery in the financial markets in 2012.
- 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 2012 was 11.4% net of fees, compared to a rate of return of .03% for 2011. The performance numbers are provided by the System's general investment consultant. The actuarial expected rate of return for both years was 8.5%. Over the course of the past year, the global economy showed signs that it was strengthening and stabilizing coming out of the global financial crisis. Domestically, equity markets were lead by a recovery in the housing sector while a stubbornly high unemployment rate persisted. While the presidential election and fiscal cliff dominated headlines late in the year, domestic markets were quietly creeping towards post-recession highs. The broad United States stock market, as measured by the S&P 500, returned 16.3% in 2012. Global markets, as measured by the MSCI ACWI, kept pace with U.S. markets returning 16.10% in 2012. Undoubtedly, the recovery has been aided by the Fed's stimulus programs which have kept risk-free rates near zero. Global Fixed Income returns, as measured by BC Global Aggregate Index, returned 4.3% in 2012. The System's allocation to Global Public Equity outperformed its benchmark returning 16.7% net of fees in 2012. The Global Private Equity and Global Fixed Income portfolios also saw strong returns with annual gains of 17.0% and 16.6%, respectively.

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

December 31, 2012 and 2011

- Liabilities totaled \$991 thousand as of December 31, 2012. Liabilities at December 31, 2011 totaled \$2.04 million. Investment liabilities are incorporated into the Group Trust and reflected within total investments.
- The System received member contributions of \$22.7 million in 2012 and \$19.5 million in 2011 and received employer contributions from the City of Dallas in the amounts of \$103.9 million and \$102.4 million in 2012 and 2011, respectively. The member contributions are 8.5% of computation pay (base pay rate plus education and longevity pays). Total member contributions increased by \$3.3 million, or about 16.7%, in 2012 compared to 2011 and decreased by \$330 thousand, or about 1.7%, in 2011 compared to 2010. The increase in Member contributions received in 2012 is due primarily to a Plan change in 2011 that required Members in Active Service who participate in the System's Deferred Retirement Option Plan (DROP) to pay pension contributions while in DROP. The rate increased from 3% of Computation Pay beginning with the first pay period ended after October 1, 2011, to 6% of Computation Pay beginning with the first pay period ended after October 1, 2012. The employer contributions represent 27.5% of total salary and wages of covered members. Total employer contributions increased by \$1.5 million or 1.5%, in 2012 compared to 2011 and decreased by \$5.8 million, or 5.4% in 2011 compared to 2010.
- The System paid \$201.6 million in service retirement, disability retirement, survivor benefits and DROP disbursements during 2012, compared to payments of \$188.1 million in 2011. The System refunded approximately \$1.5 million and \$737 thousand in contributions to former members in 2012 and 2011, respectively. No changes to benefit provisions of current pensioners were implemented in 2012 or 2011. The increase of \$13.5 million, or 7.2%, in benefit payments in 2012 compared to 2011 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 \$18.6 million, or 11%, in benefit payments in 2011 compared to 2010 resulted both from an increase in the number of benefit recipients and annual adjustment increases to base benefits.
- The cost of administering the benefit programs of the System, including administrative costs and professional fees, was \$6.3 million in 2012 compared to \$6.9 million in 2011. A pro rata share of the total expenses of the Group Master Trust are allocated to the System according to the ratio of System assets to the total assets of the Group Master Trust, plus any expenses specific to the System.

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, 2013. 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 ten-year period of investment data to remove year-to-year volatility in asset returns.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

December 31, 2012 and 2011

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 increased \$210 million during 2012 to \$3.20 billion as of January 1, 2013. The market value of assets decreased \$121.9 million during 2011 to \$2.99 billion as of January 1, 2012.

- As of January 1, 2013, the actuarial value of the assets (AVA) increased \$420 million during 2012 to a total of \$3.80 billion. 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. The method for determining the AVA was changed in the January 1, 2013 valuation from one that smooths in gains and losses over five years, to one that smooths them in over ten years.
- As of January 1, 2013, the actuarial accrued liability (AAL), or actuarial value of liabilities, increased during 2012 by \$289.3 million to \$4.86 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.

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 increased to 78.1% during 2012 compared to 73.9% in 2011

- 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, 2013, the System's UAAL was \$1.1 billion, a decrease of \$127.2 million from a UAAL of \$1.2 billion as of January 1, 2012.
- 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, 2013, the employer contribution rate of 27.5% covers the normal cost and the amortization of the UAAL over 23 years, compared to 30 years to fund as of the January 1, 2012 valuation. This decrease of 7 years in the number of years to fully fund the System resulted primarily from the change in the method of determining AVA.

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 Position
December 31, 2012 and 2011**

| <u>Assets</u> | <u>2012</u> | <u>2011</u> |
|--|-------------------------|----------------------|
| Plan interest in Group Master Trust, at fair value (notes 2, 3, 4, 6, 7 and 8) | \$ <u>3,261,305,016</u> | <u>3,013,551,399</u> |
| Receivables: | | |
| Employer (note 5) | 3,713,682 | 3,089,985 |
| Member (note 5) | <u>903,185</u> | <u>648,732</u> |
| Total receivables | <u>4,616,867</u> | <u>3,738,717</u> |
| Total assets | <u>3,265,921,883</u> | <u>3,017,290,116</u> |
| <u>Liabilities and Plan Net Position</u> | | |
| Administrative expense payable | <u>990,799</u> | <u>2,038,588</u> |
| Total liabilities | <u>990,799</u> | <u>2,038,588</u> |
| Net position - restricted for pension benefits | <u>\$ 3,264,931,084</u> | <u>3,015,251,528</u> |

See accompanying notes to basic financial statements.

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DALLAS POLICE AND FIRE PENSION SYSTEM

Statements of Changes in Plan Net Position Years Ended December 31, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|--|-------------------------|----------------------|
| Additions to net position: | | |
| Investment income - net investment gain (loss) from the Group Master Trust (note 3) | \$ <u>332,415,437</u> | <u>(23,587,085)</u> |
| Contributions: | | |
| Employer (note 5) | 103,933,961 | 102,437,115 |
| Member (note 5) | <u>22,745,338</u> | <u>19,493,460</u> |
| Total contributions | <u>126,679,299</u> | <u>121,930,575</u> |
| Total additions to net position | <u>459,094,736</u> | <u>98,343,490</u> |
| Deductions from net position: | | |
| Benefit payments | 201,564,951 | 188,093,019 |
| Refunds of contributions (note 11) | 1,535,560 | 736,470 |
| Administrative expenses and professional fees (note 10) | <u>6,314,669</u> | <u>6,949,015</u> |
| Total deductions from net position | <u>209,415,180</u> | <u>195,778,504</u> |
| Net increase (decrease) in net position | 249,679,556 | (97,435,014) |
| Net position - restricted for pension benefits: | | |
| Beginning of year | <u>3,015,251,528</u> | <u>3,112,686,542</u> |
| End of year | <u>\$ 3,264,931,084</u> | <u>3,015,251,528</u> |

See accompanying notes to basic financial statements.

DALLAS POLICE AND FIRE PENSION SYSTEM

**Notes to Basic Financial Statements
December 31, 2012 and 2011**

Note 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, 2012 and 2011, the System’s membership consisted of:

| | <u>2012</u> | <u>2011</u> |
|---|--------------|--------------|
| Non-active members: | | |
| Pensioners and qualified survivors currently receiving benefits and terminated members entitled to benefits but not yet receiving them: | | |
| Firefighters | 1,599 | 1,559 |
| Police officers | 2,184 | 2,110 |
| Terminated vested members not yet receiving benefits | <u>96</u> | <u>128</u> |
| Total non-active members | <u>3,879</u> | <u>3,797</u> |
| Active members: | | |
| Vested: | | |
| Firefighters | 1,390 | 1,370 |
| Police officers | <u>2,627</u> | <u>2,524</u> |
| Total vested active members | <u>4,017</u> | <u>3,894</u> |
| Nonvested: | | |
| Firefighters | 528 | 512 |
| Police officers | <u>855</u> | <u>970</u> |
| Total non-vested active members | <u>1,383</u> | <u>1,482</u> |
| Total active members | <u>5,400</u> | <u>5,376</u> |

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements December 31, 2012 and 2011

Note 1 - Description of Plan and Summary of Significant Accounting Policies (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, 2012 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.

DALLAS POLICE AND FIRE PENSION SYSTEM

**Notes to Basic Financial Statements
December 31, 2012 and 2011**

Note 1 - Description of Plan and Summary of Significant Accounting Policies (Continued)

- Members who began membership after February 28, 2012 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. 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.

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 Deferred Retirement Option Plan (DROP) program. Active members in DROP pay contributions at the rate of 3% of computations pay beginning with the first pay period ending after October 1, 2011; at the rate of 6% of computation pay beginning with the first pay period ending after October 1, 2012; and the rate of 8.5% of computation pay for all pay periods ending after October 1, 2013. The City continues to pay contributions on active members in DROP at the rate of 27.5% of total compensations. 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 \$1,164,176,599 and 1,046,207,889 at December 31, 2012 and 2011, respectively.

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements December 31, 2012 and 2011

Note 1 - Description of Plan and Summary of Significant Accounting Policies (Continued)

- 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 2012 and 2011, 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.

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.

DALLAS POLICE AND FIRE PENSION SYSTEM**Notes to Basic Financial Statements
December 31, 2012 and 2011****Note 1 - Description of Plan and Summary of Significant Accounting Policies (Continued)**System Administration

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

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

Basis of Presentation

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

Basis of Accounting

The basis of accounting is the method by which revenues and expenses are recognized in the accounts and reported in the basic financial statements. The accrual basis of accounting is used by the System. Under the accrual basis of accounting, revenues, which include contributions and investment income 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.

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements December 31, 2012 and 2011

Note 1 - Description of Plan and Summary of Significant Accounting Policies (Continued)

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.

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, 2012 and 2011. 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's investments was approximately 99.332% and 99.309% at December 31, 2012 and 2011, respectively. The allocation of investment income and expenses between the System and the Supplemental Plan is based on the number of units owned of the Group Trust. Benefits, contributions and direct administrative expenses are allocated to each plan directly.

DALLAS POLICE AND FIRE PENSION SYSTEM**Notes to Basic Financial Statements
December 31, 2012 and 2011****Note 1 - Description of Plan and Summary of Significant Accounting Policies (Continued)**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.

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 position 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.

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements December 31, 2012 and 2011

Note 1 - Description of Plan and Summary of Significant Accounting Policies (Continued)

Investments and broker accounts denominated in foreign currencies outstanding at December 31, 2012 and 2011 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, 2012 and 2011, respectively. These foreign exchange gains and losses are included in the Group Trust net appreciation / (depreciation) 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. 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. The adoption of this statement during 2012 had no material impact on the basic financial statements.

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 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 – 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 requirements of this statement are effective for financial statements for periods beginning after December 15, 2011. The adoption of this statement during 2012 had no material impact on the basic financial statements.

DALLAS POLICE AND FIRE PENSION SYSTEM**Notes to Basic Financial Statements
December 31, 2012 and 2011****Note 1 - Description of Plan and Summary of Significant Accounting Policies (Continued)**

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.

Note 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 them. The Group Trust's and the System's deposits are held by the custodian, JPMorgan Chase. As of December 31, 2012 and 2011, the Group Trust and the System had bank balances of \$3,106,460 and \$3,771,486, 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.

Note 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, 2012 and 2011. Securities traded on a national or international exchange are valued at the last reported sales price as of year end at current exchange rates. Short-term investments are government and corporate bonds with a maturity of less than one year are valued based on year end 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 as of year end. Unrealized gains and losses are presented as net appreciation/(depreciation) in fair value of investments on the statement of changes in plan net position 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.

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements December 31, 2012 and 2011

Note 3 - Investments and Plan Interest in Group Master Trust (Continued)

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

| <u>Assets</u> | <u>2012</u> | <u>2011</u> |
|--|-------------------------|-------------------------|
| Investments, at fair value (notes 2, 3 and 4): | | |
| Cash and cash equivalents | \$ 251,480,246 | \$ 212,012,476 |
| United States government securities | 6,447,279 | 11,185,810 |
| United States government sponsored enterprises | 825,180 | 1,025,208 |
| Foreign government securities | 114,555,742 | 97,750,603 |
| Commingled funds - equity | 1,258,820,113 | 910,925,729 |
| Commingled funds - fixed | 61,461,156 | 118,429,338 |
| Domestic equities | 454,741,136 | 436,012,638 |
| International equities | 275,833,357 | 307,583,199 |
| Corporate securities | 207,909,286 | 202,536,628 |
| Investments, at appraised value - real estate equity funds | <u>1,288,179,047</u> | <u>1,383,849,615</u> |
| Total investments | <u>3,920,252,542</u> | <u>3,681,311,244</u> |
| Receivables: | | |
| Accrued interest and dividends | 6,800,636 | 7,024,601 |
| Forward currency contracts (note 6) | 36,811,902 | 35,486,325 |
| Securities sold | <u>1,764,907</u> | <u>3,317,375</u> |
| Total receivables | <u>45,377,446</u> | <u>45,828,301</u> |
| Total assets | <u>3,965,629,987</u> | <u>3,727,139,545</u> |
| <u>Liabilities and Net Position</u> | | |
| Repurchase loan agreement (note 7) | - | 24,644,300 |
| Payable for securities purchased | 2,468,417 | 3,796,351 |
| Professional fees payable | 3,425,584 | 6,866,248 |
| Forward currency contracts (note 6) | 36,975,573 | 35,772,079 |
| Securities lending collateral (note 4) | 196,323,550 | 157,129,466 |
| Line of credit and other bank loans (note 8) | <u>442,430,730</u> | <u>465,011,200</u> |
| Total liabilities | <u>681,623,854</u> | <u>693,219,644</u> |
| Net position of Group Trust | <u>\$ 3,284,006,133</u> | <u>\$ 3,033,919,901</u> |

DALLAS POLICE AND FIRE PENSION SYSTEM

**Notes to Basic Financial Statements
December 31, 2012 and 2011**

Note 3 - Investments and Plan Interest in Group Master Trust (Continued)

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

| | <u>2012</u> | <u>2011</u> |
|--|-------------------------|-------------------------|
| Investment income: | | |
| Interest | \$ 18,671,028 | \$ 21,145,839 |
| Dividends | 28,016,763 | 28,853,282 |
| Real estate income | 14,209,687 | 2,742,140 |
| Net appreciation/(depreciation) in fair value of investments | 299,651,675 | (45,186,741) |
| Securities lending income | 718,498 | 608,035 |
| Less investment expenses: | | |
| Custody fees | (225,173) | (278,628) |
| Investment services | <u>(28,549,282)</u> | <u>(32,057,338)</u> |
| Total investment income (loss) in Group Trust | 332,493,196 | (24,173,411) |
| Benefit payments in excess of contributions received for System and Supplemental Plan | (82,406,964) | (72,344,906) |
| Net position of Group Trust: | | |
| Beginning of year | <u>3,033,919,901</u> | <u>3,130,438,218</u> |
| End of year | <u>\$ 3,284,006,133</u> | <u>\$ 3,033,919,901</u> |

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

| | <u>2012</u> | <u>2011</u> |
|--|-------------------------|-------------------------|
| Group Trust interest held by the System | \$ 3,261,305,016 | \$ 3,013,551,399 |
| Group Trust interest held by the Supplemental Plan | <u>22,701,117</u> | <u>20,368,502</u> |
| Total net position of Group Trust | <u>\$ 3,284,006,133</u> | <u>\$ 3,033,919,901</u> |

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

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements December 31, 2012 and 2011

Note 3 - Investments and Plan Interest in Group Master Trust (Continued)

The fair values of the Group Trust's investments at December 31, 2012 and 2011 are presented by type, as follows:

| | <u>2012</u> | <u>2011</u> |
|---|-------------------------|-------------------------|
| Cash and cash equivalents | \$ 251,480,246 | \$ 212,012,476 |
| United States government securities | 6,447,279 | 11,185,810 |
| U.S. government sponsored enterprises | 825,180 | 1,025,208 |
| Foreign government securities | 114,555,742 | 97,750,603 |
| Commingled funds - equity | 1,258,820,113 | 910,925,729 |
| Commingled funds - fixed | 61,461,156 | 118,429,338 |
| Domestic equities | 454,741,136 | 436,012,638 |
| International equities | 275,833,357 | 307,583,199 |
| Corporate bonds | 207,909,286 | 202,536,628 |
| Investments, at appraised value - real estate equity funds | <u>1,288,179,047</u> | <u>1,383,849,615</u> |
| Total investments | <u>\$ 3,920,252,542</u> | <u>\$ 3,681,311,244</u> |

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, 2012 and 2011 were \$196,323,550 and \$157,129,466, 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, 2012 and 2011, 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.

DALLAS POLICE AND FIRE PENSION SYSTEM**Notes to Basic Financial Statements
December 31, 2012 and 2011****Note 3 - Investments and Plan Interest in Group Master Trust (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.

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements December 31, 2012 and 2011

Note 3 - Investments and Plan Interest in Group Master Trust (Continued)

3. The Board with the assistance from the System staff shall monitor each investment manager's performance and adherence to style, strategy, and manager specific guidelines. It is the Board's discretion to take corrective action by replacing an investment manager if they deem it appropriate at any time.

Alternative and real estate investments

1. The investment specific guidelines for each manager will be incorporated in a Limited Partnership Agreement, Limited Liability Company Agreement, or other binding agreement as is appropriate for the investment. The Board, System Administrator, General Counsel, and the investment manager execute this document.
2. In case of conflict between the specific manager guidelines and the general guidelines, the specific guidelines, as approved by the Board, shall supersede. The general guidelines are as follows:
 - a. Manager investment philosophy, style, and strategy shall remain consistent and shall not change without the Board's approval. The manager shall have discretion to manage the portfolio consistent with the style presented to the Board at the time of selection and further subject to the restrictions established by the policy herein.
 - b. The Chair of the Board may execute amendments and consents if the resulting changes or allowances are provided for in the governing documents as previously accepted by the Board. Otherwise, such changes are to be approved by the Board. The Board will be notified on a quarterly basis of all executed amendments.
3. The Board with assistance from the System staff shall monitor each Alternative and Real Estate manager's performance and adherence to strategy and manager specific guidelines. It is the Board's discretion to take corrective action by replacing an investment manager if they deem it feasible and appropriate at any time. Alternative and Real Estate investment manager retention is governed in most cases by Limited Partnership Agreements, Limited Liability Company Agreements, or other binding agreements. In these cases, the Board with assistance from the System staff shall identify available options as allowed by the governing documents and determine the impact and consequences of these options.

DALLAS POLICE AND FIRE PENSION SYSTEM**Notes to Basic Financial Statements
December 31, 2012 and 2011****Note 3 - Investments and Plan Interest in Group Master Trust (Continued)**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.

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.

