2001 Comprehensive Financial Annual Report

Employees' Retirement Fund

Of the City of Dallas

Fiscal Year Ended December 31, 2001

2001 AT - A - GLANCE

Active Members	**8,093**
Benefit Recipients	**4,389**
Inactive Members	**412**
Fund Net Assets	**$1,769,910,000**
Benefits Paid	**$87,054,000**
Refunds	**$2,434,000**
Member Contributions	**$20,814,000**
City Contributions	**$35,182,000**
Investment Rate of Return	**-5.28%**

The Employees' Retirement Fund provides retirement, disability, and survivor benefits to permanent civilian employees of the City of Dallas.

EMPLOYEES' RETIREMENT FUND
OF THE CITY OF DALLAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

JOHN KLOEHR
ADMINISTRATOR

Office Location and Mailing Address
EMPLOYEES' RETIREMENT FUND
600 North Pearl, Suite 2450
Dallas, Texas 75201

Prepared by the Staff of The Employees' Retirement Fund

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INTRODUCTORY SECTION

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Employees' Retirement Fund of the City of Dallas

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Suite 2450
Dallas, Texas 75201

Telephone 214-580-7700
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LETTER OF TRANSMITTAL

September 17, 2002

Board of Trustees
Employees' Retirement Fund
600 North Pearl St., Suite 2450
Dallas, Texas 75201

Dear Board Members:

The comprehensive annual financial report (CAFR) of the Employees' Retirement Fund (ERF) for the fiscal year ended December 31, 2001 is submitted herewith. Our commitment is to continue the efforts to improve the service to our members and benefit recipients. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation rests with me and the staff of ERF.

Report Contents

This CAFR is divided into five sections: an Introductory Section, which contains the administrative organization, a letter of transmittal, and the Plan Summary; a Financial Section, which contains the report of the Independent Auditors, the financial statements of ERF and certain required supplementary information; an Investment Section, which contains a report on investment activity, investment policies, investment results, and various investment schedules; an Actuarial Section, which contains an Actuary's Certification Letter and the results of the annual actuarial valuation; and a Statistical Section, which includes significant data pertaining to ERF. I trust that you and the members of ERF will find this CAFR helpful in understanding your retirement plan.

Plan Overview

ERF was established by ordinance in November 1943 and became effective in January 1944 after ratification by the voters of the City of Dallas. ERF is a single-employer defined benefit pension plan sponsored by the City of Dallas (the "City"), and it provides retirement, disability and death benefits to its members. All employees of the City are members except police officers, firefighters, elected officers, nonsalaried appointee members of administrative boards or commissions, part-time employees working less than one-half time, temporary employees, individuals working under contract, and individuals whose salaries are paid in part by another government agency. Members are entitled to retirement benefits at the date of eligibility for retirement after five years of service or to survivor benefits after two years of service.

Major Initiatives

Several initiatives were started and completed during the year. During the year the Fund continued the implementation of our information systems and technology plan. The implementation process for our pension administration system was well under way by the end of the year. The current system in use has been in place since the mid 1970's and needs to be replaced. The new pension administration system will be a PC-based client server product that will allow all of the staff to have access for providing member service. Significant progress was made with the system scheduled to come on-line in the latter part of 2002.

As a result of the asset allocation study, the Board modified the strategic asset allocation policy to include Real Estate Investment Trusts (REIT) as an asset class. A manager search was conducted and two new investment managers were hired to implement the target allocation of 10% in REITs over the next three years.

Investments

The Board of Trustees oversees the Fund's portfolio, managers, and performance. It also reviews and approves potential investment opportunities, with input from the investment consultant and staff. The Board follows the "prudent person rule" which states that fiduciaries shall discharge their duties solely in the interest of the fund and its participants and beneficiaries with the degree of diligence, care and skill which prudent men and women would ordinarily exercise under similar circumstances in a like position.

2001 was another down year for ERF in which the total fund return was –5.3%. The Fund's total return for the past three years was 2.3%, and the last five years was 8.6%. ERF expects and assumes an investment rate of return of 8.5% over the long term, which encompasses many years in the future.

An integral part of the overall investment policy is the strategic asset allocation policy. This policy is designed to provide an optimal diversification to reduce risk and maximize total rate of return relative to risk. This emphasizes a maximum diversification of the portfolio that protects ERF from declines that a particular asset class may experience in a given period. Although traditional and alternative assets were incorporated into the asset allocation mix in 2001, the alternative venture capital asset class is being liquidated from ERF's portfolio, and is not a part of the strategic asset allocation policy. As noted in the major initiatives for last year, REITs have been added to the asset allocation mix. ERF has incorporated a restricted derivatives program in selected equity and fixed income portfolios as an investment technique to reduce volatility and enhance the portfolio returns over a full-market cycle.

Additions To Plan Net Assets

The collection of employer and member contributions, as well as income from investments, is intended to provide the reserves needed to finance retirement benefits. Contribution and investment income, including unrealized gains and losses for 2001, totaled $-47,442,000. Member and employer contributions increased $4,354,000 (26%) and $7,335,000 (26%) respectively. The increase in contributions was due primarily to an increase in contributions that was effective October 1, 2000 and an increase in salaries effective October 1, 2001.

Deductions To Plan Net Assets

The principal purpose for which ERF was established is to provide retirement benefits, survivor benefits, and total and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments, refund of contributions to terminated employees, and the cost of administering ERF.