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements December 31, 2012 and 2011

Note 3 - Investments and Plan Interest in Group Master Trust (Continued)

At December 31, 2012, 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 | \$ - | 2,857,714 | - | 3,589,565 | 6,447,279 |
| U.S. Gov't agency securities | - | - | - | 825,180 | 825,180 |
| Corporate bonds | <u>3,978,076</u> | <u>67,920,738</u> | <u>78,806,402</u> | <u>57,204,070</u> | <u>207,909,286</u> |
| Total fixed maturity domestic | <u>3,978,076</u> | <u>70,778,452</u> | <u>78,806,402</u> | <u>61,618,815</u> | <u>215,181,745</u> |
| International government bonds: | | | | | |
| Australian Dollar | - | 8,592,824 | 8,128,911 | - | 16,721,735 |
| Brazil Real | - | 635,165 | 3,156,209 | - | 3,791,374 |
| British Pound Sterling | 5,863,994 | 933,087 | 1,212,547 | - | 8,009,628 |
| Canadian Dollar | - | - | 2,207,141 | - | 2,207,141 |
| EURO Currency | - | 3,837,320 | 4,020,668 | 6,425,232 | 14,283,220 |
| Hungary | 1,705,735 | - | - | - | 1,705,735 |
| Indonesian Rupiah | - | 1,911,376 | 834,407 | - | 2,745,783 |
| Japanese Yen | 1,640,026 | 13,714,657 | 4,859,627 | 650,385 | 20,864,695 |
| Malaysian Ringgit | 1,430,335 | 2,057,088 | - | - | 3,487,423 |
| Mexican New Peso | - | 4,608,018 | 1,753,779 | 9,134,050 | 15,495,847 |
| New Zealand Dollar | - | 491,154 | 2,683,061 | - | 3,174,215 |
| Poland New Zloty | - | 3,167,197 | 7,961,774 | - | 11,128,971 |
| South Korea | 964,234 | 2,724,531 | - | - | 3,688,765 |
| South Africa | - | 1,329,847 | 2,844,054 | 938,920 | 5,112,821 |
| Sweden | - | 1,008,829 | 1,129,560 | - | 2,138,389 |
| Total international government bonds | <u>11,604,324</u> | <u>45,011,093</u> | <u>40,791,738</u> | <u>17,148,587</u> | <u>114,555,742</u> |
| Total fixed maturity | \$ <u>15,582,400</u> | <u>115,789,545</u> | <u>119,598,140</u> | <u>78,767,402</u> | <u>329,737,487</u> |

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements
December 31, 2012 and 2011

Note 3 - Investments and Plan Interest in Group Master Trust (Continued)

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 |

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements December 31, 2012 and 2011

Note 3 - Investments and Plan Interest in Group Master Trust (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, 2012 is as follows:

| Quality Rating | Corporate Bonds | U.S. Government Treasury Notes | U.S. Government Agencies | Foreign Bonds | Grand Total Fair Value | Percentage of Holdings |
|-----------------------------------|-----------------|--------------------------------|--------------------------|---------------|------------------------|------------------------|
| AAA | \$ 5,076,767 | - | - | 7,613,370 | 12,690,137 | 0.32% |
| AA+ | 1,902,621 | - | - | 8,017,496 | 9,920,117 | 0.25% |
| AA | 2,221,401 | - | - | - | 2,221,401 | 0.06% |
| AA- | 293,780 | - | - | 3,134,003 | 3,427,783 | 0.09% |
| A+ | 1,745,609 | - | - | 2,745,784 | 4,491,393 | 0.11% |
| A | 2,023,853 | - | - | 15,015,264 | 17,039,117 | 0.43% |
| A- | 6,331,671 | - | - | 16,207,114 | 22,538,785 | 0.57% |
| BBB+ | 2,995,955 | - | - | 4,140,933 | 7,136,888 | 0.18% |
| BBB | 6,204,257 | - | - | - | 6,204,257 | 0.16% |
| BBB- | 8,364,543 | - | - | 928,266 | 9,292,809 | 0.24% |
| BB+ | 14,472,857 | - | - | 67,403 | 14,540,260 | 0.37% |
| BB | 25,647,360 | - | - | 1,705,735 | 27,353,095 | 0.70% |
| BB- | 20,358,671 | - | - | 2,207,141 | 22,565,812 | 0.58% |
| B+ | 1,780,000 | - | - | - | 1,780,000 | 0.05% |
| B | 13,886,873 | - | - | - | 13,886,873 | 0.35% |
| B- | 519,496 | - | - | 58,234 | 577,730 | 0.01% |
| Below CCC | 81,408,481 | - | - | - | 81,408,481 | 2.08% |
| NA | 12,675,091 | 6,447,279 | 825,180 | 52,714,999 | 72,662,549 | 1.85% |
| Subtotal | \$ 207,909,286 | 6,447,279 | 825,180 | 114,555,742 | 329,737,487 | 8.41% |
| Total credit risk debt securities | | | | | 329,737,487 | 8.41% |
| Other investments | | | | | 3,590,563,411 | 91.59% |
| Total investments | | | | | 3,920,300,898 | 100.00% |

DALLAS POLICE AND FIRE PENSION SYSTEM

**Notes to Basic Financial Statements
December 31, 2012 and 2011**

Note 3 - Investments and Plan Interest in Group Master Trust (Continued)

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 | 0.92% |
| AA+ | 1,318,962 | - | - | 5,147,384 | 6,466,346 | 0.18% |
| AA | 2,170,875 | - | - | - | 2,170,875 | 0.06% |
| AA- | - | - | - | 947,216 | 947,216 | 0.03% |
| A+ | 4,224,717 | - | - | 3,170,248 | 7,394,965 | 0.20% |
| A | 3,353,981 | - | - | 15,207,819 | 18,561,800 | 0.50% |
| A- | 4,581,702 | - | - | 9,634,205 | 14,215,907 | 0.39% |
| BBB+ | 7,291,975 | - | - | 1,463,579 | 8,755,554 | 0.24% |
| BBB | 5,099,731 | - | - | - | 5,099,731 | 0.14% |
| BBB- | 5,454,559 | - | - | 771,568 | 6,226,127 | 0.17% |
| BB+ | 12,886,285 | - | - | 1,357,825 | 14,244,110 | 0.39% |
| BB | 34,397,441 | - | - | - | 34,397,441 | 0.93% |
| BB- | 18,614,400 | - | - | 2,752,566 | 21,366,966 | 0.58% |
| B+ | 13,304,462 | - | - | - | 13,304,462 | 0.36% |
| B | 20,679,366 | - | - | 36,792 | 20,716,158 | 0.56% |
| B- | 13,091,316 | - | - | - | 13,091,316 | 0.36% |
| Below CCC | 33,026,806 | - | - | 208,476 | 33,235,282 | 0.90% |
| NA | 13,486,631 | - | - | 44,922,184 | 58,408,815 | 1.59% |
| Subtotal | \$ 202,536,628 | 11,185,810 | 1,025,208 | 97,750,603 | 312,498,249 | 8.49% |
| 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% |

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements

December 31, 2012 and 2011

Note 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 2012 and 2011, 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 2012 and 2011 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 2012 and 2011. Moreover, there were no losses during the 2012 and 2011 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 2012 and 2011, 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, 2012 and 2011, 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 \$191,501,517 and \$152,361,948 at December 31, 2012 and 2011, respectively. The collateral held for the Group Trust was \$196,323,550 and \$157,129,466 at December 31, 2012 and 2011, 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, 2012 and 2011.

DALLAS POLICE AND FIRE PENSION SYSTEM**Notes to Basic Financial Statements
December 31, 2012 and 2011****Note 5 - Contributions Required and Contributions Made**Funding Policy

Contribution rates are established to remain level over time as a percentage of members' salaries. The required contribution rate in order for the System to be fully funded in 30 years, pursuant to an actuarial study effective January 1, 2013, consists of 12.76% of covered members' salaries to pay normal costs and 15.59% of covered members' salaries to amortize its funding deficit. This is 0.85% higher than what the System is expected to receive from the City.

The City is required to contribute at a rate that is set by statute and adopted by the Board. In 2012 and 2011, combined member and City contributions represent approximately 8.5% and 27.5% (including overtime), respectively, of each year's covered payroll. These contribution rates have been determined to be sufficient to provide for the normal cost plus an amount that will amortize the unfunded actuarial accrued liability over 23 years as of January 1, 2013, compared to 30 years as of January 1, 2012.

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 members and the City provides an adequate financing arrangement. During 2012 and 2011, contributions were made in accordance with the adopted plans of benefits approved by the System's actuary.

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements December 31, 2012 and 2011

Note 5 - Contributions Required and Contributions Made (Continued)

Funded Status

Information regarding the actuarial funding status of the System as of January 1, 2013, 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 |
|--------------------------------|--|--|---------------------------|----------------------------------|--------------------|--|
| 1/01/13 | \$3,795 | \$4,858 | \$1,063 | 78.1% | \$361 | 294.5% |

The January 1, 2013 actuarial valuation used the following significant assumptions:

| | |
|---|---|
| Investment rate of return | 8.5%, net, compounded annually |
| Projected salary increases | Range of 4% to 9.64% |
| General inflation rate | 4% per year |
| 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: Group A and Group B | 4% per year of original pension annually |
| Asset valuation | 10-year smoothing |
| Amortization method | Open level percent of payroll |
| Amortization period | 30 years |
| DROP account returns | 8.5% per year |
| Post retirement mortality | RP-2000 Combined Healthy Mortality Table projected to 10 years beyond the valuation date using Scale AA for healthy retirees and active members. RP-2000 Combined Healthy Mortality Table with a one-year set forward for disabled members. |

Historical Trend Information

Historical trend information is provided as supplemental information on pages 36 through 38. 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.

DALLAS POLICE AND FIRE PENSION SYSTEM**Notes to Basic Financial Statements
December 31, 2012 and 2011**

Note 5 - Contributions Required and Contributions Made (Continued)

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.

Note 6 - Forward Contracts

During fiscal years 2012 and 2011, 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. 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.

During 2012 and 2011, the Group Trust recognized net realized gains and losses on foreign currency forward contracts of \$133,265 and \$(131,608), respectively. At December 31, 2012 and 2011, the Group Trust had net unrealized gains and losses on forward currency contracts reflected in the accompanying Group Trust summary information of \$(296,936) and (\$154,147), respectively, included in net appreciation/(depreciation) in fair value of investments.

Note 7 - Obligation Under Reverse Repurchase Agreements

State statutes permit the System to enter into reverse repurchase agreements. The credit exposure at year end 2012 and 2011 related to these agreements was \$0 and \$24,644,300, 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, 2012 and 2011.

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements December 31, 2012 and 2011

Note 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, 2012 and 2011, payable quarterly. The Group Trust and the System also pay a quarterly fee on the unused portion of the line of credit equaling 25 basis points. The revolving credit line was opened on November 1, 2006, and expires on March 31, 2014. At December 31, 2012 and 2011, the Group Trust had borrowed approximately \$338,211,730 and \$353,340,200, respectively, related to the revolving credit line, which provides for a maximum borrowing of \$400,000,000. 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.

In addition to the line of credit, the Group Trust has an additional loan agreement with a commercial bank bearing interest per annum at the LIBOR rate plus 75 basis points at December 31, 2012 and 2011, payable quarterly. The loan is secured by real property and matures on March 31, 2014. At December 31, 2012 and 2011, the loan balance outstanding was \$24,219,000 and \$31,671,000, respectively. 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.

The Group Trust had a credit agreement with a commercial bank which provided for a revolving line of credit bearing interest at the PRIME rate with a floor rate of 5% as of December 31, 2011, payable monthly. The Group Trust and the System also paid a monthly fee on the unused portion of the line of credit equaling 50 basis points. The revolving credit line had an original expiration date of June 29, 2012. 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. At December 31, 2012 and 2011, 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 Group Trust had a credit agreement with a commercial bank which provided for a revolving line of credit bearing interest at the PRIME rate as of December 31, 2011, payable quarterly. The credit agreement had no 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. On August 1, 2012, the credit agreement re-financed with a different commercial bank and revised terms. The new credit agreement bears interest at the 30 day floating LIBOR plus 225 basis points at December 31, 2012, payable quarterly. The new credit agreement has no fee on the unused portion. The new credit agreement expires on September 15, 2014. At December 31, 2012 and 2011, 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.

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements
December 31, 2012 and 2011**Note 8 - Line of Credit and Other Bank Loans (Continued)**

Maturities of debt at December 31 are as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|-----------------------|
| 2014 | \$ 402,430,730 |
| 2017 | <u>40,000,000</u> |
| Total | <u>\$ 442,430,730</u> |

Note 9 - Federal Income Tax Status

A favorable determination that the System is qualified and exempt from Federal income taxes was received on May 25, 2012, 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.

Note 10 - Administrative Expenses

Group Trust investment related expenses for the years ended December 31, 2012 and 2011 also include \$28,549,282 and \$32,057,338, respectively, in asset management fees for the Group Trust.

Note 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, 2012 and 2011, aggregate contributions from active members of the System with less than five years of service were \$5,808,964 and \$5,729,975, respectively.

The Group Trust had outstanding investment commitments to various limited partnerships and international investment advisors of approximately \$721,000,000 and \$516,000,000 at December 31, 2012 and 2011, respectively.

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements December 31, 2012 and 2011

Note 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 accordingly not reflected in the accompanying basic financial statements.

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 2012 and 2011, the System contributed \$333,690 and \$349,168, respectively, and participants contributed \$177,177 and \$183,068, 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 accordingly not reflected in the accompanying basic financial statements.

Note 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 37, and schedule of funding progress, page 36, 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.

DALLAS POLICE AND FIRE PENSION SYSTEM**Notes to Basic Financial Statements
December 31, 2012 and 2011**

Note 13 - Risks and Uncertainties (Continued)

Several lawsuits are pending against the City by third party police officers and firefighters, which claim the right to significant back pay on behalf of most current and many former Dallas police officers and firefighters. If these lawsuits are successful, they will likely result in large over-due pension claims on behalf of many retired pensioners and large increases in the actuarial accrued liabilities of current members of the 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, 2012 and 2011.

Note 14 - Subsequent Events

By operation of federal law, beginning January 1, 2013, funds deposited in a noninterest-bearing transaction account no longer will receive unlimited deposit insurance coverage by the Federal Deposit Insurance Corporation (FDIC). Beginning January 1, 2013, all of a depositor's accounts at an insured depository institution, including all noninterest-bearing transaction accounts, will be insured by the FDIC up to the standard maximum deposit insurance amount (\$250,000), for each deposit insurance ownership category.

Management has evaluated subsequent events through June 28, 2013, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other 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) |
| 1/1/2008 | \$ 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% |
| 1/1/2013 | 3,795 | 4,858 | 1,063 | 78.1% | 361 | 294.5% |

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.

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):

| <u>Schedule of Contributions</u> | | |
|------------------------------------|---|-----------------------------------|
| <u>Year ended December 31,</u> | <u>Annual required contribution</u> | <u>Percentage contributed</u> |
| 2008 | \$ 104,373 | 100.0 % |
| 2009 | 112,339 | 89.8 % |
| 2010 | 103,040 | 97.4 % |
| 2011 | 103,095 | 93.1 % |
| 2012 | 119,347 | 83.2 % |

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 Schedule (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, 2013 and 2012 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 and Group B members | 4% per year of original pension annually |
| Asset valuation | 10-year smoothing for January 1, 2013 valuation and 5-year smoothing for January 1, 2012 valuation |
| Amortization method | Open level percent of payroll |
| Amortization period | 30 years |
| DROP account returns | 8.5% per annum |
| Post retirement mortality | RP-2000 Combined Healthy Mortality Table projected to 10 years beyond the valuation date using Scale AA for healthy retirees and active members. RP-2000 Combined Healthy Mortality Table with a one-year set forward for disabled members. |

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, 2013 and 2012, and are not materially different from what they would have been had they been calculated on December 31, 2012 and 2011, 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 pension investment program shall at all times comply with existing and future applicable state and federal regulations.

The long-term investment performance of the system is rated among the top of all public pension systems.

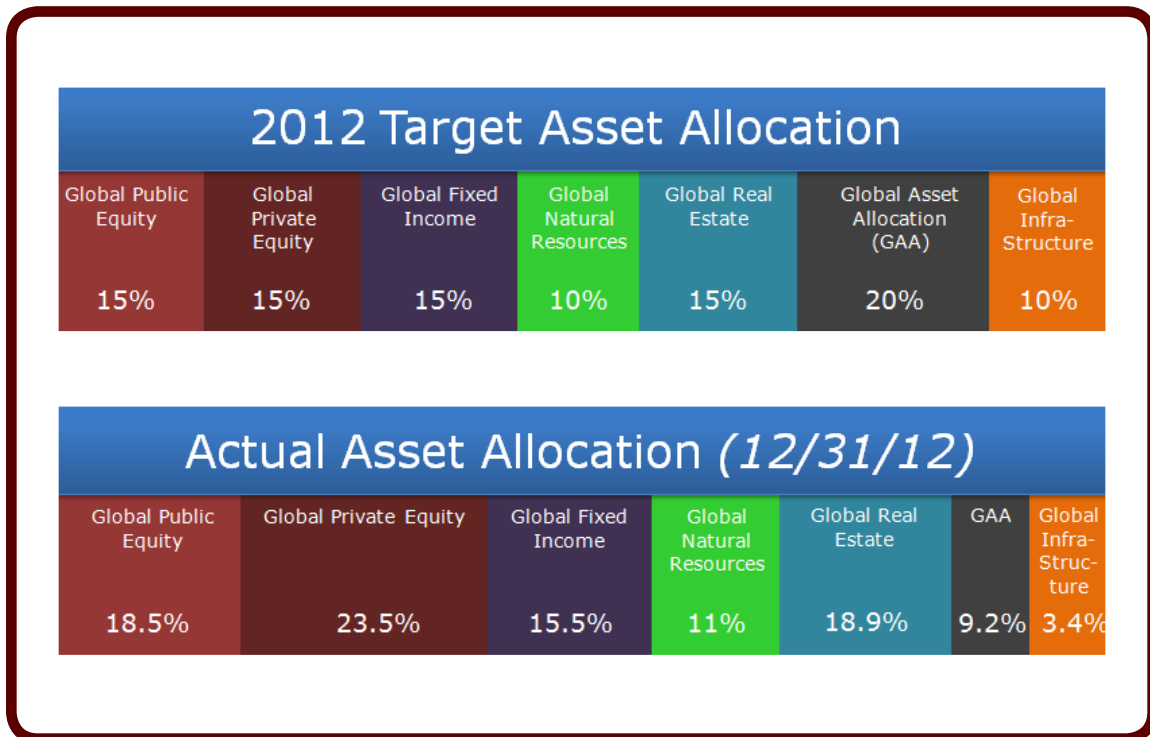
**Brian Blake, Assistant Administrator,
Investments**



STRATEGIC ASSET ALLOCATION POLICY

In order to achieve maximum returns with prudent levels of risk, 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 Public Equity, Global Private Equity, Global Natural Resources, Global Fixed Income, Global Asset Allocation, Global Infrastructure 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 Strategic Investment Policy, the Board may direct the Administrator to effect a reallocation of assets as soon as administratively feasible.

GENERAL INVESTMENT MANAGER GUIDELINES

Investment management for the System is provided primarily 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

Over the course of the past year the global economy showed signs that it was strengthening and stabilizing coming out of the global financial crisis. Domestically, the equity markets were led by a recovery in the housing sector while a stubbornly high unemployment rate persisted. While the presidential election and fiscal cliff dominated headlines late in the year, the domestic markets were quietly creeping towards post-recession highs. Undoubtedly, the recovery has been aided by the Fed's stimulus programs which have kept risk-free rates near zero. The broad United States stock market, as measured by the S&P 500, returned 16.3% in 2012. Global markets, as measured by the MSCI ACWI, kept pace with U.S. markets returning 16.1% in 2012. Global Fixed Income returns, as measured by BC Global Aggregate Index, returned 4.3% in 2012. The System's diversified portfolio returned 11.4% in 2012, easily outpacing the actuarial assumed rate of return of 8.5%. As of December 31, 2012, the System's net assets were valued at \$3.28 billion.

Overall, the System's investment performance compares very well with the other public pension plans in the state and in the nation. Over the past 10 years, the System returned 9.0% annually gross of fees, as of 12/31/12, which was in the top 1% of public pension plans with assets over \$1 billion as ranked by NEPC, the System's investment consultant. Based on a report from the Texas Association of Public Employees Retirement Systems (TEXPERS) issued in January 2013, the System achieved the highest return among all peers in the state of Texas over the past twenty years, returning 9.11% annually, as of 9/30/12.