In 2001 expenses totaled $91,406,000. This represents an increase of $5,568,000 or 6%. Administrative expenses are controlled by a budget approved by the Board of Trustees, and these expenses increased $58,000 or 3%. Cash income of $104,095,000 exceeded expenses of $91,406,000 by $12,689,000 in 2001. The negative market returns experienced in 2001 resulted in negative revenue of $47,442,000.

Accounting System And Internal Controls

This CAFR was prepared to conform with the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board (GASB) in Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans," as well as generally accepted accounting principles that apply to government accounting for fiduciary funds. The accompanying financial statements are prepared using the accrual basis of accounting. Member and employer contributions are recognized in the period in which employee services are performed. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

In developing and evaluating ERF's accounting system, it was determined that internal controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Funding

A pension fund is well funded when it is receiving enough money to meet all expected future obligations to participants. ERF's funding objective is to meet long-term benefit payments through contributions that remain approximately level as a percent of member payroll. The advantage of a well-funded plan is that the participants can look at assets that are committed to the payment of benefits. The actuarial accrued liability and actuarial value of assets of ERF as of December 31, 2001 amounted to $2.28 billion and $2.02 billion, respectively. A detailed discussion of funding is provided in the Actuarial Section of this report.

Professional Services

Consultants are appointed by the Board of Trustees to perform professional services that are essential to the effective and efficient operation of ERF. An opinion from the certified public accounting firm of KPMG LLP and the actuarial firm of Gabriel, Roeder, Smith & Company are included in this report. The consultants appointed by the Board are listed in this Introductory Section.

Acknowledgments

The compilation of this report reflects the combined effort of the staff under the leadership of the Board of Trustees. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means of determining responsible stewardship of the funds of ERF.

The report is available to all members of ERF.

I would like to express my gratitude to the staff, the advisors, and others who have worked so diligently to assure the successful operation of ERF.

Respectfully submitted,

John Kloehr

John Kloehr
Administrator

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Board of Trustees

As of December 31, 2001

Administrative Staff

John B. Kloehr, Administrator

Gail Smith, Assistant Administrator

Newton Bruce, Assistant Administrator

Evelyn Thomas, Accounting Supervisor

Ken Paukert, Accountant

Sheila Willis, Pension Benefit Specialist

Berda Venerable, Management Assistant

Melissa Harris, Communication Specialist

Sharon Paukert, Management Assistant

Michelle Greer, Management Assistant

Jill Lang, Information Technology Analyst

Lisa Larry, Office Assistant

Beth Turner, Office Assistant

Master Custodian

The Northern Trust Company

Consulting Actuary

Gabriel, Roeder, Smith & Company

Investment Consultants

Wilshire Associates, Inc.

Investment Accounting Firm

Financial Control Systems, Inc.

Auditors

KPMG LLP

Legal Advisors

City Attorney's Office
Lawson and Fields

PLAN SUMMARY

SUMMARY OF KEY PROVISIONS
Employees' Retirement Fund of the City of Dallas

As of December 31, 2001

Membership	An employee becomes a member upon permanent employment and contributes to the Retirement Fund.
Contributions	Member: 6.5% of compensation City: The City contributes an amount not less than the amount contributed by its employees, currently 11.0% of member wages.
Definitions	Final Average Salary: Average monthly salary over the member's highest three years of service. Credited Service: Length of time an employee of the City of Dallas and while making contributions to the Fund. Part-time employees receive proportional credited service only.
Retirement Pension	Eligibility: a. Attainment of age 60; or b. Attainment of age 55 (if credited service began before May 9, 1972), or c. Completion of 30 years of credited service; or d. At any age after completion of 30 years of credited service with a reduced benefit before age 50. e. Attainment of age 50, if the sum of an active member's age and credited service is at least 78.
Retirement Benefits	The retirement benefit equals 2-3/4% multiplied by average monthly earnings multiplied by credited service limited to a maximum of 36.3636 years plus $125 health supplement (prorated for service less than 5 years).
Form of Payment	An unreduced pension under a joint and one half survivor option or a ten-year certain and life option. An actuarially equivalent joint and full survivor option is also available.
Deferred Retirement	Eligibility: Deferred retirement pension commencing at age 60 or at age 55, if employment commenced prior to May 9, 1972, with at least five years of credited service, and accumulated contributions are left on deposit with the Fund. Monthly Benefit: The deferred retirement is equal to the retirement pension based on earnings and credited service at the time of termination.

Disability Retirement Pension	Non-Service Disability: 1. Eligibility: Five years of service and totally and permanently incapacitated from procuring and retaining any type of employment for compensation. 2. Monthly Benefit: Computed based on average monthly earnings and credited service at time of disability but not less than 10 times the percentage multiplier multiplied by the average monthly earnings. Service Disability: 1. Eligibility: Totally and permanently incapacitated as a result of injury while in the course of employment for the City. 2. Monthly Benefit: Calculated as a non-service disability pension but not less than $500 per month.
Death Benefits	Form: Benefit paid in accordance with the option on file, or the eligible option, or if no eligible beneficiary, a lump sum equivalent of 10 years of benefit payments to the member's estate. If less than 2 years of service, contributions are refunded. Monthly Benefit: Based on average monthly earnings and credited service at death but not less than 10 times the percentage multiplier multiplied by the average monthly earnings. Minimum Service Death Benefit: Not less than $500 per month if death resulted from a service related injury.
Return of Accumulated Contributions	A member at the time of termination is entitled to be paid their accumulated contributions without interest.
Cost-of-Living Adjustments	A cost-of-living adjustment to the base pension shall be made based on the greater of: The percentage of change in the price index for October of the current year over October of the previous year up to 5%, or The percentage of annual average change in the price index for the 12 month period ending with the effective date of the adjustment, up to 5%.