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 breakdown of returns, see "Rates of Return by Asset Class" below.

Rates of Return by Asset Class¹

| Asset Class | 2012 Return | Benchmark Return | Benchmark |
|------------------------------------|--------------|------------------|-----------------------------|
| Global Public Equity | 16.7% | 16.1% | MSCI ACWI |
| Global Private Equity | 17.0% | 18.3% | S&P 500 + 2% |
| Global Fixed Income | 16.6% | 4.3% | BC Global Aggregate |
| Global Natural Resources | 6.4% | 11.8% | Custom |
| Global Asset Allocation | 10.0% | 6.1% | T-Bill + 6% |
| Global Infrastructure ² | -- | 6.8% | CPI + 5% |
| Global Real Estate | 2.8% | 8.5% | Actuarial Assumption |
| Total Portfolio | 11.4% | 8.5% | Actuarial Assumption |

¹ - All return information is presented net of management fees, unless stated otherwise

² - The Global Infrastructure Portfolio was created in 2012, therefore annual return data is not yet available

Global Public Equity



The System's Global Public Equity portfolio consists of investments in equities traded on domestic and international public exchanges. The System lowered the target asset allocation for global public equities to 15% in part to lower overall portfolio risk by reducing exposure to volatile public markets. In 2012, the Global Public Equity portfolio returned 16.7%, compared to a return of 16.1% by the benchmark index, MSCI ACWI. At year end, the public equity portfolio was valued at \$607 million, representing 18.5% of the System's net assets.

RREEF, a global real estate investment trust (REIT) manager, turned in the highest returns in the public equity portfolio, with a one-year return of 28.7%. OFI, a global growth manager, also had a solid year with an annual net return of 21.6%, easily outperforming their benchmark, MSCI World which returned 15.8%.

The below chart depicts the System's top ten public equity holdings as of December 31, 2012.

| Top 10 Global Public Equity Holdings | |
|--------------------------------------|--------------|
| Holding | Market Value |
| 1. Google | \$6,564,510 |
| 2. Nestle | \$5,689,982 |
| 3. Schlumberger | \$5,073,345 |
| 4. Industria de Diseno | \$5,049,984 |
| 5. Colgate-Palmolive | \$4,767,442 |
| 6. EOG Resources | \$4,719,869 |
| 7. Adobe Systems | \$4,598,166 |
| 8. Microsoft Corporation | \$4,582,912 |
| 9. Ebay Inc. | \$4,163,028 |
| 10. Cameron International | \$4,140,212 |

Global Private Equity

| Global Private Equity 15% | | | | | | |
|---------------------------|-------------------------------|------------|------------------------|--------------------|----------------------|-------------------|
| Growth Equity | | Buyouts | | Energy | Distressed | Direct |
| BankCap | Lone Star Investment Advisors | HM Capital | Oaktree Power Opps III | Huff Energy | Ashmore GSSF IV | RED Consolidated |
| Pharos Capital | | LLCP IV | Huff Alternative | Merit Energy | LLCP Deep Value I/II | Creative Holdings |
| | | | | Yellowstone Energy | | Southern Cross |

The System's Global Private Equity portfolio consists of debt and equity investments in companies that are typically privately held. At year end, the System's Global Private Equity portfolio was valued at approximately \$768 million and returned 17.0% for the year. Among the top performing private equity investments were the Lone Star CRA and Oaktree Power Opportunities III funds, which had one-year returns of 49.9% and 35.6% respectively. The Huff Energy Fund continued to outperform, bringing its annualized return to 21.3% over the past five years. During the year, the Board approved new investments in Kainos Capital Partners and Levine Leichtman Capital Partners V.

Global Fixed Income

| Global Fixed Income 15% | | | | | | | |
|-------------------------|------------|---------------|------------|----------------------|-------------------|-------------------|----------------------|
| Investment Grade | | Opportunistic | High Yield | Emerging Market Debt | Senior Bank Loans | Multi-Strategy | |
| Mondrian | Brandywine | Loomis Sayles | W.R. Huff | Ashmore EMDF | Oaktree | Highland Crusader | Highland Credit Opps |
| | | | | Ashmore EMLC | | | Lone Star VII |

The System's Global Fixed Income portfolio represents approximately 15.5% of the total portfolio and was valued at approximately \$510 million at year end. Investments in the fixed income portfolio returned 16.6% for the year, outperforming the BC Global Aggregate index bench-

DPPF 2012 ANNUAL REPORT

mark, which returned 4.3%. As part of the asset allocation review, the target allocation for fixed income was lowered from 20% to 15%. The System's investment grade fixed income holdings managed by Brandywine outperformed their benchmark (BC Global Agg.) returning 13.4% in 2012. The global high yield and opportunistic fixed income market performed well in 2012, as measured by the Citigroup High Yield Index which returned 15.2%. The System's high yield portfolio managed by W. R. Huff Asset Management also outperformed this benchmark, returning 15.8% in 2012.

The below chart depicts the System's top ten public fixed income holdings as of 12/31/2012.

| Top 10 Global Public Fixed Income Holdings | |
|--|--------------|
| Holding | Market Value |
| 1) México 8.50% BDS 5/31/2029 | \$6,646,741 |
| 2) GILT Treasury 4.50% 3/7/2013 | \$5,864,572 |
| 3) Japan 1.70% BDS '285' 3/20/2017 | \$4,926,474 |
| 4) Borden Inc 7.88% 2/15/2023 | \$4,905,900 |
| 5) Japan 1.90% BDS 3/21/2021 | \$4,859,627 |
| 6) Poland 5.25% BDS 10/25/2020 | \$4,717,596 |
| 7) Lucent Technologies 6.45% 03/15/2029 | \$4,277,280 |
| 8) Plains Exploration & Production 6.75% BDS | \$4,080,288 |
| 9) NRG Energy Inc 7.63% 5/19/2019 | \$4,028,550 |
| 10) Japan 1.60% BDS 6/14/2014 | \$3,663,618 |

Global Natural Resources

| Global Natural Resources 10% | | | | | |
|------------------------------|------------------------------|--------------------|---------------------------------------|---------------------|------------------------------|
| Energy Public Equity | Timber | | Agriculture | Green Technology | |
| Mitchell | Forest Investment Associates | Regions Timberland | Hancock Agricultural Investment Group | Hudson Clean Energy | RCM Eco Trends |
| Energy Opps. | | | | | Sustainable Asset Mgmt (SAM) |

The Global Natural Resources allocation represents the System's continuing commitment to natural resources, clean water and green technology. The Global Natural Resources portfolio returned 6.4% net of fees in 2012. Accounting for 11% of total assets at year end, natural re-

source investments were valued at approximately \$358 million. Within the natural resources portfolio, Energy Opportunities Capital Management and the Mitchell Group manage public energy equities. The System's sustainable timberland holdings are managed by Forest Investment Associates and Regions Timberland Group. Forest Investment Associates manages timber that is primarily located in the southeastern parts of the United States, while the Regions portfolio has a global footprint with investments in the U.S., Brazil and Uruguay. Hancock Agricultural Investment Group, who manages agricultural holdings for the System, continued to generate solid gains in 2012, returning 21.1%. 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. RCM Eco Trends, Sustainable Asset Management and Hudson Clean Energy Partners round out the Global Natural Resources portfolio with investments in clean energy, water resources and renewable energy, respectively.

Global Asset Allocation



The Global Asset Allocation (GAA) portfolio includes strategic (long-term) and tactical (short-term) investments across a wide variety of assets and strategies. By design, the GAA portfolio is intended to increase the diversification of the overall portfolio due to the uncorrelated nature of the investments. The GAA portfolio returned an even 10.0% net of fees in 2012, outperforming its benchmark, 90-day Treasury + 6%, by 3.9%. At year end, the GAA portfolio was valued at \$300 million, representing 9.2% of the System's net asset value. During 2012 the System doubled the target GAA allocation to 20.0%. In an effort to reach the new target allocation for GAA, the System funded additional capital to current GAA managers in 2012 and will also conduct a risk parity manager search in early 2013. Bridgewater produced the highest returns in the GAA portfolio, returning 14.1% in 2012, outperforming its benchmark, 90-day Treasury + 6%, by 8%.



Global Infrastructure

In 2012 the System added Global Infrastructure as a stand-alone asset class with an initial target allocation of 10%. At year end, infrastructure investments were valued at approximately \$108 million, accounting for 3.4% of System assets. Within the infrastructure portfolio, the System seeks to make opportunistic investments that are primarily in long-term assets characterized by stable real cash flows. For example, portfolio investments in the JP Morgan AIRRO fund include a hospital in India and water treatment plants in South Korea and China. Among infrastructure investments, the JP Morgan AIRRO fund performed best over the past year, returning 20.6% net of fees. The System has also made two direct investments in managed lanes projects in the Dallas-Fort Worth alongside Cintra US.

| Global Infrastructure 10% | | | | |
|--------------------------------|---------------------------|---------------|--------------------------|-----------------------|
| Infrastructure Funds | | | Direct Managed Lanes | |
| JP Morgan Asian Infra. (AIRRO) | JP Morgan Global Maritime | JP Morgan IIF | LBJ Infrastructure Group | North Tarrant Express |

Global Real Estate

| Global Real Estate 15% | | | | | |
|---------------------------|------------------------|-----------------------|-----------------|----------------------------|---------|
| Separate Account Managers | | | | Opportunistic Partnerships | |
| Bentall Kennedy | CDK Realty Advisors | Criswell Radovan | TDB Real Estate | Lone Star Funds | Olympus |
| Invesco | Knudson Luxury Housing | L & B Realty Advisors | Land Baron | Oaktree | |

With a year-end market value of approximately \$621 million, investments in the Global Real Estate portfolio are diversified by property type and location, with over 50 properties globally. The real estate investments are split between properties directly owned by the System and investments owned through opportunistic real estate partnerships. As part of the asset allocation review, the Board lowered the target allocation to real estate from 18% to 15% in 2012. While

the System's real estate investments had a modest return of 2.8% in 2012, the portfolio has performed better in the long term, returning 6.3% per year over the past decade.

The System saw an uptick in sales activity during the year with over \$60 million in sales. In October, the System sold Riata Town Center and Apartment Villages, a 2,044 unit apartment complex in Austin, TX. The investment in Riata, which was managed by Hunt Investment Management, resulted in a 25.3% net annualized internal return of return for the System.

Inflation

Inflation as measured by the Consumer Price Index for all Urban Consumers (CPI-U) increased 2.1% from December 2011 through December 2012 according to the U.S. Department of Labor.





ACTUARIAL REPORT





**DALLAS POLICE AND FIRE PENSION SYSTEM
ACTUARIAL VALUATION
AS OF JANUARY 1, 2013**

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May 7, 2013

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, 2013

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, 2013.

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, 2013, the employer contribution rate for GASB 27 purposes to pay the normal cost and fund the Unfunded Actuarial Accrued Liability over 30 years is 28.35%. This amount is less than the 33.06% employer contribution rate calculated as of January 1, 2012.

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Mr. Richard Tettamant
May 7, 2013
Page 2

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 23 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.

The method for determining the Actuarial Value of Assets was changed from one that smooths in gains and losses over five years, to one that smooths them in over ten years. This change was made to better reflect the long-term nature of the System's funding policy.

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

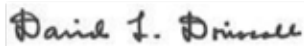
Asset information and member data for retired, active, and inactive members was supplied as of January 1, 2013 by the Administrator. We have not subjected this data to any auditing procedures, but have examined the data for reasonableness and consistency with the prior year's data.

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Mr. Richard Tettamant
May 7, 2013
Page 3

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, FSA, EA, MAAA
Principal, Consulting Actuary



David Kent, FSA, EA, MAAA
Director, Retirement

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Enclosures



Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2013

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Dallas Police and Fire Pension System
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Section 1

Summary of Principal Results

| | January 1, 2013 | January 1, 2012 |
|--------------------------------------|------------------|------------------|
| Membership | | |
| Active | 5,400 | 5,376 |
| Terminated with refunds due | 86 | 75 |
| Terminated with deferred benefits | 96 | 128 |
| Retired members and beneficiaries | 3,783 | 3,669 |
| Compensation | | |
| Total | \$ 361,043,989 | \$ 349,494,994 |
| Average | \$ 66,860 | \$ 65,010 |
| Assets | | |
| Market value | \$ 3,206,364,971 | \$ 2,990,943,353 |
| Actuarial value | \$ 3,795,024,584 | \$ 3,378,481,222 |
| Valuation Results | | |
| Unfunded actuarial accrued liability | \$ 1,063,181,047 | \$ 1,190,369,365 |
| Funding period* | 23 | 30 |
| GASB No. 25 | | |
| Actuarial accrued liability (AAL) | \$ 4,858,205,631 | \$ 4,568,850,587 |
| Assets (actuarial) | \$ 3,795,024,584 | \$ 3,378,481,222 |
| GASB ratio | 78.1% | 73.9% |
| Unfunded AAL | \$ 1,063,181,047 | \$ 1,190,369,365 |

* 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 decreased to 23 years from 30 years. This decrease was primarily due to the change in the method of determining the Actuarial Value of Assets.

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 28.35% of payroll compared with the City's actual contribution rate of 27.50% of payroll and the 30-year funding cost in 2012 of 33.06% of payroll. Section 3 shows a reconciliation of the changes between the 2012 and 2013 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 23 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 2012 and 2013.

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2013

Section 2
(continued)

GASB Statements

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

Benefit Provisions

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

Actuarial Assumptions and Methods

The actuarial assumptions and methods used in the valuation are presented in Schedule C.

The method for determining the Actuarial Value of Assets was changed from one that smooths in gains and losses over five years, to one that smooths them in over ten years. This change was made to better reflect the long-term nature of the System's funding policy.

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 28.35% 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 2013. 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 2012 and 2013 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 ten years, is used. The estimated rate of return for 2012 is 9.92% for the market value of assets, and 14.79% 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 increased from 5,376 members as of January 1, 2012 to 5,400 members as of January 1, 2013, a 0.4% increase. The total active payroll increased from \$349,494,994 to \$361,043,989 over the same period, a 3.3% increase. Schedule A shows a summary of the membership data.

Experience

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

Actuarial Cost, Margin and Funding Period

| | <u>January 1, 2013</u> | <u>January 1, 2012</u> |
|---|------------------------|------------------------|
| 1. Covered Payroll | | |
| a. Active members excluding DROP | 227,581,470 | 226,996,912 |
| b. DROP members | <u>133,462,519</u> | <u>122,498,082</u> |
| c. Total | 361,043,989 | 349,494,994 |
| 2. Actuarial present value of future pay | | |
| a. Active members excluding DROP | 2,800,679,183 | 1,948,525,200 |
| b. DROP members | <u>590,037,954</u> | <u>1,389,151,600</u> |
| c. Total | 3,390,717,137 | 3,337,676,800 |
| 3. Current contribution rates | | |
| a. City | 27.50% | 27.50% |
| b. Member* | <u>8.50%</u> | <u>8.50%</u> |
| c. Total | 36.00% | 36.00% |
| 4. Actuarial present value of future benefits | 5,603,126,940 | 5,353,464,083 |
| 5. Actuarial present value of future normal costs | | |
| a. Total | 744,921,309 | 784,613,496 |
| b. Member (3b x 2a)* | 285,808,555 | 276,318,997 |
| c. City (5a - 5b) | 459,112,754 | 508,294,499 |
| 6. Actuarial accrued liability (4 - 5a) | 4,858,205,631 | 4,568,850,587 |
| 7. Actuarial value of assets | 3,795,024,584 | 3,378,481,222 |
| 8. Unfunded actuarial accrued liability (UAAL) (6 - 7) | 1,063,181,047 | 1,190,369,365 |
| 9. Normal cost | | |
| a. Normal cost percentage (5a ÷ 2c) | 21.97% | 23.51% |
| b. Total normal cost (1c x 9a) | 79,321,364 | 82,166,273 |
| c. Member normal cost (1a x 3b)* | 28,186,317 | 23,888,416 |
| d. City normal cost (9b - 9c) | 51,135,047 | 58,277,857 |
| e. City normal rate (9d ÷ [1c x 1.11]) | 12.76% | 15.02% |

* 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, 2012 and January 1, 2013 was increased by \$110,694,355 and \$47,750,824, respectively and member normal cost (line 9c) as of January 1, 2012 and January 1, 2013 was increased by \$4,593,678 and \$8,841,892, respectively to account for these changes.

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Actuarial Cost, Margin and Funding Period

| | <u>January 1, 2013</u> | <u>January 1, 2012</u> |
|---|------------------------|------------------------|
| 10. 30-year funding cost* | | |
| a. City normal cost rate** | 12.76% | 15.02% |
| b. Amortization rate | <u>15.59%</u> | <u>18.04%</u> |
| c. Total | 28.35% | 33.06% |
| 11. Margin over/(under) 30-year cost* (3a - 10c) | (0.85)% | (5.56)% |
| 12. Funding period to amortize UAAL*** | 23 | 30 |

* 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.

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2013

Section 3
(continued)

Analysis of Change in UAAL

| | |
|--|--------------------|
| 1. UAAL as of January 1, 2012 | \$1,190,369,365 |
| 2. Changes due to: | |
| a. Expected increase/(amortization) | \$ 49,667,438 |
| b. Method change | (483,872,726) |
| c. Actual contributions (greater)/less than expected | 7,918,055 |
| d. Liability experience | 25,182,191 |
| e. Asset experience | <u>273,916,724</u> |
| f. Total changes | \$ (127,188,318) |
| 3. UAAL as of January 1, 2013 | \$1,063,181,047 |

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2013

Section 3
(continued)

Analysis of Change in Funding Cost

| | |
|--|---------------|
| 1. 30-year funding cost* as of January 1, 2012 | 33.06% |
| 2. Changes due to: | |
| a. Resetting of amortization from prior year** | (1.14) |
| b. Assumption change | 0.00 |
| c. Actual contributions (greater)/less than expected | 0.11 |
| d. Liability experience | (0.57) |
| e. Asset experience | 3.99 |
| f. Asset method change | <u>(7.10)</u> |
| g. Total | (4.71) |
| 3. 30-year funding cost* as of January 1, 2013 | 28.35% |

* 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, 2012 | 30 years |
| 2. Changes due to: | |
| a. Passage of time | (1) |
| b. Assumption change | 0 |
| c. Actual contributions (greater)/less than expected | 1 |
| d. Liability experience | 0 |
| e. Asset experience | 12 |
| f. Asset method change | <u>(19)</u> |
| g. Total changes | (7) |
| 3. Funding period as of January 1, 2013 | 23 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.