FINANCIAL SECTION

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EMPLOYEES' RETIREMENT FUND OF THE CITY OF DALLAS

Financial Statements
As Of December 31, 2001 and 2000

With Independent Auditor's Report Thereon

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200 Crescent Court
Suite 300
Dallas, TX 75201-1885

Independent Auditors' Report

To the Board of Trustees of the
Employees' Retirement Fund of
the City of Dallas:

We have audited the accompanying statements of plan net assets of the Employees' Retirement Fund of the City of Dallas (the Plan) as of December 31, 2001 and 2000, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Plan as of December 31, 2001 and 2000, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The schedule of funding progress included in note 4 on page 26 and the schedule of city contribution percentages included in note 1(d) on page 21 are not a required part of the basic financial statements of the Plan, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of administrative expenses, investment expenses and payments to consultants, and other sections listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Plan has not presented Management's Discussion and Analysis, which is supplementary information that the accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

KPMG LLP

September 12, 2002

EMPLOYEES' RETIREMENT FUND OF THE CITY OF DALLAS

Statements of Plan Net Assets

As of December 31, 2001 and 2000
(In thousands)

	2001	2000
ASSETS:		
Cash and short-term investments	$ 219,896	$ 239,676
Receivables:		
Currency contract	174	285
Accrued dividends	1,057	713
Accrued interest	8,284	11,209
Accrued securities lending	53	45
Securities sold	5,266	1,592
Employer contributions	574	371
Employee contributions	337	217
Total receivables	15,745	14,432
Investments, at quoted market value:		
Commingled index funds	605,245	650,056
Domestic equities	325,097	282,239
United States and foreign government securities	182,316	223,415
Domestic corporate fixed-income securities	353,239	370,847
International equities	298,438	365,828
Investments, at estimated fair value:		
Real estate	-	260
Venture capital funds	682	1,156
Total investments	1,765,017	1,893,801
Total assets	2,000,658	2,147,909
LIABILITIES:		
Accounts payable	6,962	3,679
Payable for securities purchased	59,806	51,325
Investment fees payable	1,479	1,218
Securities lending collateral	162,501	182,929
Total liabilities	230,748	239,151
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (A Schedule of Funding Progress is included in footnote 4)	$1,769,910	$1,908,758

The accompanying notes are an integral part of these financial statements.

EMPLOYEES' RETIREMENT FUND OF
THE CITY OF DALLAS

Statements of Changes in Plan Net Assets

For the Years Ended December 31, 2001 and 2000
(In thousands)

	2001	2000
ADDITIONS:		
Contributions:		
Employer	$ 35,182	$ 27,847
Employee	20,814	16,460
Total contributions	55,996	44,307
Net Investment income (loss):		
Dividends	6,344	6,051
Interest	40,906	43,816
Real estate income (loss)	(51)	55
Net appreciation (depreciation) in fair value of investments	(146,719)	(114,234)
Securities lending income	8,199	11,678
Less investment expenses:		
Investment management fees	(4,397)	(4,802)
Custody fees	(156)	(102)
Consultant fees	(214)	(198)
Securities lending borrower rebates	(7,158)	(10,868)
Securities lending management fees	(312)	(243)
Total investment expenses	(12,237)	(16,213)
Net investment income (loss)	(103,558)	(68,847)
Other income	120	449
Total additions	(47,442)	(24,091)
DEDUCTIONS:		
Benefit payments	87,054	81,006
Refund of contributions	2,434	2,972
Administrative expenses	1,918	1,860
Total deductions	91,406	85,838
Net increase (decrease) in Plan net assets available for benefits	(138,848)	(109,929)
NET PLAN ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of year	1,908,758	2,018,687
End of year	$1,769,910	$1,908,758

The accompanying notes are an integral part of these financial statements.

EMPLOYEES' RETIREMENT FUND OF THE CITY OF DALLAS

Notes to Financial Statements

December 31, 2001 and 2000

(1) Description of the Plan

(a) General

The Employees' Retirement Fund of the City of Dallas (the "Plan") is a single-employer defined benefit pension plan which provides retirement, disability, and death benefits to its members, and it is sponsored by the City of Dallas (the "City"). All employees of the City are members in the Plan, except police officers, firefighters, elected officers, non-salaried appointee members of administrative boards or commissions, part-time employees working less than one-half time, temporary employees, individuals working under contract, and individuals whose salaries are paid in part by another government agency. Members are entitled to retirement benefits after five years of service and to survivor benefits after two years of service or at the date of eligibility for retirement. The Plan was established and derives its authority to continue in operation as Chapter 40A of the Dallas City Code. The description of the Plan provisions in this report is for financial disclosure only. It is not intended to create or reduce legal rights. The rights and responsibilities of the Board of Trustees, the Plan, the members and the retirees are governed by the Plan itself in Chapter 40A. As of December 3l, 2001 and 2000, the Plan's membership consisted of:

	2001	2000
Retirees and beneficiaries currently receiving benefits and inactive members entitled to benefits but not yet receiving them	4,801	4,712
Current members:		
Vested	5,781	5,323
Nonvested	2,312	2,837
Total current members	8,093	8,160
Total membership	12,894	12,872

(b) Pension Benefits

Effective November 7, 1989, members of the Plan are entitled to pension benefits equal to 2-3/4% of the average monthly earnings of the member for each year of credited service. Average monthly earnings are determined based on the member's earnings for the three highest years. Normal retirement age is 60. Members of the Plan employed prior to May 9, 1972 are entitled to pension benefits at age 55, determined as described in this note.