Dallas Police and Fire Pension System
 Actuarial Valuation - January 1, 2013

Section 4

Historical Trend Information

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

| | <u>Actuarial Value of Assets</u> | <u>Actuarial Liability (AAL) Entry Age</u> | <u>Unfunded AAL (UAAL)</u> | <u>Funded Ratio</u> | <u>Covered Payroll</u> | <u>UAAL as a Percentage of Covered Payroll</u> |
|-----------------|----------------------------------|--|----------------------------|---------------------|------------------------|--|
| January 1, 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% |
| January 1, 2013 | 3,795 | 4,858 | 1,063 | 78.1% | 361 | 294.5% |

GASB #25 Schedule of Employer Contributions for Year Ending December 31, 2012

| <u>Annual Required Contribution</u> | <u>Percentage Contributed</u> |
|-------------------------------------|-------------------------------|
| 33.06% of Pay | 83.2% |

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2013

Section 4
(continued)

**Summary of Accumulated Benefits
(FASB ASC 960)**

Accumulated Benefits at January 1, 2013

| | | |
|--|--|-------------------|
| Vested benefits of participants and beneficiaries currently receiving payments | | \$ 2,556,924,412 |
| Other vested benefits | | 1,938,103,013 |
| Nonvested benefits | | <u>49,210,399</u> |
| Total benefits | | \$ 4,544,237,824 |

ASC 960 Reconciliation

| | | |
|--|-----------------|-------------------|
| Accumulated benefits at January 1, 2012 | | \$ 4,531,031,238 |
| Benefits accumulated | \$(160,375,849) | |
| Interest | 376,681,946 | |
| Benefits paid | (203,099,511) | |
| Assumption change | 0 | |
| Plan amendments | <u>0</u> | |
| Total Change | | <u>13,206,586</u> |
| Accumulated benefits at January 1, 2013 | | \$ 4,544,237,824 |

Reconciliation of Fund Assets

| | <u>Year Ending</u> <u>December 31, 2012</u> |
|---|--|
| 1. Value of fund at beginning of year | \$ 2,990,943,353 |
| 2. Contributions | |
| a. City | 103,310,264 |
| b. Member | <u>22,490,884</u> |
| c. Total | \$ 125,801,148 |
| 3. Benefit payments (including DROP payments) | (203,099,511) |
| 4. Gross earnings | 299,034,650 |
| 5. Expenses | (6,314,669) |
| 6. Value of assets at end of year | \$ 3,206,364,971 |
| 7. Estimated rate of return | 9.92% |

Determination of Excess Earnings To Be Deferred

| | <u>Year Ending December 31, 2012</u> |
|---|--|
| 1. Market value at beginning of year | \$ 2,990,943,353 |
| 2. Net new investments | |
| a. Contributions | \$ 125,801,148 |
| b. Benefit payments (including DROP payments) | (203,099,511) |
| c. Total | \$ (77,298,363) |
| 3. Market value at end of year | \$ 3,206,364,971 |
| 4. Yield, net of expenses (3 - 1 - 2d) | \$ 292,719,981 |
| 5. Average balance [1 + ½ x (2d)] | 2,952,294,171 |
| 6. Assumed investment return rate | 8.50% |
| 7. Expected net return (5 x 6) | \$ 250,945,005 |
| 8. Gains/(losses) subject to deferral (4 - 7) | \$ 41,774,976 |

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2013

Section 5
(continued)

Calculation of Actuarial Value of Assets

| | | | | | |
|----|--|-------------|--------------------------|-------------------------|------------------------|
| 1. | Market value of assets as of January 1, 2013 | | | \$3,206,364,971 | |
| 2. | Deferral amounts | | | | |
| | | <u>Year</u> | <u>Total Gain/(Loss)</u> | <u>Percent Deferred</u> | <u>Deferral Amount</u> |
| a. | | 2012 | \$ 41,774,976 | 90% | \$ 37,597,478 |
| b. | | 2011 | (316,579,427) | 80% | (253,263,542) |
| c. | | 2010 | 62,874,951 | 70% | 44,012,466 |
| d. | | 2009 | 132,954,038 | 60% | 79,772,423 |
| e. | | 2008 | (1,125,904,567) | 50% | (562,952,284) |
| f. | | 2007 | 10,785,809 | 40% | 4,314,324 |
| g. | | 2006 | 168,016,769 | 30% | 50,405,031 |
| h. | | 2005 | 57,272,457 | 20% | 11,454,491 |
| i. | | 2004 | N/A | 10% | N/A |
| j. | | Total | | | \$ (588,659,613) |
| 3. | Preliminary actuarial value of assets (1 - 2e) | | | 3,795,024,584 | |
| 4. | 80% of Market value | | | 2,565,091,977 | |
| 5. | 120% of Market value | | | 3,847,637,965 | |
| 6. | Actuarial value of assets (3, not less than 4 or more than 5) | | | 3,795,024,584 | |
| 7. | Rate of return on actuarial value of assets prior to Method Change | | | 0.30% | |
| 8. | Rate of return on actuarial value of assets after Method Change | | | 14.79% | |

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Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2013

Schedule A

Membership Data

| | <u>January 1, 2013</u> | <u>January 1, 2012</u> |
|------------------------------------|------------------------|------------------------|
| 1. Active members (excluding DROP) | | |
| a. Police and Fire | | |
| 1. Number | 3,974 | 3,995 |
| 2. Covered payroll | \$227,581,470 | \$226,996,912 |
| 3. Average annual pay | \$ 57,268 | \$ 56,820 |
| 4. Average age | 36.63 | 36.80 |
| 5. Average service (years) | 9.70 | 9.85 |
| b. Police | | |
| 1. Number | 2,631 | 2,689 |
| 2. Covered payroll | \$151,312,498 | \$153,304,969 |
| 3. Average annual pay | \$ 57,511 | \$ 57,012 |
| 4. Average age | 36.90 | 37.02 |
| 5. Average service (years) | 10.06 | 10.11 |
| c. Fire | | |
| 1. Number | 1,343 | 1,306 |
| 2. Covered payroll | \$ 76,268,972 | \$ 73,691,943 |
| 3. Average annual pay | \$ 56,790 | \$ 56,426 |
| 4. Average age | 36.11 | 36.34 |
| 5. Average service (years) | 8.99 | 9.30 |

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2013

Schedule A
(continued)

Membership Data (continued)

| | <u>January 1, 2013</u> | <u>January 1, 2012</u> |
|----------------------------------|------------------------|------------------------|
| 2. Active members (DROP only) | | |
| a. Police and Fire | | |
| 1. Number | 1,426 | 1,381 |
| 2. Covered payroll | \$133,462,519 | \$122,498,082 |
| 3. Average annual pay | \$ 93,592 | \$ 88,702 |
| 4. Average age | 54.14 | 54.14 |
| 5. Average total service (years) | 27.94 | 28.06 |
| 6. Average time in DROP (years) | 4.70 | 4.65 |
| 7. DROP account balance | \$432,840,550 | \$415,259,441 |
| b. Police | | |
| 1. Number | 851 | 805 |
| 2. Covered payroll | \$ 78,183,319 | \$ 69,874,323 |
| 3. Average annual pay | \$ 91,872 | \$ 86,800 |
| 4. Average age | 53.59 | 53.67 |
| 5. Average total service (years) | 27.12 | 27.30 |
| 6. Average time in DROP (years) | 4.15 | 4.12 |
| 7. DROP account balance | \$220,682,041 | \$208,655,908 |
| c. Fire | | |
| 1. Number | 575 | 576 |
| 2. Covered payroll | \$ 55,279,200 | \$ 52,623,759 |
| 3. Average annual pay | \$ 96,138 | \$ 91,361 |
| 4. Average age | 54.96 | 54.80 |
| 5. Average service (years) | 29.16 | 29.13 |
| 6. Average time in DROP (years) | 5.53 | 5.39 |
| 7. DROP account balance | \$212,158,509 | \$206,603,533 |

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2013

Schedule A
(continued)

Membership Data
(continued)

| | <u>January 1, 2013</u> | <u>January 1, 2012</u> |
|------------------------------------|------------------------|------------------------|
| 3. Active members (including DROP) | | |
| a. Police and Fire | | |
| 1. Number | 5,400 | 5,376 |
| 2. Covered payroll | \$361,043,989 | \$349,494,994 |
| 3. Average annual pay | \$ 66,860 | \$ 65,010 |
| 4. Average age | 41.26 | 41.25 |
| 5. Average service (years) | 14.52 | 14.53 |
| 6. DROP account balance | \$432,840,550 | \$415,259,441 |
| b. Police | | |
| 1. Number | 3,482 | 3,494 |
| 2. Covered payroll | \$229,495,817 | \$223,179,292 |
| 3. Average annual pay | \$ 65,909 | \$ 63,875 |
| 4. Average age | 40.98 | 40.85 |
| 5. Average service (years) | 14.23 | 14.07 |
| 6. DROP account balance | \$220,682,041 | \$208,655,908 |
| c. Fire | | |
| 1. Number | 1,918 | 1,882 |
| 2. Covered payroll | \$131,548,172 | \$126,315,702 |
| 3. Average annual pay | \$ 68,586 | \$ 67,118 |
| 4. Average age | 41.76 | 41.99 |
| 5. Average service (years) | 15.04 | 15.37 |
| 6. DROP account balance | \$212,158,509 | \$206,603,533 |

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2013

Schedule A
(continued)

Membership Data
(continued)

| | <u>January 1, 2013</u> | <u>January 1, 2012</u> |
|--|------------------------|------------------------|
| 4. Inactive members eligible for annuity | | |
| a. Retired members | 2,854 | 2,767 |
| b. Beneficiaries | 929 | 902 |
| c. Number entitled to deferred benefits | <u>96</u> | <u>128</u> |
| d. Total number of inactive members | 3,879 | 3,797 |
| e. Total annual benefit | \$ 159,592,548 | \$ 153,990,654 |
| f. Average annual benefit | \$ 41,143 | \$ 40,556 |
| 5. Inactive members with refunds due | | |
| a. Number | 86 | 75 |
| b. Accumulated contribution balance | \$ 948,715 | \$ 470,719 |

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2013

Schedule B

**Summary of Benefit Provisions
As of January 1, 2013
For Actuarial Calculations**

Group A

Definitions

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

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

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

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

Pension System: The Dallas Police and Fire Pension System

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

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2013

Schedule B
(continued)

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:

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

Service Retirement Benefits

Annual Normal Retirement Pension

Greater of I or II:

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

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

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Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2013

Schedule B
(continued)

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

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

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

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

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

Disability Retirement Benefits

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

Annual Amount of Pension

Greater of I or II:

I. Same as Normal Retirement Pension (I).

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2013

Schedule B
(continued)

II. Depending on Source of Disability

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

Survivor Benefits

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

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

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

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2013

Schedule B
(continued)

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

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

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

Minimum Benefits

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

Benefit Supplement

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

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2013

Schedule B
(continued)

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

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2013

Schedule B
(continued)

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.

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2013

Schedule B
(continued)

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

Contribution Rates

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

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

The contribution rate for Members not participating in DROP is currently 8.5%. The contribution rate for Members participating in DROP is 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.

Dallas Police and Fire Pension System
 Actuarial Valuation - January 1, 2013

Schedule B
(continued)

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

Early Retirement Pension

Condition for Retirement:

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

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

- b. 20 years of Pension Service

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

| <u>Age</u> | <u>20 & Out Multiplier</u> |
|------------|--------------------------------|
| 50 & above | 3.00% |
| 49 | 2.75% |
| 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



Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2013

Schedule B
(continued)

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

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2013

Schedule B
(continued)

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.

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2013

Schedule B
(continued)

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.

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2013

Schedule B
(continued)

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.

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2013

Schedule B
(continued)

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

Contribution Rates

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

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

The contribution rate for Members not participating in DROP is currently 8.5%. The contribution rate for Members participating in DROP is 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.

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2013

Schedule B
(continued)

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

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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.

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2013

Schedule B
(continued)

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.

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2013

Schedule C

Summary of Actuarial Methods and Assumptions (Effective as of January 1, 2013)

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:

| Age | Annual Rate per 1,000 Members | | | |
|-----|-------------------------------|------|------------|------|
| | Withdrawal | | Disability | |
| | 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:

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2013

Schedule C
(continued)

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

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

Overtime and other non-computation pay are assumed to be 11% of base pay. The City contributes on total pay including non-computation pay. This assumption is based on the revised compensation package adopted by the City Council in 2007.

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

| 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 ten years beyond the valuation date 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.

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Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2013

Schedule C
(continued)

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

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

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

Dallas Police and Fire Pension System
 Actuarial Valuation - January 1, 2013

Schedule C
(continued)

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

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

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

$$MV - (9/10) \times G/(L)_1 - (8/10) \times G/(L)_2 - (7/10) \times G/(L)_3 - (6/10) \times G/(L)_4 - (5/10) \times G/(L)_5 - (4/10) \times G/(L)_6 - (3/10) \times G/(L)_7 - (2/10) \times G/(L)_8 - (1/10) \times G/(L)_9$$

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.

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. The ratio of actual terminations prior to retirement to the expected terminations prior to retirement for the period January 1, 2012 through December 31, 2012 shows that during this period there have been about 3% less terminations than expected. | | | |
| January 1, 2012 through December 31, 2012 | | | |
| | <u>Actual</u> | <u>Expected</u> | <u>Actual/Expected</u> |
| Terminations prior to Retirement | 120 | 123 | 97% |

| 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, 2008 through December 31, 2012 shows that during this period there have been about 27% less of disability retirements than 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, 2008 through December 31, 2012 | | | |
| | <u>Actual</u> | <u>Expected</u> | <u>Actual/Expected</u> |
| Disability Retirements | 8 | 11 | 73% |

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2013

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, 2008 through December 31, 2012 shows that during this period there have been about 17% 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, 2008 through December 31, 2012

| | <u>Actual</u> | <u>Expected</u> | <u>Actual/Expected</u> |
|------------|---------------|-----------------|------------------------|
| Retirement | 684 | 826 | 83% |

Death

This assumption was changed as of January 1, 2012 in order to meet current actuarial standards and to take into account mortality improvement. It is updated each year to project mortality improvements to ten years beyond the valuation date.

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, 2012

| | <u>Actual</u> | <u>Expected</u> | <u>Actual/Expected</u> |
|------------------------------------|---------------|-----------------|------------------------|
| Age at DROP (from January 1, 1996) | 49.8 | 50.0 | 100% |
| Age at DROP (from January 1, 2008) | 49.3 | 50.0 | 99% |

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, 2012 has been 3.66%. 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, 1952 through December 31, 2012 | | | |
| | <u>Actual</u> | <u>Expected</u> | <u>Actual/Expected</u> |
| Inflation | 3.66% | 4.00% | 92% |

| 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, 2008 through December 31, 2012 follows. | | | |
| January 1, 2008 through December 31, 2012 | | | |
| | <u>Actual</u> | <u>Expected</u> | <u>Actual/Expected</u> |
| Valuation Compensation | \$1,718,301,825 | \$1,783,855,639 | 96% |

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2013

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, 2012 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) |
| 1/1/2012 | through | 12/31/2012 | 9.92 |
| 10/1/1988 | through | 12/31/2012 | 9.69% |

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 8.78%. Therefore, the annual DROP interest rate for October 1, 2013 is 8.78%.

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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, 2013

POLICE

| ATTAINED AGE | YEARS OF SERVICE | | | | | | | | | | | | | | | | | | | | | |
|--------------|------------------|----------|--------|----------|--------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|---------|----------|---|---|
| | Under 1 | | 1 to 4 | | 5 to 9 | | 10 to 14 | | 15 to 19 | | 20 to 24 | | 25 to 29 | | 30 to 34 | | 35 to 39 | | 40 & up | | | |
| | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | | |
| Under 25 | 68 | 42,799 | 28 | 43,963 | 1 | 34,243 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 25 to 29 | 64 | 42,941 | 327 | 46,290 | 126 | 50,041 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 30 to 34 | 14 | 42,941 | 189 | 46,041 | 268 | 52,496 | 69 | 59,655 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 35 to 39 | 9 | 42,941 | 86 | 46,282 | 131 | 53,066 | 207 | 61,507 | 44 | 68,244 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 40 to 44 | 2 | 42,941 | 47 | 45,627 | 68 | 53,954 | 146 | 61,871 | 162 | 69,783 | 100 | 77,048 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 45 to 49 | 0 | 0 | 15 | 46,611 | 22 | 55,602 | 36 | 60,598 | 77 | 70,143 | 228 | 77,605 | 41 | 83,214 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 50 to 54 | 1 | 64,545 | 5 | 62,884 | 9 | 54,169 | 11 | 63,516 | 6 | 70,232 | 11 | 71,319 | 3 | 123,047 | 2 | 84,479 | 0 | 0 | 0 | 0 | 0 | 0 |
| 55 to 59 | 0 | 0 | 1 | 77,262 | 2 | 64,192 | 0 | 0 | 2 | 73,293 | 0 | 0 | 1 | 80,833 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 60 to 64 | 0 | 0 | 0 | 0 | 2 | 55,385 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 65 to 69 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 70 & up | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

TABLE 1
THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(excluding DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2013

FIRE

| ATTAINED AGE | YEARS OF SERVICE | | | | | | | | | | | | | | | | | | | | | |
|--------------|------------------|----------|--------|----------|--------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|---------|----------|---|---|
| | Under 1 | | 1 to 4 | | 5 to 9 | | 10 to 14 | | 15 to 19 | | 20 to 24 | | 25 to 29 | | 30 to 34 | | 35 to 39 | | 40 & up | | | |
| | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | | |
| Under 25 | 32 | 42,941 | 29 | 46,460 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 25 to 29 | 46 | 42,941 | 192 | 46,373 | 32 | 49,365 | 1 | 48,643 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 30 to 34 | 32 | 42,941 | 126 | 46,750 | 98 | 51,470 | 25 | 62,746 | 2 | 52,277 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 35 to 39 | 8 | 42,941 | 60 | 46,638 | 84 | 53,503 | 136 | 63,511 | 22 | 67,390 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 40 to 44 | 1 | 42,941 | 2 | 46,332 | 29 | 53,837 | 89 | 63,699 | 93 | 72,887 | 15 | 78,705 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 45 to 49 | 0 | 0 | 0 | 0 | 10 | 56,532 | 25 | 62,137 | 40 | 71,729 | 50 | 78,293 | 44 | 84,878 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 50 to 54 | 0 | 0 | 0 | 0 | 6 | 54,974 | 2 | 61,897 | 4 | 68,219 | 3 | 80,649 | 3 | 82,639 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 55 to 59 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 72,563 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 60 to 64 | 0 | 0 | 0 | 0 | 1 | 51,133 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 65 to 69 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 70 & up | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

TABLE 1

THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(excluding DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2013

POLICE AND FIRE

| ATTAINED AGE | YEARS OF SERVICE | | | | | | | | | | | | | | | | | | | | |
|--------------|------------------|----------|--------|----------|--------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|---------|----------|---|
| | Under 1 | | 1 to 4 | | 5 to 9 | | 10 to 14 | | 15 to 19 | | 20 to 24 | | 25 to 29 | | 30 to 34 | | 35 to 39 | | 40 & up | | |
| | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | |
| Under 25 | 100 | 42,845 | 57 | 45,233 | 1 | 34,243 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 25 to 29 | 110 | 42,941 | 519 | 46,321 | 158 | 49,904 | 1 | 48,643 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 30 to 34 | 46 | 42,941 | 315 | 46,324 | 366 | 52,222 | 94 | 60,477 | 2 | 52,277 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 35 to 39 | 17 | 42,941 | 146 | 46,428 | 215 | 53,236 | 343 | 62,301 | 66 | 67,959 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 40 to 44 | 3 | 42,941 | 49 | 45,656 | 97 | 53,919 | 235 | 62,563 | 255 | 70,915 | 115 | 77,264 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 45 to 49 | 0 | 0 | 15 | 46,611 | 32 | 55,893 | 61 | 61,229 | 117 | 70,685 | 278 | 77,729 | 85 | 84,076 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 50 to 54 | 1 | 64,545 | 5 | 62,884 | 15 | 54,491 | 13 | 63,267 | 10 | 69,427 | 14 | 73,319 | 6 | 102,843 | 2 | 84,479 | 0 | 0 | 0 | 0 | 0 |
| 55 to 59 | 0 | 0 | 1 | 77,262 | 2 | 64,192 | 0 | 0 | 2 | 73,293 | 1 | 72,563 | 1 | 80,833 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 60 to 64 | 0 | 0 | 0 | 0 | 3 | 53,967 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 65 to 69 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 70 & up | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

TABLE 2

**THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(including DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2013**