A member who has completed 30 years of credited service may elect retirement at age 50 and is entitled to full pension benefits. A member who has completed 30 years of service and elects retirement before age 50 is entitled to pension benefits at a percentage of normal retirement benefits ranging from 67.0% to 93.3%, depending upon the age of the member. Effective May 1993, active members may elect to retire after the attainment of age 50 once a combination of their age and years of service equal at least 78 ("Rule of 78"), and they are entitled to full pension benefits. The provisions of this amendment have been incorporated into the actuarial calculations reflected in these notes to the financial statements.

Cost-of-living adjustments for retirees are made each year on the first of January by adjusting the pension base by the percentage change of the Consumer Price Index, not to exceed 5%. The cost-of-living adjustments in 2001 and 2000 were 3.08% and 3.4%, respectively.

In addition, the Plan provides retirees who have 5 or more years of service a flat taxable amount of $125 per month as a health premium subsidy. Payment of the health supplement will be prorated for each partial year of credited service.

(c) Disability and Death Benefits

Members that become totally and permanently disabled receive disability benefits equal to normal retirement benefits or a minimum of $500 per month for a service connected disability.

Upon the death of an active married member with less than 15 years of service, the joint and one-half survivor option is the automatic death benefit unless the member (with spousal consent) previously elected a different survivor option.

If an active member has at least 15 years of service or is eligible to retire, the member may elect the joint and full survivor option. Under this option, the member receives a reduced base pension payment which is actuarially computed based on the member's age, average monthly earnings, years of credited service at retirement, and the relative age of the spouse. Upon the death of the member, this option pays the full amount of the member's pension payment to the surviving spouse for life.

Upon the death of a member before retirement, death benefits equal to the normal retirement benefit will be paid to a qualified recipient: surviving spouse, minor child under age 18, a disabled child who became disabled before age 18, or a dependent parent. Death benefits vary depending on the beneficiary. The surviving spouse, the disabled child, or the dependent parent will receive a lifetime benefit unless the ten-year option is taken. The minor child under age 18 will receive the normal retirement benefit for ten years or until reaching age 18. If the member has less than two years of credited service, the member's contributions will be refunded.

Upon the death of a retired member, a death benefit is paid in accordance with the option selected by the member at retirement. If there are no qualified recipients at the time of death and benefits have not been paid for ten years, death benefits are paid to the designee (an estate, a person or an entity) named by the member. The designee will receive a lump-sum payment based on ten years of benefit payments when the member's death occurs before retirement. If death occurs after retirement, the designee will receive a commuted lump-sum payment representing the balance of a guaranteed ten-year period starting from the date of retirement.

If a member does not have an eligible beneficiary, death benefits will be paid to the designee or member's estate in one commuted value payment. Benefit payments will vary depending on whether death occurred before or after retirement. Upon the death of a member before retirement, the designee or member's estate will receive a lump-sum payment based on ten years of benefit payments. Upon the death of a retired member, the designee or estate will receive a commuted value lump-sum payment representing the balance of a guaranteed ten-year period starting from the date of retirement.

(d) Contributions

If employment ends before attaining five years of service and before attaining eligibility for retirement, the member's contributions will be refunded upon written request to the Plan.

If a member's employment is terminated after five years of service, the member may elect a refund of contributions upon a written request, or the member may elect to receive pension benefits at normal retirement age equal to the amount accrued to date of termination.

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

Years Ended December 31	Annual Actuarially Required Contribution	Percentage Contributed
1996	45,704	46.1
1997	44,902	49.9
1998	47,338	50.2
1999	42,227	59.7
2000	33,682	82.7
2001	31,728	110.9

Although the City and the members have contributed the legally required percentages established by Chapter 40A, the actual contributions made by the City and the members have been less than the Actuarially Required Contribution (ARC) that is necessary to cover the amortization of the unfunded liability or the expense allowance components of the ARC for the previous five years. During 1999 a working group established by the City Manager's Office and the ERF Board completed their evaluation of strategies to address the additional funding requirements. The working group recommended contribution increases by the City and the employees and that an automatic contribution adjustment mechanism be incorporated into the Plan. The Board and the City Council adopted the recommendations of the working group, and in December 1999 the employee membership voted to increase their contributions to the Plan. These contribution increases began phasing in over a two-year period beginning October 1, 2000. Effective October 1, 2000 the City's contribution increased from 8.5% to 9.75% and the employee contribution increased from 5.0% to 5.75%. On October 1, 2001 the City's contribution increased from 9.75% to 11.0% and the employee contribution increased from 5.75% to 6.5%. The other recommendation by the working group was to put an automatic contribution adjustment mechanism in the Plan to adjust contribution rates by the City and the employees every three years based on a change of more than 2% in the actuarially required contribution rate. These changes would require citizen voter's approval.

The percent contributed may vary from the legally required rate as the 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.

(e) Plan Administration

The Plan is governed by a five-member Board of Trustees (the "Board") consisting of two members appointed by the City Council who may be Council members, two employee members of the Plan (elected by the membership) and the City Auditor (serving ex officio). The Board has general powers and duties to administer the Plan, including appointing an administrator to carry out the business of the Board, investing the assets of the Plan, making expenditures from the Plan, and determining members' eligibility for benefits.

The Plan may be terminated only by ordinance recommended by the Board, adopted by the City Council, and approved by a majority of the voters of the City voting in a general or special election. The Plan does not address allocation of the net assets in the event of termination.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting. Accordingly, interest earned but not received and dividends declared but not received as of the Plan's fiscal year-end are recorded as accrued interest and dividends receivable, respectively. Contributions owed but not received ($911,000 and $588,000 at December 31, 2001 and 2000, respectively) as of the Plan's fiscal year-end are recorded as contributions receivable. In addition, unsettled investment purchases and sales are accrued.

(b) Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires Plan management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(c) Investments

The Plan's investments policy requires investments comply at all times with applicable local, state and federal regulations. The Plan's investment policy is based upon an asset allocation study that considers the current and expected condition of the Plan, the expected long-term capital market outlook and the Plan's risk tolerance. Unless specifically permitted in the investment manager guidelines or other governing document, the investment policy prohibits the purchase of non-negotiable securities, short sales, selling on margin, puts, calls, straddles, options, or "letter" (restricted) stock. Also, unless specifically authorized in a manager's individual guidelines, the investment policy prohibits the use of derivatives.

Investments are valued at fair value based on quoted market prices, where available. The amount shown in the accompanying financial statements for real estate funds and venture capital funds represents estimated fair values. Estimated fair values of real estate funds and venture capital funds have been determined based upon appraised values or other comparable methods. Purchases and sales of securities and any resulting gain or loss are recorded on a trade-date basis.

(d) Foreign Currency Transactions

The Plan may enter into forward foreign currency exchange contracts for the purchase or sale of a specific foreign currency at a fixed price on a future date as a hedge against specific transactions or portfolio position to protect the Plan against adverse currency movements. Entering into these arrangements involves the risk of dealing with counter parties and their ability to meet the terms of the contracts. These contracts are valued at fair value at the financial statement date, and any realized and unrealized gains and losses are recorded when they are incurred.

Investments denominated in foreign currencies at December 31, 2001 and 2000 were converted to U.S. dollars at the foreign exchange rates quoted at December 31, 2001 and 2000. These foreign exchange gains and losses are included in net appreciation in fair value of investments in the accompanying statements of changes in net assets.

(e) Cash, Investments, and Securities Lending

The following shows the schedule of investments by category of custodial credit risk.

(Amounts in thousands; investments carried at fair value)	Total Fair Value 12/31/01	Total Fair Value 12/31/00
Investments – Category 1 (Held by Plan's agent in Plan's name):		
Cash and short-term investments	$ 57,394	$ 56,747
Commingled index funds	605,245	650,056
U.S. government, agency, and foreign government securities		
Not on securities loan	104,789	125,002
On securities loan for securities collateral	6,187	12,694
Domestic corporate fixed-income securities		
Not on securities loan	307,740	317,494
On securities loan for securities collateral	2,859	-
Domestic equities:		
Not on securities loan	295,376	263,765
On securities loan for securities collateral	701	29
International equities		
Not on securities loan	283,561	346,753
On securities loan for securities collateral	223	17
Subtotal Category 1	1,664,074	1,772,555
Investments – Not Categorized:		
Investments held by broker-dealers under securities loans with cash collateral:		
U.S. government, agency, and foreign government securities	71,341	85,720
Domestic corporate fixed-income securities	42,640	53,353
Domestic equities	29,020	18,446
International equities	14,655	19,058
Securities lending short-term collateral investment pool	162,501	182,929
Real estate	0	260
Venture capital	682	1,156
Subtotal Not Categorized	320,839	360,922
Total	$ 1,984,913	$ 2,133,477

The Board has authorized the Plan to enter into an agreement with The Northern Trust Company ("Northern") for the lending of certain of the Plan's securities (the "Securities Lending Program" or "Program") including, but not limited to, stocks and bonds to counter party brokers and banks ("borrowers"), for a predetermined period of time and fee. Such transactions are not prohibited by state statute.

During the fiscal year, Northern lent, on behalf of the Plan, securities held by Northern, as Plan custodian, and received United States dollar cash, United States government securities, agency securities, and irrevocable bank letters of credit as collateral. Northern 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, the collateral for which is all denominated in the same currency as the loaned securities, 102% of the fair market value of the loaned securities plus any accrued but unpaid distributions thereon, and (ii) in the case of loaned securities denominated in a different currency from the loaned securities, 105% of the fair market value of the loaned securities plus any accrued but unpaid distributions thereon. The following table shows for open loans at December 31, 2001 and 2000, the type of collateral held, the market value of the securities on loan, and the market value of the collateral held (in thousands except percents).

Collateral Type	Market Value 12/31/2001	Collateral Market Value 12/31/2001	Collateral Percentage	Market Value 12/31/2000	Collateral Market Value 12/31/2000	Collateral Percentage
Cash	$157,656	$162,501	103%	$176,576	$182,929	104%
Non-cash	9,970	10,256	103%	12,739	13,245	104%
Total	$167,626	$172,757		$189,315	$196,174	

The Board did not impose any restrictions during the fiscal year on the amount of the loans that Northern made on its behalf. There were no failures by any borrowers to return the loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from default of the borrowers or Northern. Northern is contractually obligated to fully indemnify the Plan for a borrower's failure to return the loaned securities.