POLICE

| ATTAINED AGE | YEARS OF SERVICE | | | | | | | | | | | | | | | | | | | | | |
|--------------|------------------|----------|--------|----------|--------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|---------|----------|---|---|
| | Under 1 | | 1 to 4 | | 5 to 9 | | 10 to 14 | | 15 to 19 | | 20 to 24 | | 25 to 29 | | 30 to 34 | | 35 to 39 | | 40 & up | | | |
| | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | | |
| Under 25 | 68 | 42,799 | 28 | 43,963 | 1 | 34,243 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 25 to 29 | 64 | 42,941 | 327 | 46,290 | 126 | 50,041 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 30 to 34 | 14 | 42,941 | 189 | 46,041 | 268 | 52,496 | 69 | 59,655 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 35 to 39 | 9 | 42,941 | 86 | 46,282 | 131 | 53,066 | 207 | 61,507 | 44 | 68,244 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 40 to 44 | 2 | 42,941 | 47 | 45,627 | 68 | 53,954 | 146 | 61,871 | 162 | 69,783 | 112 | 78,324 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 45 to 49 | 0 | 0 | 15 | 46,611 | 22 | 55,602 | 36 | 60,598 | 82 | 70,506 | 303 | 80,528 | 88 | 87,600 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 50 to 54 | 1 | 64,545 | 5 | 62,884 | 13 | 58,336 | 21 | 69,510 | 28 | 81,217 | 136 | 87,162 | 184 | 94,794 | 111 | 96,108 | 1 | 91,577 | 0 | 0 | 0 | 0 |
| 55 to 59 | 0 | 0 | 1 | 77,262 | 4 | 68,272 | 2 | 59,911 | 6 | 78,106 | 28 | 88,377 | 47 | 94,014 | 77 | 94,558 | 27 | 96,146 | 3 | 92,845 | 0 | 0 |
| 60 to 64 | 0 | 0 | 0 | 0 | 3 | 69,673 | 1 | 79,651 | 0 | 0 | 10 | 91,351 | 13 | 93,019 | 10 | 82,149 | 17 | 97,588 | 7 | 90,429 | 0 | 0 |
| 65 to 69 | 0 | 0 | 0 | 0 | 1 | 99,108 | 1 | 71,160 | 0 | 0 | 1 | 91,427 | 0 | 0 | 3 | 88,544 | 3 | 103,997 | 3 | 102,200 | 0 | 0 |
| 70 & up | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

TABLE 2

THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(including DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2013

FIRE

| ATTAINED AGE | YEARS OF SERVICE | | | | | | | | | | | | | | | | | | | |
|-----------------|------------------|-------------|--------|-------------|--------|-------------|----------|-------------|----------|-------------|----------|-------------|----------|-------------|----------|-------------|----------|-------------|---------|-------------|
| | Under 1 | | 1 to 4 | | 5 to 9 | | 10 to 14 | | 15 to 19 | | 20 to 24 | | 25 to 29 | | 30 to 34 | | 35 to 39 | | 40 & up | |
| | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp |
| Under 25 | 32 | 42,941 | 29 | 46,460 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 25 to 29 | 46 | 42,941 | 192 | 46,373 | 32 | 49,365 | 1 | 48,643 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 30 to 34 | 32 | 42,941 | 126 | 46,750 | 98 | 51,470 | 25 | 62,746 | 2 | 52,277 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 35 to 39 | 8 | 42,941 | 60 | 46,638 | 84 | 53,503 | 136 | 63,511 | 22 | 67,390 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 40 to 44 | 1 | 42,941 | 2 | 46,332 | 29 | 53,837 | 89 | 63,699 | 93 | 72,887 | 16 | 79,549 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 45 to 49 | 0 | 0 | 0 | 0 | 10 | 56,532 | 25 | 62,137 | 41 | 72,089 | 71 | 82,736 | 81 | 92,304 | 0 | 0 | 0 | 0 | 0 | 0 |
| 50 to 54 | 0 | 0 | 0 | 0 | 8 | 58,470 | 4 | 68,265 | 16 | 83,388 | 41 | 91,861 | 151 | 95,895 | 54 | 98,612 | 1 | 79,605 | 0 | 0 |
| 55 to 59 | 0 | 0 | 0 | 0 | 1 | 54,028 | 0 | 0 | 2 | 83,655 | 16 | 87,445 | 61 | 98,607 | 78 | 97,845 | 21 | 96,641 | 2 | 103,538 |
| 60 to 64 | 0 | 0 | 0 | 0 | 1 | 51,133 | 1 | 78,992 | 1 | 95,478 | 5 | 83,856 | 3 | 108,791 | 12 | 88,919 | 32 | 97,900 | 10 | 92,273 |
| 65 to 69 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 94,132 | 5 | 93,463 | 6 | 102,160 |
| 70 & up | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 146,654 |

TABLE 2

**THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(including DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2013**

POLICE AND FIRE

| ATTAINED AGE | YEARS OF SERVICE | | | | | | | | | | | | | | | | | | | |
|--------------|------------------|----------|--------|----------|--------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|---------|----------|
| | Under 1 | | 1 to 4 | | 5 to 9 | | 10 to 14 | | 15 to 19 | | 20 to 24 | | 25 to 29 | | 30 to 34 | | 35 to 39 | | 40 & up | |
| | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp | # | Avg Comp |
| Under 25 | 100 | 42,845 | 57 | 45,233 | 1 | 34,243 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 25 to 29 | 110 | 42,941 | 519 | 46,321 | 158 | 49,904 | 1 | 48,643 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 30 to 34 | 46 | 42,941 | 315 | 46,324 | 366 | 52,222 | 94 | 60,477 | 2 | 52,277 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 35 to 39 | 17 | 42,941 | 146 | 46,428 | 215 | 53,236 | 343 | 62,301 | 66 | 67,959 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 40 to 44 | 3 | 42,941 | 49 | 45,656 | 97 | 53,919 | 235 | 62,563 | 255 | 70,915 | 128 | 78,477 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 45 to 49 | 0 | 0 | 15 | 46,611 | 32 | 55,893 | 61 | 61,229 | 123 | 71,034 | 374 | 80,947 | 169 | 89,854 | 0 | 0 | 0 | 0 | 0 | 0 |
| 50 to 54 | 1 | 64,545 | 5 | 62,884 | 21 | 58,387 | 25 | 69,311 | 44 | 82,007 | 177 | 88,251 | 335 | 95,290 | 165 | 96,928 | 2 | 85,591 | 0 | 0 |
| 55 to 59 | 0 | 0 | 1 | 77,262 | 5 | 65,423 | 2 | 59,911 | 8 | 79,494 | 44 | 88,038 | 108 | 96,608 | 155 | 96,212 | 48 | 96,362 | 5 | 97,122 |
| 60 to 64 | 0 | 0 | 0 | 0 | 4 | 65,038 | 2 | 79,321 | 1 | 95,478 | 15 | 88,853 | 16 | 95,977 | 22 | 85,842 | 49 | 97,792 | 17 | 91,514 |
| 65 to 69 | 0 | 0 | 0 | 0 | 1 | 99,108 | 1 | 71,160 | 0 | 0 | 1 | 91,427 | 0 | 0 | 5 | 90,779 | 8 | 97,413 | 9 | 102,173 |
| 70 & up | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 146,654 |

TABLE 3

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS
BY AGE AS OF JANUARY 1, 2013

POLICE AND FIRE

| AGE | NUMBER | BENEFIT | AVERAGE BENEFIT |
|-----------------------------|--------------|----------------------|--------------------|
| Less than 50 | 35 | 1,129,164 | 32,262 |
| 50 to 54 | 151 | 6,345,613 | 42,024 |
| 55 to 59 | 318 | 17,774,197 | 55,894 |
| 60 to 64 | 676 | 36,962,422 | 54,678 |
| 65 to 69 | 576 | 28,102,487 | 48,789 |
| 70 to 74 | 397 | 19,391,515 | 48,845 |
| 75 to 79 | 249 | 11,227,302 | 45,090 |
| 80 to 84 | 192 | 7,532,087 | 39,230 |
| 85 to 89 | 74 | 2,798,902 | 37,823 |
| Greater than or equal to 90 | 16 | 601,648 | 37,603 |
| TOTAL | 2,684 | 131,865,337 | 49,130 |
| POLICE | 1,580 | \$ 75,074,072 | \$ 47,515 |
| FIRE | 1,104 | \$ 56,791,265 | \$ 51,441 |

TABLE 4
 THE NUMBER AND ANNUAL RETIREMENT
 ALLOWANCE OF DISABLED MEMBERS
 BY AGE AS OF JANUARY 1, 2013

POLICE AND FIRE

| AGE | NUMBER | BENEFIT | AVERAGE BENEFIT |
|-----------------------------|------------|---------------------|--------------------|
| Less than 40 | 5 | 140,576 | 28,115 |
| 40 to 44 | 6 | 215,931 | 35,989 |
| 45 to 49 | 14 | 544,884 | 38,920 |
| 50 to 54 | 9 | 295,728 | 32,859 |
| 55 to 59 | 17 | 572,608 | 33,683 |
| 60 to 64 | 25 | 1,074,130 | 42,965 |
| 65 to 69 | 21 | 766,571 | 36,503 |
| 70 to 74 | 27 | 1,172,901 | 43,441 |
| 75 to 79 | 18 | 678,487 | 37,694 |
| Greater than or equal to 80 | 28 | 1,053,687 | 37,632 |
| TOTAL | 170 | 6,515,503 | 38,326 |
| POLICE | 68 | \$ 2,325,987 | \$ 34,206 |
| FIRE | 102 | \$ 4,189,516 | \$ 41,074 |

TABLE 5

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF BENEFICIARIES
BY AGE AS OF JANUARY 1, 2013

POLICE AND FIRE

| AGE | NUMBER | BENEFIT | AVERAGE BENEFIT |
|-----------------------------|------------|----------------------|--------------------|
| Less than 50 | 76 | 1,194,210 | 15,713 |
| 50 to 54 | 52 | 1,202,474 | 23,125 |
| 55 to 59 | 50 | 1,223,558 | 24,471 |
| 60 to 64 | 97 | 2,248,659 | 23,182 |
| 65 to 69 | 117 | 2,734,009 | 23,368 |
| 70 to 74 | 125 | 3,175,410 | 25,403 |
| 75 to 79 | 137 | 2,985,655 | 21,793 |
| 80 to 84 | 125 | 2,497,509 | 19,980 |
| 85 to 89 | 107 | 2,009,085 | 18,776 |
| Greater than or equal to 90 | 43 | 802,077 | 18,653 |
| TOTAL | 929 | 20,072,646 | 21,607 |
| POLICE | 536 | \$ 11,241,281 | \$ 20,973 |
| FIRE | 393 | \$ 8,831,365 | \$ 22,472 |

TABLE 6

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS,
DISABLED MEMBERS AND BENEFICIARIES
BY AGE AS OF JANUARY 1, 2013

POLICE AND FIRE

| AGE | NUMBER | BENEFIT | AVERAGE BENEFIT |
|-----------------------------|--------------|----------------------|--------------------|
| Less than 50 | 136 | 3,224,765 | 23,712 |
| 50 to 54 | 212 | 7,843,815 | 36,999 |
| 55 to 59 | 385 | 19,570,363 | 50,832 |
| 60 to 64 | 798 | 40,285,211 | 50,483 |
| 65 to 69 | 714 | 31,603,067 | 44,262 |
| 70 to 74 | 549 | 23,739,826 | 43,242 |
| 75 to 79 | 404 | 14,891,444 | 36,860 |
| 80 to 84 | 333 | 10,674,734 | 32,056 |
| 85 to 89 | 190 | 5,110,522 | 26,897 |
| Greater than or equal to 90 | 62 | 1,509,739 | 24,351 |
| TOTAL | 3,783 | 158,453,486 | 41,886 |
| POLICE | 2,184 | \$ 88,641,340 | \$ 40,587 |
| FIRE | 1,599 | \$ 69,812,146 | \$ 43,660 |

TABLE 7

THE NUMBER AND FUTURE RETIREMENT
ALLOWANCE OF TERMINATED MEMBERS
ENTITLED TO A FUTURE BENEFIT
BY AGE AS OF JANUARY 1, 2013

POLICE AND FIRE

| AGE | NUMBER | BENEFIT | AVERAGE BENEFIT |
|-----------------------------|-----------|-------------------|--------------------|
| Less than 40 | 22 | 207,516 | 9,433 |
| 40 to 44 | 39 | 441,825 | 11,329 |
| 45 to 49 | 26 | 362,597 | 13,946 |
| Greater than or equal to 50 | 9 | 127,124 | 14,125 |
| TOTAL | 96 | 1,139,062 | 11,865 |
| POLICE | 80 | \$ 980,737 | \$ 12,259 |
| FIRE | 16 | \$ 158,325 | \$ 9,895 |







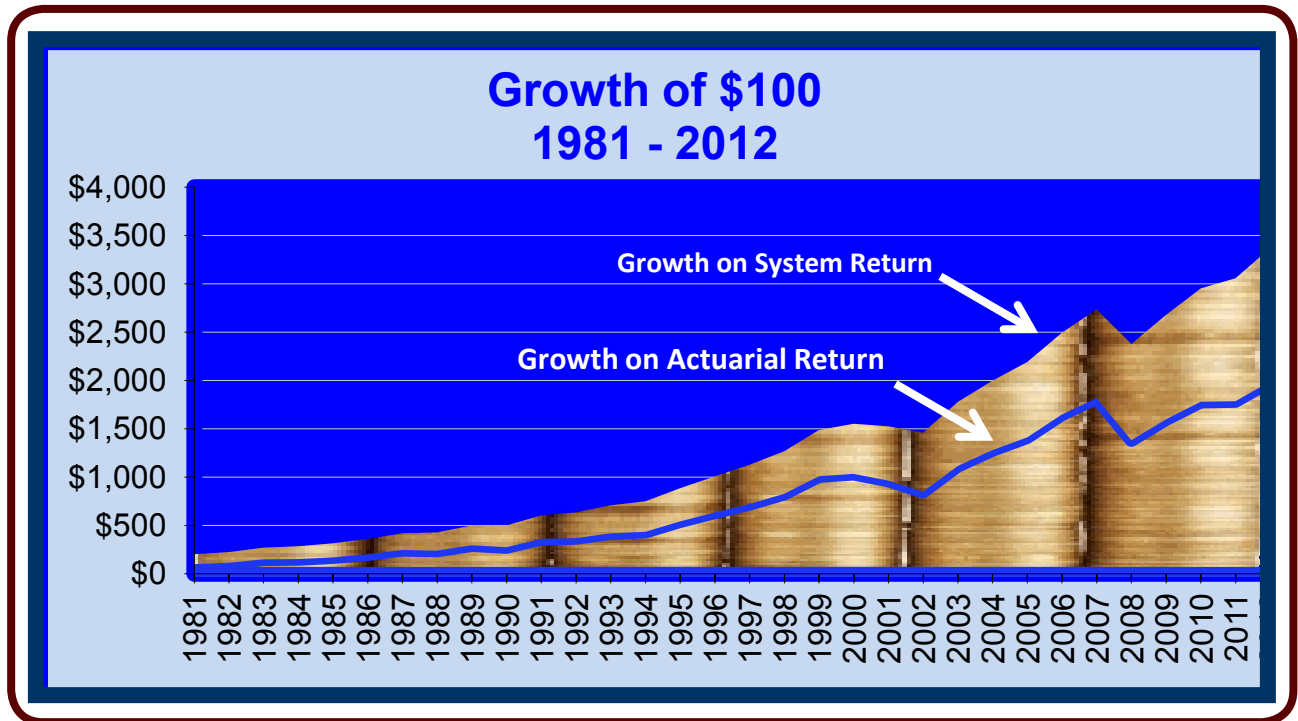
STATISTICS



DPFP 2012 ANNUAL REPORT



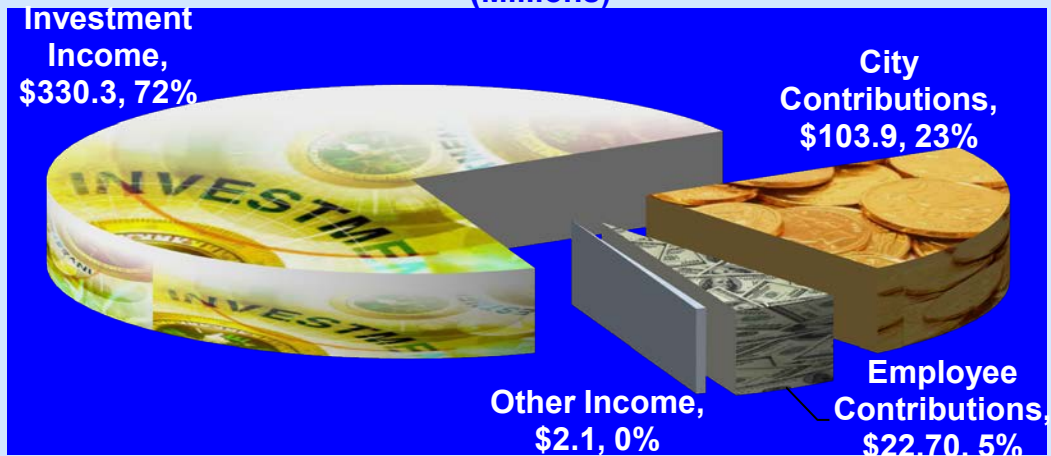
The graph above indicates the growth in market value of the System's assets over the last ten years. The market value of System assets has grown from \$1.67 billion at the end of 2002 to \$3.26 billion as of December 31, 2012.



The System's investment return has exceeded the actuarial assumed return rate over the period from 1981 through 2012. One hundred dollars invested in the Pension System's portfolio in 1982 would be worth \$1,987.57 as of December 31, 2012. If the \$100 had earned the actuarial interest rate, it would be worth \$1,380.92.

Sources of Funds 2012 Revenues

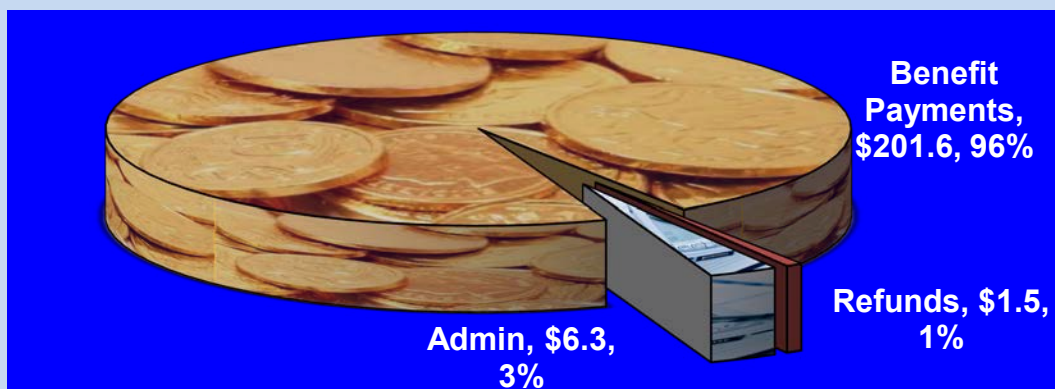
(Millions)



Revenues totaled \$459.1 million in 2012, including \$297.7 million in net appreciation.

Uses of Funds 2012 Expenses

(Millions)



System expenses totaled \$209.4 million in 2012, with 96% being payments to System Members and beneficiaries. Investment expenses are netted against investment return.