During the fiscal year, 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 Northern. The relationship between the average maturities of the investment pool and the Plan's loans was affected by the maturities of the loans made by other plans' entities that invested cash collateral in the collective investment pool, which the Board could not determine. On December 31, 2001 and 2000, the Plan had no credit risk exposure to borrowers.

Disclosure of securities lending revenue is shown gross with the associated reductions for investment expenses on the face of the Statements of Changes in Plan Net Assets, and the cash collateral and associated securities lending payable is shown on the face of the Statements of Plan Net Assets for December 31, 2001 and 2000.

(f) Administrative Expenses

Expenses (excluding investment related expenses) totaling $1,918,000 and $1,860,000 for the years ended December 31, 2001 and 2000, respectively, reflected as a portion of the administrative expenses included in the accompanying financial statements for professional services and office administration costs, are paid from the Plan's investment income only when the Plan's actuary certifies that payment will not have an adverse effect on the payment of benefits.

(g) New Accounting Standard Adopted

Effective for the fiscal year ending September 30, 2002 the City of Dallas will implement GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments*. The Plan is required to adopt Statement No. 34 as its 2001 financial statements will be reported as a Pension Trust Fund in the City's 2002 comprehensive annual financial report. Statement No. 34 represents a very significant change in the financial reporting model used by state and local governments; in particular, the required supplementary information on Management's Discussion and Analysis (MD&A), which includes an analytical overview of the Plan's financial activities. However, this Statement did not affect amounts reported in the financial statements of the Plan and the Plan's management chose not to include the MD&A in its financial statements.

(3) Investments

The Board has contracted with investment managers to manage the investment portfolio of the Plan, subject to the policies and guidelines established by the Board. Northern Trust as the Plan's custodian bank had responsibility for the safekeeping of certain investments, handling of transactions based on the instructions of investment managers, and accounting for the investment transactions.

Investments that individually represent 5% or more of the net assets available for benefits and the total of investments that individually represent less than 5% of the net assets available for Plan benefits at December 31, 2001 and 2000 are as follows (in thousands except per share amounts):

	2001		2000	
	Number of Shares/Units	Fair Value	Number of Shares/Units	Fair Value
Investments greater than 5% of net assets, at fair value:				
Bankers Trust Pyramid S&P 500 Equity Index Fund	84,065	$238,233	84,065	$270,132
Bankers Trust Russell 1000	531,949	$270,506	531,949	286,151
Investments less than 5% of net assets:				
At fair value		$1,475,492		$1,575,778
At estimated fair value		$682		$1,416
Total investments		$1,984,913		$ 2,133,477

In 2001 and 2000, the Plan's investments, including investments bought, sold, and held during the year, appreciated (depreciated) in value as follows (in thousands):

	2001	2000
Investments, at fair value:		
Commingled index funds	$ (44,811)	$ (11,696)
Domestic equities	(39,833)	(45,276)
United States and foreign government securities	4,459	7,380
Corporate bonds and notes	4,722	(17,377)
International equities	(72,138)	(49,509)
Short-term investments	774	2,370
	(146,827)	(114,108)
Investments, at estimated fair value:		
Real estate	108	(213)
Venture capital funds	0	87
	$ (146,719)	$ (114,234)

(4) Funding Status and Progress

The actuarial information presented is determined by an actuarial valuation that results from applying various assumptions with regard to termination, disability, retirement, mortality, and the time value of money to the accumulated plan benefits.

Significant actuarial assumptions used include: (a) an annual rate of return on the investment of present and future assets of 8.5% in 2001 and 2000, respectively, compounded annually; (b) projected salary increases based on graded rates in 2001 and 2000, with 2001 rates higher than 2000, compounded annually, attributable to inflation; (c) post retirement benefit increases of 4% in 2001 and 2000 calculated annually; and (d) asset valuation method three year smoothed market.

(Unaudited) required supplementary information related to the Fund's funding progress is as follows (in millions):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/96	1,310	1,585	275	83%	257	107.0%
12/31/97	1,438	1,674	236	86%	262	90.2%
12/31/98	1,617	1,750	133	92%	276	48.2%
12/31/99	1,863	1,874	11	99%	282	4.0%
12/31/00	1,998	2,038	40	98%	298	13.5%
12/31/01	2,017	2,276	259	89%	333	77.9%

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

(5) Federal Income Tax Status

The Internal Revenue Service issued a determination letter dated December 11, 1997, stating that the Plan was designed in accordance with applicable Internal Revenue Code requirements as of that date. The Plan has applied for a new determination letter to comply with changes in the law. The plan administrator believes that the Plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, the Plan was qualified and the related trust was tax-exempt as of the financial statement dates.

SCHEDULE OF ADMINISTRATIVE EXPENSES
Year Ended December 31, 2001

Personal Services:	
Salaries	$871,447
Retirement	91,869
Insurance	37,487
Total Personal Services	1,000,803
Professional Services:	
Actuarial	45,150
Accounting	38,000
Legal	3,536
Medical	2,885
Communications	13,260
Total Professional Services	102,831
Operating Services:	
Supplies and Services	137,079
Printing	34,742
Travel and Training	67,109
Data Processing	329,749
Election	45,000
Indirect and Other Costs	177,899
Total Operating Services	791,578
Furniture and Fixtures:	
Furniture	22,685
Total Furniture and Fixtures	22,685
Total Administrative Expenses	1,917,897

SCHEDULE OF INVESTMENT EXPENSES
Year Ended December 31, 2001

Manager fees	$4,397,231
Custodian fees	156,250
Securities lending fees	7,469,869
Investment consultant fees	213,600
Total Investment Expenses	$12,236,950

*Securities lending fees include broker rebates and the lending agent's fees.

SCHEDULE OF PAYMENTS TO CONSULTANTS
Year Ended December 31, 2001

Accounting and Audit:	
Financial Control Systems	$38,000
Actuarial:	
Gabriel, Roeder, Smith, & Company	$45,150
Election:	
Arthur Andersen LLP	$45,000
Legal:	
Various	$3,536
Medical:	
Various	$2,885
Investments:	
Wilshire Associates, Inc.	$213,600
Total Consultant Expenses	$348,171

INVESTMENT SECTION

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INVESTMENT POLICIES SUMMARY

Statement of Goals

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

1. The overall goal of the Fund is to provide benefits, as anticipated under the Plan document, Dallas City Code, Chapter 40A, to its participants and their beneficiaries through a carefully planned and executed investment program.

2. The Fund seeks to produce the highest return on investment which is consistent with sufficient liquidity and investment risk that are prudent and reasonable, given prevailing capital market conditions. While the importance of the preservation of capital is recognized, the theory of capital market pricing which maintains that varying degrees of investment risk should be rewarded with compensating returns is also recognized. Consequently, prudent risk taking is reasonable and necessary.

3. The Fund investment program shall at all times comply with existing and applicable local, state and federal regulations.

Investment Philosophy

The Fund is long term in nature, and the selection of investments is regulated by: the investment time horizon; the limits of acceptable risk; and the objective of optimizing the total rate of return. Each investment manager is authorized to execute investment transactions on behalf of the Board.

Investment decisions are made under the framework of the goal established for the rate of return, limits of acceptable risk, and Fund objectives. The goal is to optimize the return of the portfolio, as opposed to maximizing the rate of return.

The optimal portfolio mix is one that carefully equates expected rate of return with expected risk of all investment categories utilized in the portfolio. In setting the optimal mix of assets for the portfolio, the Board has developed a strategic asset allocation policy which incorporates a diversified asset mix. The strategic asset allocation is designed to provide an optimal diversification to reduce risk and maximize total rate of return relative to risk and the existing and projected liability structure.

The Board bases its investment strategy and goals on advice obtained from the investment consultant, the staff, and the external investment managers. The Board uses the annual external audit and annual actuarial valuation in its evaluation of the Fund's performance each year.

Corporate Governance

Article XVI, Section 67 of the Texas Constitution and Chapter 40A of the Dallas City Code, give complete responsibility for the management and investment actions of the Employees' Retirement Fund to the Board of Trustees. The Board is held to the standard of conduct of fiduciaries in discharging their responsibilities. According to Chapter 40A the Trustees, as fiduciaries, must carry out their functions solely in the interest of the members and beneficiaries.

The Board considers the active voting of proxies an integral part of the investment process. Proxy voting may be delegated to the discretion of investment managers retained by the Board. The managers shall be required to establish a proxy voting policy and maintain records of proxy votes, and shall make these records available quarterly to the Board or its designee. The Board may at its discretion establish an overall policy of voting proxies in which case the managers' proxy voting policy shall be in accordance with that of the Board's. The Board recognizes that in certain non-U.S. markets, investment managers may, balancing the costs and benefits, not exercise proxy voting.

INVESTMENT RESULTS

Investment Summary

The returns by investment category and the market values of the Fund's holdings by asset class and investment manager are shown in the following two tables.

INVESTMENT CATEGORY	2001 RATE OF RETURN
Domestic Equities	-9.23%
International Equities	-18.14%
Fixed Income	8.51%
High Yield Bonds	6.88%
Real Estate	-
Cash Equivalents	4.42%
Venture Capital	-11.60%
Total Portfolio	-5.28%

INVESTMENT MANAGER SUMMARY
December 31, 2001

Domestic Equities and Commingled Index Funds	Market Value	International Equities	Market Value
Bankers Trust S&P 500 Index	$238,233,355	Acadian	$39,935,674
Bankers Trust Russell 1000	$270,506,372	Bank of Ireland	$141,265,390
Bankers Trust Russell 2000	$96,504,921	Baring	$120,212,646
Lend Lease Rosen	$43,508,937		
Liberty	$191,318,124		
Provident	$54,779,967		
Security Capital	$42,909,972		
	$937,761,648		$301,413,710
Real Estate		**Fixed Income**	
AEW	$14,378	Loomis Sayles	$168,714,025
		Payden & Rygel	$173,470,781
		W. R. Huff	$89,682,524
		Oaktree	$86,993,328
	$14,378		$518,860,658
Cash Equivalents		**Venture Capital**	
The Northern Trust Company	$16,048,125	Alliance Capital	$537,483
		Brinson Partners	$144,490
	$16,048,125		$681,973