Active Membership of the System by Age

Including DROP

As of December 31, 2012

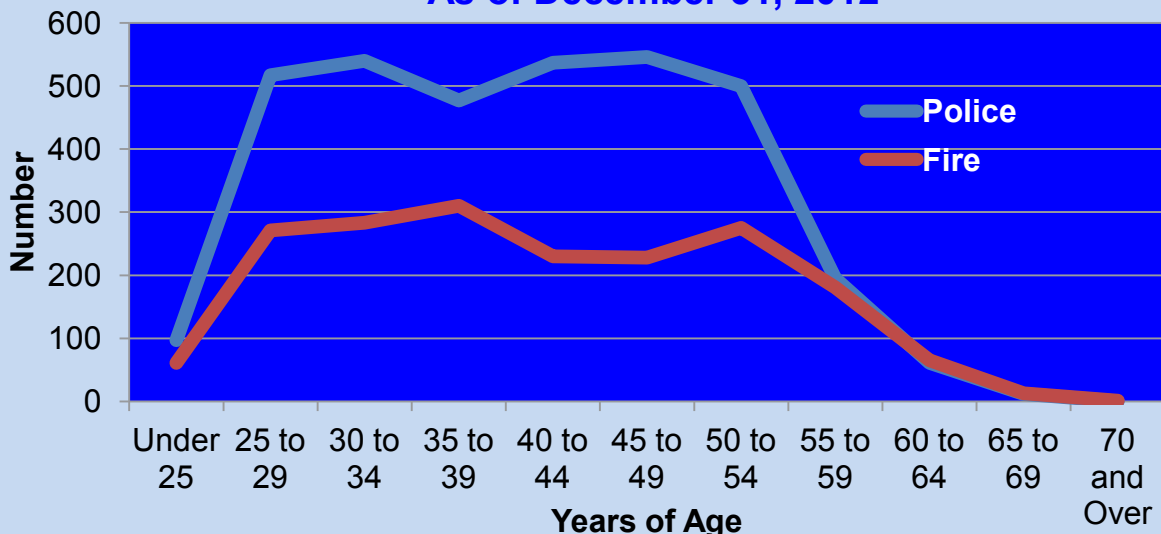
Including DROP

| Years of Age | Police | Fire | Total |
|---------------------|---------------|--------------|--------------|
| Under 25 | 97 | 61 | 158 |
| 25 to 29 | 517 | 271 | 788 |
| 30 to 34 | 540 | 283 | 823 |
| 35 to 39 | 477 | 310 | 787 |
| 40 to 44 | 537 | 230 | 767 |
| 45 to 49 | 546 | 228 | 774 |
| 50 to 54 | 500 | 275 | 775 |
| 55 to 59 | 195 | 181 | 376 |
| 60 to 64 | 61 | 65 | 126 |
| 65 to 69 | 12 | 13 | 25 |
| <u>70 and Over</u> | <u>0</u> | <u>1</u> | <u>1</u> |
| TOTAL | 3,482 | 1,918 | 5400 |

Active Membership of the System by Age

(Including DROP)

As of December 31, 2012

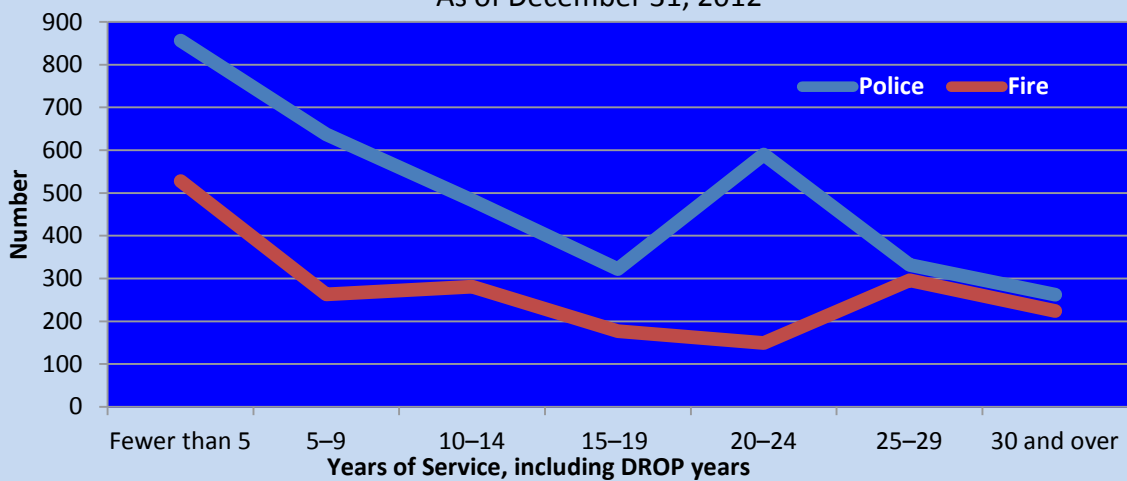


The chart above reports the number of Active Members by Department according to years of age. The average age for all Active Members is 41.26 -- 40.98 for Police Officers and 41.76 for Firefighters. There were 5,400 Active Members as of December 31, 2012.

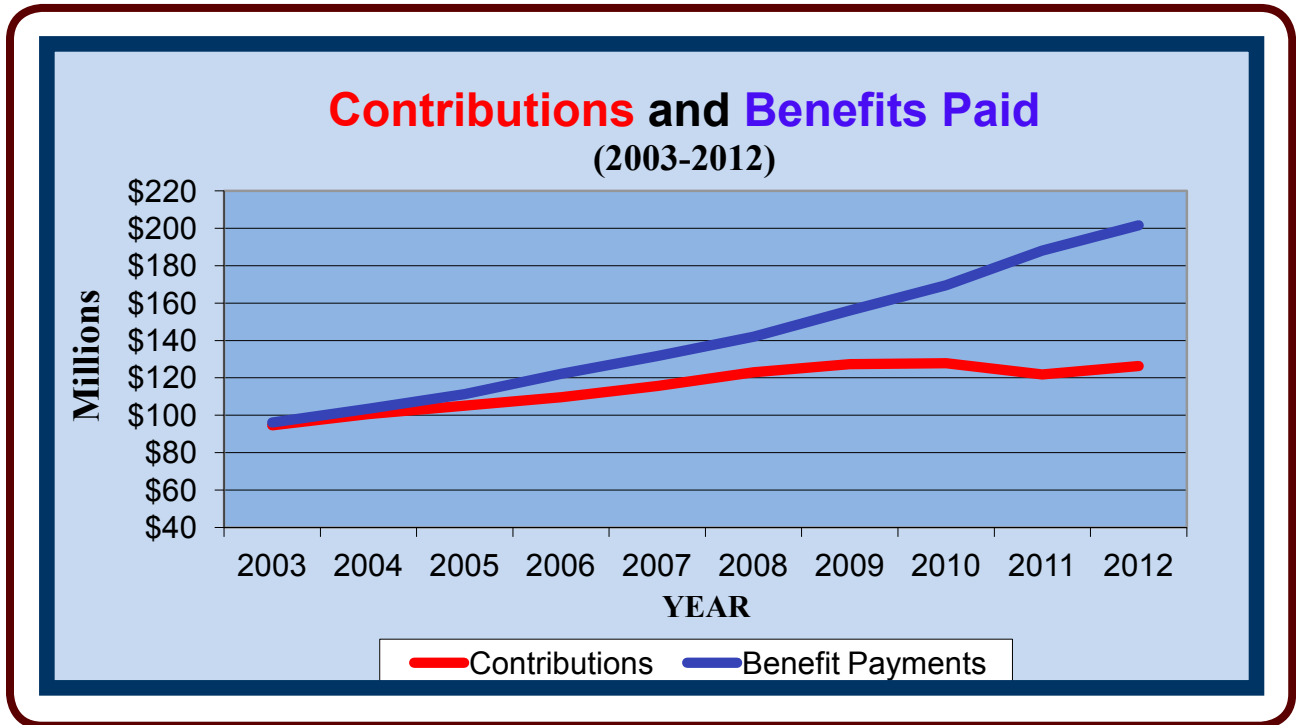
Active Membership of the System by Service
Including DROP
As of December 31, 2012

| Years of Service | Police | Fire | Total |
|------------------|--------------|--------------|-------------|
| Fewer than 5 | 856 | 528 | 1384 |
| 5-9 | 637 | 263 | 900 |
| 10-14 | 483 | 281 | 764 |
| 15-19 | 322 | 177 | 499 |
| 20-24 | 590 | 149 | 739 |
| 25-29 | 332 | 296 | 628 |
| 30 and over | 262 | 224 | 486 |
| TOTAL | 3,482 | 1,918 | 5400 |

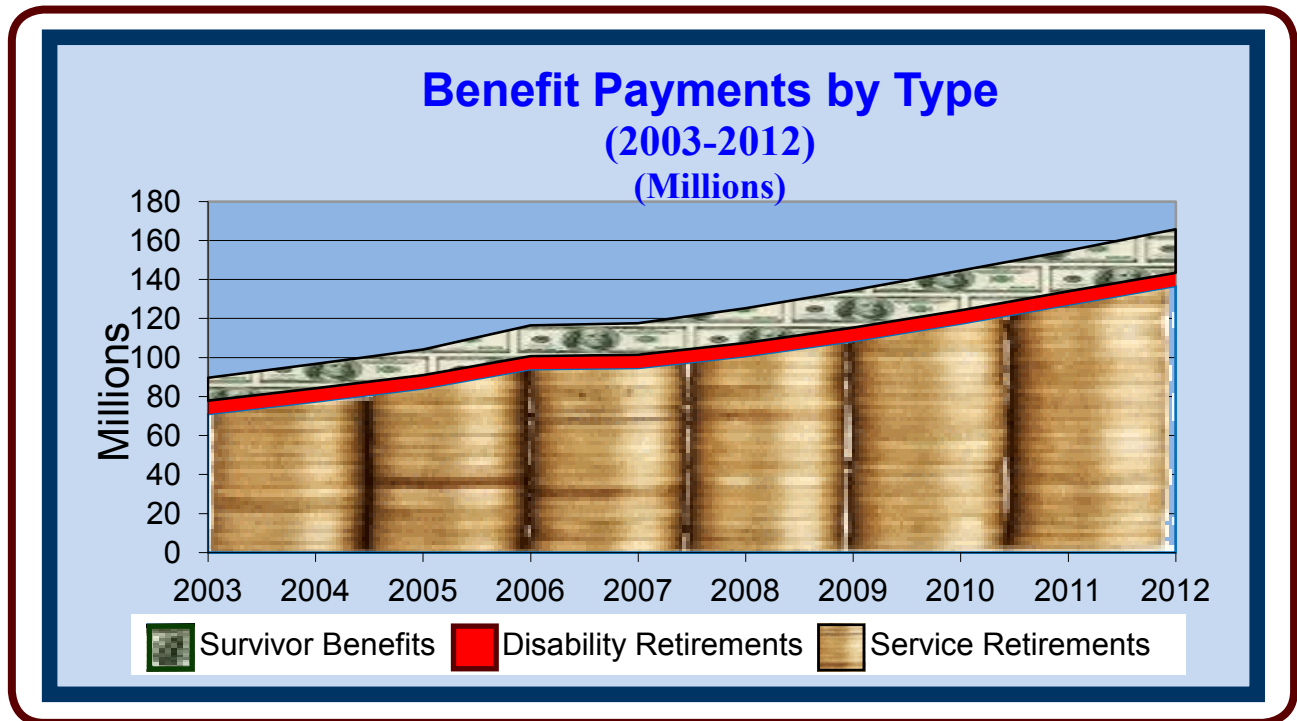
Active Membership of the System by Service
(Including DROP)
As of December 31, 2012



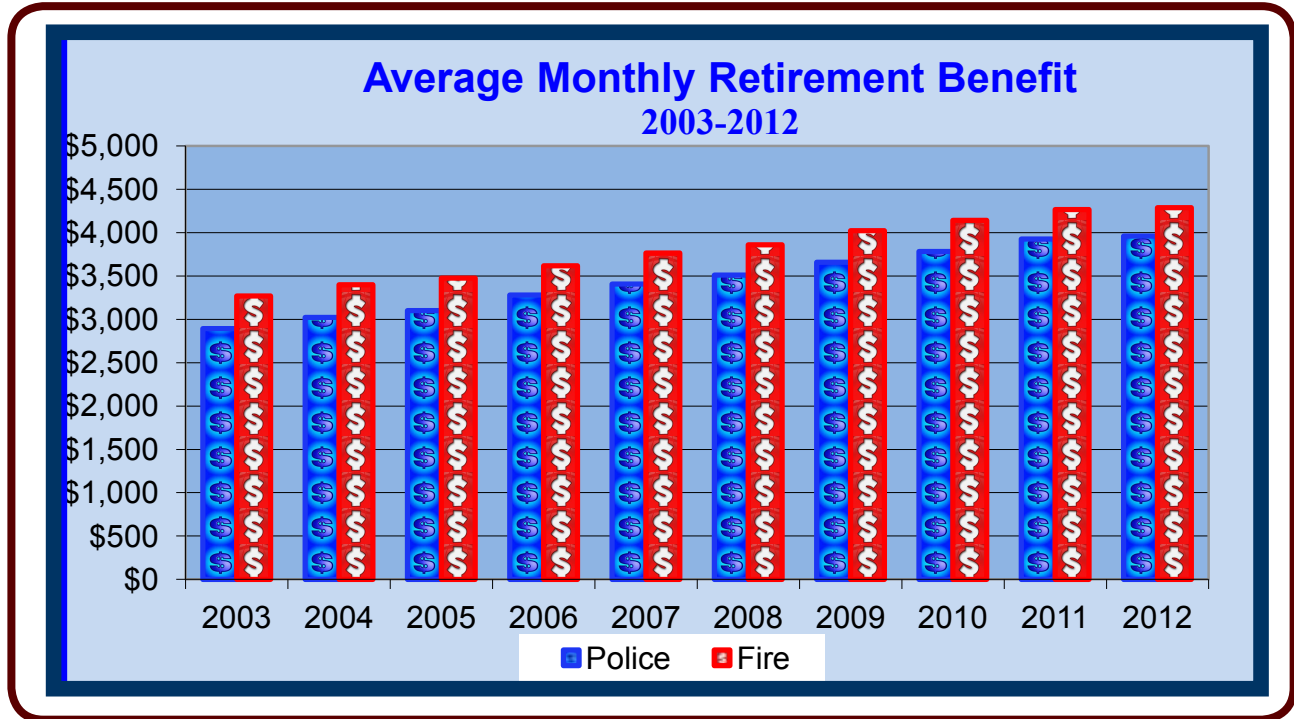
The chart above reports the number of Active Members by Department according to years of service. The average service for all Active Members is 14.52 years, 14.23 years of service for Police Officers, and 15.04 for Firefighters. There were 5,400 Active Members as of December 31, 2012.



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 \$84.4 Million in 2002 to \$165.7 Million in 2012.



Benefit payments for both Police and Fire Retired Members have increased steadily over the last ten years. As of the end of 2012, the average monthly benefit of retired Police Officers was \$3,960 and of Firefighters was \$4,287.

Actuarial Summary Information

| Actuarial Valuation Results | January 1, 2011 Valuation | January 1, 2012 Valuation | January 1, 2013 Valuation |
|------------------------------|---------------------------|---------------------------|---------------------------|
| UAAL ¹ | \$ 885,530,459 | \$ 1,190,369,365 | \$ 1,063,181,047 |
| Actuarial Value ² | \$ 3,430,818,823 | \$ 3,378,481,222 | \$ 3,795,024,584 |
| Market Value ³ | \$ 3,112,686,542 | \$ 2,990,943,353 | \$ 3,206,364,971 |
| AAL Ratio ⁴ | 79.5% | 73.9% | 78.1% |
| Years To Fund ⁵ | 21 | 30 | 23 |

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.



SUPPLEMENTAL PENSION PLAN





STATE PENSION REVIEW BOARD OF TEXAS

7/17/2013

Dallas Police & Fire Pension System-Supplemental
4100 Harry Hines Blvd Ste 100
Dallas, TX 75219

The State Pension Review Board (PRB) has received and reviewed the documentation you recently submitted. At this time, your plan is currently in compliance with Government Code §802.103 and §802.104 and we have updated our records based on this information.

The membership and assets information is displayed on two tables on the following page; please review the information in order to verify that it is correct. The third table shows the dates of the most recent actuarial valuation, benefits summary and investment policy that have been received by our office for your plan. If any of these documents have been updated, please submit the most recent copy to our office.

Please feel free to contact our office at one of the numbers shown below if you have any questions regarding the information shown.

Sincerely,

State Pension Review Board
(800) 213-9425
(512) 463-1736

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

Financial Statements and
Required Supplemental Information

December 31, 2012 and 2011
(With Independent Auditors' Report Thereon)

Insight. Oversight. Foresight.™

 **DoerenMayhew**
CPAs AND ADVISORS

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:

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Supplemental Police and Fire Pension Plan of the City of Dallas (the Supplemental Plan), which comprise the statement of plan net position as of December 31, 2012, and the related statement of changes in plan net position for the year then ended, and the related notes to the basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these basic financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of basic financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012, and the changes in its financial status for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplemental Information

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 schedules of funding progress and employer contributions 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.

Other Matter – 2011 Financial Statements

The basic financial statements of the Supplemental Plan as of December 31, 2011, were audited by other auditors whose report dated June 29, 2012, expressed an unmodified opinion on those statements.



Houston, Texas
June 28, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

December 31, 2012 and 2011

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, 2012 and 2011. 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 Position presents the Supplemental Plan's assets and liabilities and reflects the plan net position as of the end of the year for the payment of pension benefits and other expenses. The Statement of Changes in Plan Net Position summarizes additions to and deductions from Supplemental Plan assets during the year. Net position at the beginning of the year plus additions and minus deductions during the year equals plan net position at the end of the year and available to pay pension benefits and other expenses. 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 Schedules.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

December 31, 2012 and 2011

CONDENSED FINANCIAL INFORMATION

| | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|--|---------------|-------------|-------------|
| Assets | \$ 22,702,458 | 20,369,200 | 21,119,411 |
| Liabilities | 6,663 | 14,192 | 375 |
| Net Position - Restricted for Pension Benefits | 22,695,795 | 20,355,008 | 21,119,036 |
| Contributions | 1,981,353 | 1,570,508 | 1,477,946 |
| Investment and Other Income (Loss) | 2,221,055 | (167,129) | 970,744 |
| Benefit Payments | 1,819,155 | 2,119,029 | 1,964,422 |
| Administrative Expenses and Professional Fees | 42,466 | 48,378 | 43,858 |

FINANCIAL HIGHLIGHTS

- The Supplemental Plan's net position increased \$2.3 million in 2012 to \$22.7 million. Net position decreased \$764 thousand in 2011 to \$20.4 million. The increase in plan net position reflects continued recovery in the financial markets in 2012.
- 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 2012 was 11.4% net of fees, compared to a rate of return of 0.3% for 2011. 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%. Over the course of the past year, the global economy showed signs that it was strengthening and stabilizing coming out of the global financial crisis. Domestically, equity markets were lead by a recovery in the housing sector while a stubbornly high unemployment rate persisted. While the presidential election and fiscal cliff dominated headlines late in the year, domestic markets were quietly creeping towards post-recession highs. The broad United States stock market, as measured by the S&P 500, returned 16.3% in 2012. Global markets, as measured by the MSCI ACWI, kept pace with U.S. markets returning 16.10% in 2012. Undoubtedly, the recovery has been aided by the Fed's stimulus programs which have kept risk-free rates near zero. Global Fixed Income returns, as measured by BC Global Aggregate Index, returned 4.3% in 2012. The System's allocation to Global Public Equity outperformed its benchmark returning 16.7% net of fees in 2012. The Global Private Equity and Global Fixed Income portfolios also saw strong returns with annual gains of 17.0% and 16.6%, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

December 31, 2012 and 2011

- The Supplemental Plan had \$6,663 in liabilities as of December 31, 2012, and \$14,192 in liabilities as of December 31, 2011. Investment liabilities are incorporated into the Group Trust and reflected within total investments.
- The Supplemental Plan received member contributions of \$27,331 in 2012 and \$26,791 in 2011. The Supplemental Plan received employer contributions from the City of Dallas (the City) in the amount \$1.95 million in 2012, an increase of \$410,305 over the \$1.54 million received in 2011. The contribution rates are established by statute. In a change in amortization implemented in 2012, the City's contribution rate is intended to be sufficient to amortize the unfunded actuarial accrued liability over ten years including the normal cost and the prior provision that limited contributions to be within \$100,000 of the previous year's contribution was eliminated.
- The Supplemental Plan paid \$1,819,155 in service retirement, disability retirement and survivor benefits during 2012, compared to \$2,119,029 in 2011. No changes to benefit provisions were implemented in 2012 or 2011.
- The cost of administering the benefit programs of the Supplemental Plan, including administrative costs and professional fees, was \$42,466 in 2012 compared to \$48,378 for 2011. 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 Master Trust, plus any expenses specific to the Supplemental Plan.
- The active membership of the Supplemental Plan increased by two to 39 members as of the end of 2012. There were 37 active members at December 31, 2011. The number of retired, terminated vested and beneficiaries was 120 and 113 as of December 31, 2012 and 2011, respectively.

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, 2013.

The ratio of a plan's actuarial value of assets (AVA) to the actuarial accrued liability (AAL), expressed as a percentage, is an indicator of the plan's funding status. Generally, the larger the percentage, the stronger the financial health of the plan. The Supplemental Plan's AAL ratio increased to 57.9% for 2012 compared to 57.3% for 2011.

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, 2013, the Supplemental Plan's UAAL was \$15,702,369, an increase of \$195 thousand from a UAAL of \$15,507,036 as of January 1, 2012.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

December 31, 2012 and 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 Position
December 31, 2012 and 2011**

| <u>Assets</u> | <u>2012</u> | <u>2011</u> |
|--|----------------------|----------------------|
| Plan interest in Group Master Trust, at fair value (notes 2, 3, 4, 6, 7 and 8) | \$ 22,701,117 | \$ 20,368,502 |
| Accrued member contributions receivable (note 5) | <u>1,341</u> | <u>698</u> |
| Total assets | 22,702,458 | 20,369,200 |
| <u>Liabilities and Plan Net Position</u> | | |
| Administrative expenses payable | <u>6,663</u> | <u>14,192</u> |
| Net position - restricted for pension benefits | <u>\$ 22,695,795</u> | <u>\$ 20,355,008</u> |

See accompanying notes to basic financial statements.

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

**Statements of Changes in Plan Net Position
Years Ended December 31, 2012 and 2011**

| | <u>2012</u> | <u>2011</u> |
|---|----------------------|----------------------|
| Additions to net position: | | |
| Net investment income - | | |
| net investment gain (loss) from the Group Master Trust (note 3) | \$ 2,221,055 | \$ (167,129) |
| Contributions: | | |
| Employer (note 5) | 1,954,022 | 1,543,717 |
| Member (note 5) | 27,331 | 26,791 |
| Total contributions | <u>1,981,353</u> | <u>1,570,508</u> |
| Total additions to net position | <u>4,202,408</u> | <u>1,403,379</u> |
| Deductions from net position: | | |
| Benefit payments | 1,819,155 | 2,119,029 |
| Administrative and professional fees | 42,466 | 48,378 |
| Total deductions from net position | <u>1,861,621</u> | <u>2,167,407</u> |
| Net increase (decrease) in net position | 2,340,787 | (764,028) |
| Net position - restricted for pension benefits: | | |
| Beginning of year | <u>20,355,008</u> | <u>21,119,036</u> |
| End of year | <u>\$ 22,695,795</u> | <u>\$ 20,355,008</u> |

See accompanying notes to basic financial statements.

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

**Notes to Basic Financial Statements
December 31, 2012 and 2011**

Note 1 - Description of 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 basic 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, 2012 and 2011, the Supplemental Plan membership consisted of:

| | <u>2012</u> | <u>2011</u> |
|---|-------------|-------------|
| Non-active members - pensioners and qualified survivors currently receiving benefits: | | |
| Firefighters | 52 | 50 |
| Police officers | <u>68</u> | <u>63</u> |
| Total non-active members | <u>120</u> | <u>113</u> |
| Active members - vested: | | |
| Firefighters | 14 | 16 |
| Police officers | <u>25</u> | <u>21</u> |
| Total active members | <u>39</u> | <u>37</u> |

In 1992, an amendment to Article 6243a-1 was approved by the members of the Combined Pension Plan allowing for a Deferred Retirement Option Plan (DROP). The amendment automatically modified the Supplemental Plan so members that enter the DROP program in the Combined Pension Plan also enter the DROP program in the Supplemental Plan. DROP Members have their contribution discontinued but the City's portion of the total contribution continues. The Member's monthly benefit remains in the plan and accumulates interest. Upon retirement from the City, the Member is able to withdraw from their DROP Account along with the Member's normal benefits. Amounts included in these basic financial statements related to DROP members are \$9,701,115 and \$4,637,935 for December 31, 2012 and 2011, respectively.

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements December 31, 2012 and 2011

Note 1 - Description of Plan and Summary of Significant Accounting Policies (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.

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements December 31, 2012 and 2011

Note 1 - Description of Plan and Summary of Significant Accounting Policies (Continued)

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.

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.

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements December 31, 2012 and 2011

Note 1 - Description of Plan and Summary of Significant Accounting Policies (Continued)

Basis of Accounting

The basis of accounting is the method by which revenues and expenses are recognized in the accounts and reported in the basic financial statements. The accrual basis of accounting is used by the Supplemental Plan. 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 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 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 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.

**SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS****Notes to Basic Financial Statements
December 31, 2012 and 2011****Note 1 - Description of Plan and Summary of Significant Accounting Policies (Continued)**Plan Interest in Group Master 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, 2012 and 2011. 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's investments was approximately 0.668% and 0.691% at December 31, 2012 and 2011, respectively. The allocation of investment income and expenses between the System and the Supplemental Plan is based on the number of units owned of the Group Trust. Benefits, contributions and direct administrative expenses are allocated to each plan directly.

Investment 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.

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements December 31, 2012 and 2011

Note 1 - Description of Plan and Summary of Significant Accounting Policies (Continued)

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 position and are included in net investment income. The Group Trust and the Supplemental Plan structure foreign exchange contracts and enter into certain transactions to substantially mitigate the Group Trust's and the Supplemental Plan's exposure to fluctuations in foreign exchange rates.

Investments and broker accounts denominated in foreign currencies outstanding at December 31, 2012 and 2011 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, 2012 and 2011, respectively. These foreign exchange gains and losses are included the in Group Trust net appreciation/(depreciation) 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 approved by the Board.

**SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS****Notes to Basic Financial Statements
December 31, 2012 and 2011****Note 1 - Description of Plan and Summary of Significant Accounting Policies (Continued)**Recent Accounting Pronouncements

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. The adoption of this statement during 2012 had no material impact on the basic financial statements.

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. The adoption of this statement during 2012 had no material impact on the basic financial statements.

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.

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements December 31, 2012 and 2011

Note 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 them. The Group Trust's and the Supplemental Plan's deposits are held by the custodian, JPMorgan Chase. As of December 31, 2012 and 2011, the Group Trust and the Supplemental Plan had bank balances of \$3,465,006 and \$15,765,821, 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.

Note 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, 2012 and 2011. Securities traded on a national or international exchange are valued at the last reported sales price as of year-end at current exchange rates. Short-term investments are government and corporate bonds with a maturity of less than one year are valued based on year end 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 as of year-end. Unrealized gains and losses are presented as net appreciation/(depreciation) in fair value of investments on the statement of changes in plan position 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:

| <u>Assets</u> | <u>2012</u> | <u>2011</u> |
|--|----------------------|----------------------|
| Investments, at fair value (notes 2, 3 and 4): | | |
| Cash and cash equivalents | \$ 251,480,246 | \$ 212,012,476 |
| United States government securities | 6,447,279 | 11,185,810 |
| United States government sponsored enterprises | 825,180 | 1,025,208 |
| Foreign government securities | 114,555,742 | 97,750,603 |
| Commingled funds - equity | 1,258,820,113 | 910,925,729 |
| Commingled funds - fixed | 61,461,156 | 118,429,338 |
| Domestic equities | 454,741,136 | 436,012,638 |
| International equities | 275,833,357 | 307,583,199 |
| Corporate securities | 207,909,286 | 202,536,628 |
| Investments, at appraised value - real estate equity funds | <u>1,288,179,047</u> | <u>1,383,849,615</u> |
| Total investments | <u>3,920,252,542</u> | <u>3,681,311,244</u> |

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

**Notes to Basic Financial Statements
December 31, 2012 and 2011**

Note 3 - Investments and Plan Interest in Group Master Trust (Continued)

| | | |
|-------------------------------------|----------------------|----------------------|
| Receivables: | | |
| Accrued interest and dividends | 6,800,636 | 7,024,601 |
| Forward currency contracts (note 6) | 36,811,902 | 35,486,325 |
| Securities sold | <u>1,764,907</u> | <u>3,317,375</u> |
| Total receivables | <u>45,377,446</u> | <u>45,828,301</u> |
| Total assets | <u>3,965,629,987</u> | <u>3,727,139,545</u> |

Liabilities and Net Assets

| | | |
|--|-------------------------|-------------------------|
| Repurchase loan agreement (note 7) | - | 24,644,300 |
| Payable for securities purchased | 2,468,417 | 3,796,351 |
| Professional fees payable | 3,425,584 | 6,866,248 |
| Forward currency contracts (note 6) | 36,975,573 | 35,772,079 |
| Securities lending collateral (note 4) | 196,323,550 | 157,129,466 |
| Line of credit and other bank loans (note 8) | <u>442,430,730</u> | <u>465,011,200</u> |
| Total liabilities | <u>681,623,854</u> | <u>693,219,644</u> |
| Net position of Group Trust | <u>\$ 3,284,006,133</u> | <u>\$ 3,033,919,901</u> |

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

| | <u>2012</u> | <u>2011</u> |
|--|-------------------------|-------------------------|
| Investment income: | | |
| Interest | \$ 18,671,028 | \$ 21,145,839 |
| Dividends | 28,016,763 | 28,853,282 |
| Real estate income | 14,209,687 | 2,742,140 |
| Net appreciation/(depreciation) in fair value of investments | 299,651,675 | (45,186,741) |
| Securities lending income | 718,498 | 608,035 |
| Less investment expenses: | | |
| Custody fees | (225,173) | (278,628) |
| Investment services | <u>(28,549,282)</u> | <u>(32,057,338)</u> |
| Total investment income (loss) in Group Trust | 332,493,196 | (24,173,411) |
| Benefit payments in excess of contributions received for System and Supplemental Plan | (82,406,964) | (72,344,906) |
| Net position of Group Trust: | | |
| Beginning of year | <u>3,033,919,901</u> | <u>3,130,438,218</u> |
| End of year | <u>\$ 3,284,006,133</u> | <u>\$ 3,033,919,901</u> |

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements December 31, 2012 and 2011

Note 3 - Investments and Plan Interest in Group Master Trust (Continued)

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

| | <u>2012</u> | <u>2011</u> |
|--|-------------------------|-------------------------|
| Group Trust interest held by the System | \$ 3,261,305,016 | \$ 3,013,551,399 |
| Group Trust interest held by the Supplemental Plan | <u>22,701,117</u> | <u>20,368,502</u> |
| Total net position of Group Trust | <u>\$ 3,284,006,133</u> | <u>\$ 3,033,919,901</u> |

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

The fair values of the Group Trust's investments at December 31, 2012 and 2011 are presented by type, as follows:

| | <u>2012</u> | <u>2011</u> |
|---|-------------------------|-------------------------|
| Cash and cash equivalents | \$ 251,480,246 | \$ 212,012,476 |
| United States government securities | 6,447,279 | 11,185,810 |
| U.S. government sponsored enterprises | 825,180 | 1,025,208 |
| Foreign government securities | 114,555,742 | 97,750,603 |
| Commingled funds - equity | 1,258,820,113 | 910,925,729 |
| Commingled funds - fixed | 61,461,156 | 118,429,338 |
| Domestic equities | 454,741,136 | 436,012,638 |
| International equities | 275,833,357 | 307,583,199 |
| Corporate bonds | 207,909,286 | 202,536,628 |
| Investments, at appraised value - real estate equity funds | <u>1,288,179,047</u> | <u>1,383,849,615</u> |
| Total investments | <u>\$ 3,920,252,542</u> | <u>\$ 3,681,311,244</u> |

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, 2012 and 2011 were \$196,323,550 and \$157,129,466, respectively.

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

**Notes to Basic Financial Statements
December 31, 2012 and 2011**

Note 3 - Investments and Plan Interest in Group Master Trust (Continued)

Custodial Credit Risk

For an investment, custodial credit is the risk that, in the event of the failure of the counterparty, the Group Trust and the 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, 2012 and 2011, 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.

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements December 31, 2012 and 2011

Note 3 - Investments and Plan Interest in Group Master Trust (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.
 - e. Managers shall maintain cash levels consistent with their style as presented to the System Board at the time of selection. Any deviation shall be allowed only after notifying the System Administrator and Assistant Administrator of Investments and should be related to unusual market conditions. The cash level held by each manager will be addressed in the Investment Management Services Contract.
3. The System'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.

**SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS****Notes to Basic Financial Statements
December 31, 2012 and 2011****Note 3 - Investments and Plan Interest in Group Master Trust (Continued)**

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.

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.

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements December 31, 2012 and 2011

Note 3 - Investments and Plan Interest in Group Master Trust (Continued)

At December 31, 2012, 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 | \$ - | 2,857,714 | - | 3,589,565 | 6,447,279 |
| U.S. Gov't agency securities | - | - | - | 825,180 | 825,180 |
| Corporate bonds | <u>3,978,076</u> | <u>67,920,738</u> | <u>78,806,402</u> | <u>57,204,070</u> | <u>207,909,286</u> |
| Total fixed maturity domestic | <u>3,978,076</u> | <u>70,778,452</u> | <u>78,806,402</u> | <u>61,618,815</u> | <u>215,181,745</u> |
| International government bonds: | | | | | |
| Australian Dollar | - | 8,592,824 | 8,128,911 | - | 16,721,735 |
| Brazil Real | - | 635,165 | 3,156,209 | - | 3,791,374 |
| British Pound Sterling | 5,863,994 | 933,087 | 1,212,547 | - | 8,009,628 |
| Canadian Dollar | - | - | 2,207,141 | - | 2,207,141 |
| EURO Currency | - | 3,837,320 | 4,020,668 | 6,425,232 | 14,283,220 |
| Hungary | 1,705,735 | - | - | - | 1,705,735 |
| Indonesian Rupiah | - | 1,911,376 | 834,407 | - | 2,745,783 |
| Japanese Yen | 1,640,026 | 13,714,657 | 4,859,627 | 650,385 | 20,864,695 |
| Malaysian Ringgit | 1,430,335 | 2,057,088 | - | - | 3,487,423 |
| Mexican New Peso | - | 4,608,018 | 1,753,779 | 9,134,050 | 15,495,847 |
| New Zealand Dollar | - | 491,154 | 2,683,061 | - | 3,174,215 |
| Poland New Zloty | - | 3,167,197 | 7,961,774 | - | 11,128,971 |
| South Korea | 964,234 | 2,724,531 | - | - | 3,688,765 |
| South Africa | - | 1,329,847 | 2,844,054 | 938,920 | 5,112,821 |
| Sweden | - | 1,008,829 | 1,129,560 | - | 2,138,389 |
| Total international government bonds | <u>11,604,324</u> | <u>45,011,093</u> | <u>40,791,738</u> | <u>17,148,587</u> | <u>114,555,742</u> |
| Total fixed maturity | \$ <u>15,582,400</u> | <u>115,789,545</u> | <u>119,598,140</u> | <u>78,767,402</u> | <u>329,737,487</u> |

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

**Notes to Basic Financial Statements
December 31, 2012 and 2011**

Note 3 - Investments and Plan Interest in Group Master Trust (Continued)

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 | <u>6,155,305</u> | <u>56,586,640</u> | <u>71,356,928</u> | <u>68,437,755</u> | <u>202,536,628</u> |
| Total fixed maturity domestic | <u>6,155,305</u> | <u>59,049,618</u> | <u>71,356,928</u> | <u>78,185,795</u> | <u>214,747,646</u> |
| 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 | <u>888,762</u> | <u>2,305,931</u> | <u>-</u> | <u>-</u> | <u>3,194,693</u> |
| Total foreign government securities | <u>20,408,120</u> | <u>43,311,756</u> | <u>21,658,095</u> | <u>12,372,632</u> | <u>97,750,603</u> |
| Total fixed maturity | <u>\$ 26,563,425</u> | <u>102,361,374</u> | <u>93,015,023</u> | <u>90,558,427</u> | <u>312,498,249</u> |

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements December 31, 2012 and 2011

Note 3 - Investments and Plan Interest in Group Master Trust (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, 2012 is as follows:

| Quality Rating | Corporate Bonds | U.S. Government Treasury Notes | U.S. Government Agencies | Foreign Bonds | Grand Total Fair Value | Percentage of Holdings |
|-----------------------------------|-----------------|--------------------------------|--------------------------|---------------|------------------------|------------------------|
| AAA | \$ 5,076,767 | - | - | 7,613,370 | 12,690,137 | 0.32% |
| AA+ | 1,902,621 | - | - | 8,017,496 | 9,920,117 | 0.25% |
| AA | 2,221,401 | - | - | - | 2,221,401 | 0.06% |
| AA- | 293,780 | - | - | 3,134,003 | 3,427,783 | 0.09% |
| A+ | 1,745,609 | - | - | 2,745,784 | 4,491,393 | 0.11% |
| A | 2,023,853 | - | - | 15,015,264 | 17,039,117 | 0.43% |
| A- | 6,331,671 | - | - | 16,207,114 | 22,538,785 | 0.57% |
| BBB+ | 2,995,955 | - | - | 4,140,933 | 7,136,888 | 0.18% |
| BBB | 6,204,257 | - | - | - | 6,204,257 | 0.16% |
| BBB- | 8,364,543 | - | - | 928,266 | 9,292,809 | 0.24% |
| BB+ | 14,472,857 | - | - | 67,403 | 14,540,260 | 0.37% |
| BB | 25,647,360 | - | - | 1,705,735 | 27,353,095 | 0.70% |
| BB- | 20,358,671 | - | - | 2,207,141 | 22,565,812 | 0.58% |
| B+ | 1,780,000 | - | - | - | 1,780,000 | 0.05% |
| B | 13,886,873 | - | - | - | 13,886,873 | 0.35% |
| B- | 519,496 | - | - | 58,234 | 577,730 | 0.01% |
| Below CCC | 81,408,481 | - | - | - | 81,408,481 | 2.08% |
| NA | 12,675,091 | 6,447,279 | 825,180 | 52,714,999 | 72,662,549 | 1.85% |
| Subtotal | \$ 207,909,286 | 6,447,279 | 825,180 | 114,555,742 | 329,737,487 | 8.41% |
| Total credit risk debt securities | | | | | 329,737,487 | 8.41% |
| Other investments | | | | | 3,590,563,411 | 91.59% |
| Total investments | | | | | 3,920,300,898 | 100.00% |

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

**Notes to Basic Financial Statements
December 31, 2012 and 2011**

Note 3 - Investments and Plan Interest in Group Master Trust (Continued)

The Group Trust's exposure to investment credit risk in fixed income securities as of December 31, 2011 is as follows:

| <u>Quality Rating</u> | <u>Corporate Bonds</u> | <u>U.S. Government Treasury Securities</u> | <u>U.S. Government Agencies</u> | <u>Foreign Government Securities</u> | <u>Grand Total Fair Value</u> | <u>Percentage of Holdings</u> |
|-----------------------------------|----------------------------|--|---|--|-----------------------------------|-----------------------------------|
| AAA | \$ 9,553,419 | 11,185,810 | 1,025,208 | 12,130,741 | 33,895,178 | 0.92% |
| AA+ | 1,318,962 | - | - | 5,147,384 | 6,466,346 | 0.18% |
| AA | 2,170,875 | - | - | - | 2,170,875 | 0.06% |
| AA- | - | - | - | 947,216 | 947,216 | 0.03% |
| A+ | 4,224,717 | - | - | 3,170,248 | 7,394,965 | 0.20% |
| A | 3,353,981 | - | - | 15,207,819 | 18,561,800 | 0.50% |
| A- | 4,581,702 | - | - | 9,634,205 | 14,215,907 | 0.39% |
| BBB+ | 7,291,975 | - | - | 1,463,579 | 8,755,554 | 0.24% |
| BBB | 5,099,731 | - | - | - | 5,099,731 | 0.14% |
| BBB- | 5,454,559 | - | - | 771,568 | 6,226,127 | 0.17% |
| BB+ | 12,886,285 | - | - | 1,357,825 | 14,244,110 | 0.39% |
| BB | 34,397,441 | - | - | - | 34,397,441 | 0.93% |
| BB- | 18,614,400 | - | - | 2,752,566 | 21,366,966 | 0.58% |
| B+ | 13,304,462 | - | - | - | 13,304,462 | 0.36% |
| B | 20,679,366 | - | - | 36,792 | 20,716,158 | 0.56% |
| B- | 13,091,316 | - | - | - | 13,091,316 | 0.36% |
| Below CCC | 33,026,806 | - | - | 208,476 | 33,235,282 | 0.90% |
| NA | 13,486,631 | - | - | 44,922,184 | 58,408,815 | 1.59% |
| Subtotal | \$ 202,536,628 | 11,185,810 | 1,025,208 | 97,750,603 | 312,498,249 | 8.49% |
| 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% |

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements December 31, 2012 and 2011

Note 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 2012 and 2011 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 2012 and 2011. Moreover, there were no losses during the 2012 and 2011 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 2012 and 2011, 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, 2012 and 2011, 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 \$191,501,517 and \$152,361,948 at December 31, 2012 and 2011, respectively. The collateral held for the Group Trust was \$196,323,550 and \$157,129,466 at December 31, 2012 and 2011, 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, 2012 and 2011.

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

**Notes to Basic Financial Statements
December 31, 2012 and 2011**

Note 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 accrued liability over ten years as of January 1, 2012 and five years as of December 31, 2011.

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, 2013, consists of 430.39% of covered members' salaries and is an increase of 36.69% from the 314.87% of covered members salaries as of January 1, 2012.

Funded Status

Information regarding the actuarial funding status of the Supplemental Plan as of January 1, 2013, 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 |
|--------------------------------|--|--|---------------------------|----------------------------------|--------------------|--|
| 1/01/13 | \$21,563 | \$37,265 | \$15,702 | 57.9% | \$450 | 3,489.31% |

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements December 31, 2012 and 2011

Note 5 - Contributions Required and Contributions Made (Continued)

The January 1, 2013 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 detailed in actuary's report |
| Actuarial cost method | Entry age normal cost method |
| Post retirement benefit increases: Group A and Group B | 4% per year of original pension annually |
| Asset valuation | Market value |
| Amortization method | Open level fixed percent |
| Amortization period | 30 years |
| DROP account returns | 8.5% per year |
| Post retirement mortality | RP-2000 Combined Healthy Mortality Table projected 10 years beyond the valuation date using Scale AA for healthy retirees and active members. 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 32 through 34. This information is intended to demonstrate progress the Supplemental Plan has made in accumulating sufficient assets to pay benefits when due and the related actuarial assumptions used in determining the actuarially determined amounts.

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

**SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS****Notes to Basic Financial Statements
December 31, 2012 and 2011**

Note 6 - Forward Contracts

During fiscal years 2012 and 2011, 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. 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.

During 2012 and 2011, the Group Trust recognized net realized gains and losses on foreign currency forward contracts of \$133,265 and \$(131,608), respectively. At December 31, 2012 and 2011, the Group Trust had net unrealized gains and losses on forward currency contracts reflected in the accompanying Group Trust summary information of \$(296,936) and (\$154,147), respectively, included in net appreciation/(depreciation) in fair value of investments.

Note 7 - Obligation Under Reverse Repurchase Agreements

State statutes permit the Supplemental Plan to enter into reverse repurchase agreements. The credit exposure at year end 2012 and 2011 related to these agreements was \$0 and 24,644,300, 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, 2012 and 2011.

Note 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, 2012 and 2011, payable quarterly. The Group Trust and the System also pay a quarterly fee on the unused portion of the line of credit equaling 25 basis points. The revolving credit line was opened on November 1, 2006, and expires on March 31, 2014. At December 31, 2012 and 2011, the Group Trust had borrowed approximately \$338,211,730 and \$353,340,200, respectively, related to the revolving credit line, which provides for a maximum borrowing of \$400,000,000. 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.

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements December 31, 2012 and 2011

Note 8 - Line of Credit and Other Bank Loans (Continued)

In addition to the line of credit, the Group Trust has an additional loan agreement with a commercial bank bearing interest per annum at the LIBOR rate plus 75 basis points at December 31, 2012 and 2011, payable quarterly. The loan is secured by real property and matures on March 31, 2014. At December 31, 2012 and 2011, the loan balance outstanding was \$24,219,000 and \$31,671,000, respectively. 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.

The Group Trust had a credit agreement with a commercial bank which provided for a revolving line of credit bearing interest at the PRIME rate with a floor rate of 5% as of December 31, 2011, payable monthly. The Group Trust and the System also paid a monthly fee on the unused portion of the line of credit equaling 50 basis points. The revolving credit line had an original expiration date of June 29, 2012. 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. At December 31, 2012 and 2011, 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 Group Trust had a credit agreement with a commercial bank which provided for a revolving line of credit bearing interest at the PRIME rate as of December 31, 2011, payable quarterly. The credit agreement had no 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. On August 1, 2012, the credit agreement re-financed with a different commercial bank and revised terms. The new credit agreement bears interest at the 30 day floating LIBOR plus 225 basis points at December 31, 2012, payable quarterly. The new credit agreement has no fee on the unused portion. The new credit agreement expires on September 15, 2014. At December 31, 2012 and 2011, 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.

Maturities of debt at December 31 are as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|-----------------------|
| 2014 | \$ 402,430,730 |
| 2017 | <u>40,000,000</u> |
| Total | <u>\$ 442,430,730</u> |

**SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS****Notes to Basic Financial Statements
December 31, 2012 and 2011**

Note 9 - Federal Income Tax Status

A favorable determination that the Supplemental Plan is qualified and exempt from Federal income taxes was received on May 25, 2012, 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.

Note 10 - Administrative Expenses

Group Trust investment related expenses for the years ended December 31, 2012 and 2011 also include \$28,549,282 and \$32,057,338, respectively, in asset management fees for the Group Trust.

Note 11 - 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, 2012 and 2011, aggregate contributions from active members of the Supplemental Plan with less than five years of service were \$2 and \$13,475, respectively.

The Group Trust had outstanding investment commitments to various limited partnerships and international investment advisors of approximately \$721,000,000 and \$516,000,000 at December 31, 2012 and 2011, respectively.

Note 12 - 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 33, and schedule of funding progress, page 32, 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.

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements
December 31, 2012 and 2011

Note 12 - Risks and Uncertainties (Continued)

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

The Supplemental Plan has intervened in the above lawsuits to protect the Supplemental Plan's right to members and City contributions which the Supplemental Plan believes will be due if the police officers' and firefighters' claims are successful. The ultimate outcome of these lawsuits cannot be determined at this time and, accordingly, no amounts related to these claims have been accrued in the Supplemental Plan's basic financial statements as of December 31, 2012 and 2011.

Note 13 - Subsequent Events

By operation of federal law, beginning January 1, 2013, funds deposited in a noninterest-bearing transaction account no longer will receive unlimited deposit insurance coverage by the Federal Deposit Insurance Corporation (FDIC). Beginning January 1, 2013, all of a depositor's accounts at an insured depository institution, including all noninterest-bearing transaction accounts, will be insured by the FDIC up to the standard maximum deposit insurance amount (\$250,000), for each deposit insurance ownership category.

Management has evaluated subsequent events through June 28, 2013, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other 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) |
| 1/1/2008 | \$ 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 % |
| 1/1/2013 | 21,563 | 37,265 | 15,702 | 58% | 450 | 3,489 % |

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 | | |
|------------------------------------|---|-----------------------------------|
| <u>Year ended December 31,</u> | <u>Annual required contribution</u> | <u>Percentage contributed</u> |
| 2007 | \$ 1,340,414 | 100 % |
| 2008 | 1,243,717 | 100 % |
| 2009 | 1,343,717 | 100 % |
| 2010 | 1,443,717 | 100 % |
| 2011 | 1,543,717 | 100 % |
| 2012 | 1,954,022 | 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, 2013 and 2012 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 | Market value |
| Amortization method | Open level fixed percent |
| Amortization period | 30 years |
| DROP account returns | 8.5% per annum |
| Post retirement mortality | RP-2000 Combined Healthy Mortality Table projected ten years beyond using Scale AA for healthy retires and active members. RP-2000 Combined Health Mortality Table with a one year set forward for disabled members. |

* 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 2012 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, 2012 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, 2013 and 2012, and are not materially different from what they would have been had they been calculated on December 31, 2012 and 2011, 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.

**DALLAS POLICE AND FIRE PENSION SYSTEM
SUPPLEMENTAL PLAN
ACTUARIAL VALUATION
AS OF JANUARY 1, 2013**

buckconsultants



A Xerox Company

May 7, 2013

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, 2013**

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, 2013.

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, including the normal cost. However, in no event will the City's contribution be less than the amount necessary to satisfy GASB 27. For 2013, the contribution is \$1,935,588.

Funding Progress

As of January 1, 2013, the City's contribution rate needed in order to meet the funding goal is 430.39% of covered payroll. This amount is greater than the 314.87% employer rate calculated as of January 1, 2012. The current contribution rate for 2013 noted above covers the normal cost and the amortization of the Unfunded Actuarial Accrued Liability (UAAL).

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

Mr. Richard Tettamant
May 7, 2013
Page 2

Benefit Provisions

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

Assumptions and Methods

The actuarial assumptions and methods used in the valuation are presented in Schedule C. The valuation is based on the same assumptions and methods adopted by the Board of Trustees as the previous valuation.

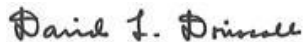
The assumptions used are individually reasonable and reasonable in the aggregate.

Data

Asset information and member data for retired, active, and inactive members was supplied as of January 1, 2013, 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, 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 Supplemental Plan
Actuarial Valuation - January 1, 2013

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Dallas Police and Fire Pension System Supplemental Plan
 Actuarial Valuation - January 1, 2013

Section 1

Summary of Principal Results

| | January 1, 2013 | January 1, 2012 |
|--|-----------------|-----------------|
| Membership | | |
| Active | 39 | 37 |
| Retired and terminated members and beneficiaries | 120 | 113 |
| Compensation | | |
| Total | \$ 449,726 | \$ 620,590 |
| Average | \$ 11,531 | \$ 16,773 |
| Assets | | |
| Market value | \$ 21,562,556 | \$ 20,822,569 |
| Valuation Results | | |
| Unfunded actuarial accrued liability (UAAL) | \$ 15,702,369 | \$ 15,507,036 |
| City's normal cost contribution | \$ 49,598 | \$ 91,493 |
| Funding Policy contribution | \$ 1,935,588 | \$ 1,954,022 |
| GASB No. 25 | | |
| Actuarial accrued liability (AAL) | \$ 37,264,925 | \$ 36,329,605 |
| Assets | \$ 21,562,556 | \$ 20,822,569 |
| GASB ratio | 57.9% | 57.3% |
| Unfunded AAL | \$ 15,702,369 | \$ 15,507,036 |

Comments on the Valuation

Overview

The current valuation indicates that a total contribution of \$1,935,588 should be contributed during 2013.

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

GASB Statements

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

Benefit Provisions

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

Actuarial Assumptions and Methods

The actuarial assumptions and methods used in the valuation are presented in Schedule C. The 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.

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.

Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2013

Section 2
(continued)

A City Contribution rate of 212.33% will be required for the City to avoid showing an accrued pension liability on its financial statements for the fiscal year beginning in 2013, 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 2012 and 2013. The estimated rate of return for 2012 was 2.77%.

Membership Statistics

Data on active members and on retired members was supplied by the Administrator. The active membership increased from 37 members as of January 1, 2012, to 39 members as of January 1, 2013. The payroll decreased from January 1, 2012 to January 1, 2013 (\$620,590 for 2012 and \$449,726 for 2013). The decrease in payroll was due to the retirement or demotion of a few highly paid members, and the addition of the "Major" rank (which is comparatively lower paid than the existing ranks) for eligibility in the plan. Schedule A shows a summary of the membership data.

Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2013

Section 3

Actuarial Cost

| | <u>January 1, 2013</u> | <u>January 1, 2012</u> |
|--|------------------------|------------------------|
| 1. Covered Payroll | \$ 449,726 | \$ 620,590 |
| 2. Actuarial present value of future benefits | \$ 37,699,772 | \$ 37,059,336 |
| 3. Actuarial present value of future normal costs | \$ 434,847 | \$ 729,731 |
| 4. Actuarial accrued liability (2 - 3) | \$ 37,264,925 | \$ 36,329,605 |
| 5. Actuarial value of assets | \$ 21,562,556 | \$ 20,822,569 |
| 6. Unfunded actuarial accrued liability (UAAL) (4 - 5) | \$ 15,702,369 | \$ 15,507,036 |
| 7. City's normal cost contribution | \$ 49,598 | \$ 91,493 |
| 8. Funding Policy contribution | \$ 1,935,588 | \$ 1,954,022 |
| 9. Total contribution as a percentage of covered payroll (8 ÷ 1) | 430.39% | 314.87% |

Dallas Police and Fire Pension System Supplemental Plan
 Actuarial Valuation - January 1, 2013

Section 3
 (continued)

Analysis of Change in UAAL

| | |
|--|------------------|
| 1. UAAL as of January 1, 2012 | \$15,507,036 |
| 2. Changes due to: | |
| a. Expected increase/(amortization) | \$ (621,975) |
| b. Actual contributions (greater)/less than expected | 10,783 |
| c. Assumption change | 0 |
| d. Liability experience | (391,827) |
| e. Asset experience | <u>1,198,352</u> |
| f. Total changes | \$ 195,333 |
| 3. UAAL as of January 1, 2013 | \$15,702,369 |

Historical Trend Information

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

| <u>Date</u> | <u>Actuarial Value of Assets</u> | <u>Actuarial Liability (AAL) Entry Age</u> | <u>Unfunded AAL (UAAL)</u> | <u>Funded Ratio</u> | <u>Covered Payroll</u> | <u>UAAL as a Percentage of Covered Payroll</u> |
|-----------------|----------------------------------|--|----------------------------|---------------------|------------------------|--|
| January 1, 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% |
| January 1, 2013 | 21.563 | 37.265 | 15.702 | 57.9% | 0.450 | 3,489.3% |

GASB #25 Schedule of Employer Contributions for Year Ending December 31, 2012

| <u>Annual Required Contribution</u> | <u>Percentage Contributed</u> |
|-------------------------------------|-------------------------------|
| \$1,954,022 | 100% |

Dallas Police and Fire Pension System Supplemental Plan
 Actuarial Valuation - January 1, 2013

Section 3
 (continued)

**Summary of Accumulated Benefits
 (FASB ASC 960)**

Accumulated Benefits at January 1, 2013

| | | |
|--|--|---------------|
| Vested benefits of participants and beneficiaries currently receiving payments | | \$ 31,870,748 |
| Other vested benefits | | 5,055,534 |
| Nonvested benefits | | <u>44,514</u> |
| Total benefits | | \$ 36,970,796 |

ASC 960 Reconciliation

| | | |
|---|--------------|----------------------|
| Accumulated benefits at January 1, 2012 | | \$ 36,605,490 |
| Benefits accumulated and actuarial gains/losses | \$ (851,268) | |
| Interest | 3,035,729 | |
| Benefits paid | (1,819,155) | |
| Plan amendment | 0 | |
| Assumption changes | <u>0</u> | |
| Total change | 365,306 | |
| Accumulated benefits at January 1, 2013 | | \$ 36,970,796 |

Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2013

Section 5

Reconciliation of Fund Assets

| | <u>Year Ending</u> <u>December 31, 2012</u> |
|---------------------------------------|--|
| 1. Value of fund at beginning of year | \$ 20,822,569 |
| 2. Contributions | |
| a. City | 1,954,022 |
| b. Member | <u>26,688</u> |
| c. Total | \$ 1,980,710 |
| 3. Benefit payments | (1,819,155) |
| 4. Refunds | 0 |
| 5. Gross earnings | 620,898 |
| 6. Expenses | (42,466) |
| 7. Value of assets at end of year | 21,562,556 |
| 8. Estimated rate of return | 2.77% |

Dallas Police and Fire Pension System Supplemental Plan
 Actuarial Valuation - January 1, 2013

Schedule A

Membership Data

| | <u>January 1, 2013</u> | <u>January 1, 2012</u> |
|---|------------------------|------------------------|
| 1. Active members (excluding DROP) | | |
| a. Number | 19 | 9 |
| b. Compensation | \$ 181,501 | \$ 289,660 |
| c. Average compensation | \$ 9,553 | \$ 32,184 |
| d. Average age | 45.22 | 46.33 |
| e. Average service (years) | 21.63 | 21.00 |
| 2. Active members (DROP only) | | |
| a. Number | 20 | 28 |
| b. Compensation | \$ 268,225 | \$ 330,930 |
| c. Average Compensation | \$ 13,411 | \$ 11,819 |
| d. Average age | 54.42 | 55.28 |
| e. Average total service | 26.63 | 31.57 |
| f. DROP account balance | \$ 1,198,951 | \$ 2,318,968 |
| 3. Inactive members | | |
| a. Number | 120 | 113 |
| b. Total annual benefit | \$ 1,989,031 | \$ 1,877,244 |
| c. Average annual benefit | \$ 16,575 | \$ 16,613 |

Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2013

Schedule B

**Summary of Benefit Provisions
As of January 1, 2013
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.

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Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2013

Schedule B
(continued)

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 is 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.

Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2013

Schedule B
(continued)

b. 20 years of Pension Service

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

| <u>Age</u> | <u>20 & Out Multiplier</u> |
|------------|--------------------------------|
| 50 & above | 3.00% |
| 49 | 2.75% |
| 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.

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Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2013

Schedule B
(continued)

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.

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Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2013

Schedule B
(continued)

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

Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2013

Schedule B
(continued)

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.

Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2013

Schedule B
(continued)

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 is 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

Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2013

Schedule B
(continued)

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.

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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.

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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

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Schedule C

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:

| Age | Annual Rate per 1,000 Members | | | |
|-----|-------------------------------|------|------------|------|
| | Withdrawal | | Disability | |
| | 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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Mortality: According to the RP-2000 Combined Healthy Mortality Table projected ten years beyond the valuation date 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.







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