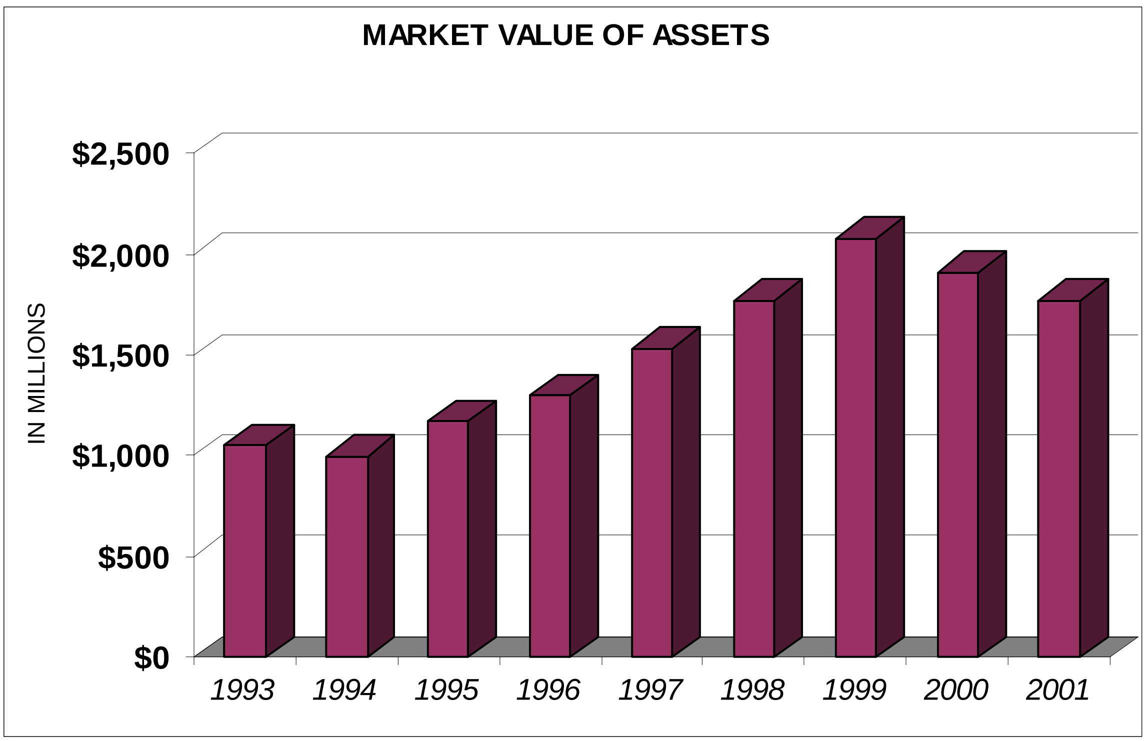
Total Market Value as of December 31, 2001 $1,774,780,492

(Manager holdings include cash held for reinvestment and accrued income; cash equivalents exclude securities lending cash collateral)

Total Fund Results

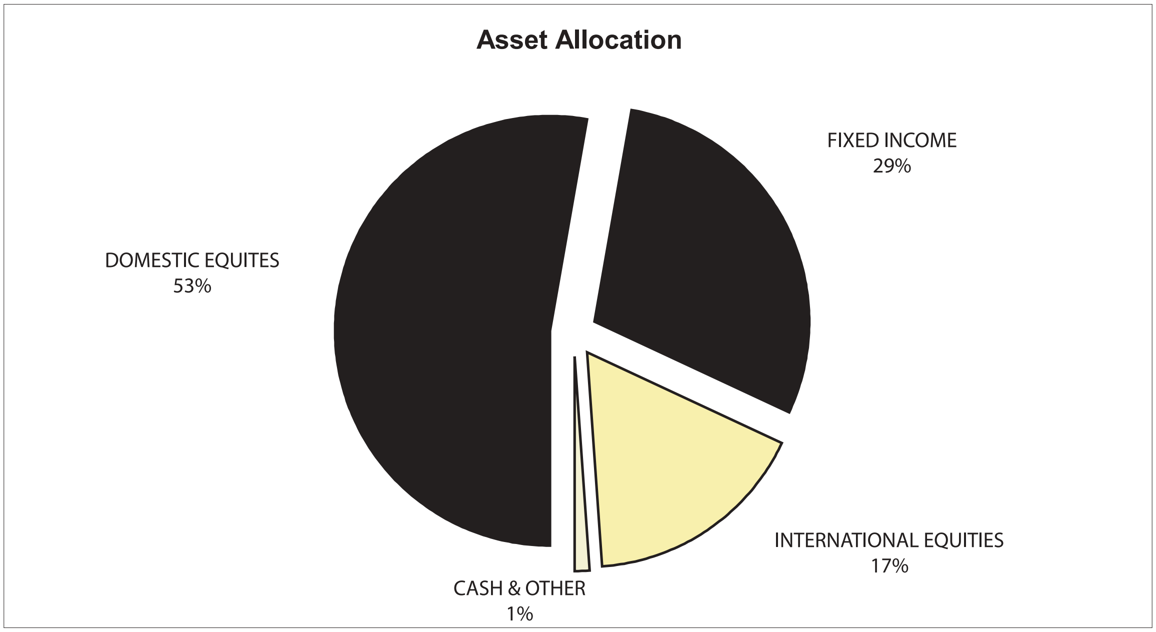
The world equity markets as measured by various indices were negative for 2001 with the MSCI ACWIFr ex US (G) Index returning -19.5% and the Wilshire 5000 returning -11.0%. You have to go back over 25 years to find a calendar year when stocks had a greater calendar year loss. In contrast, the Lehman Aggregate was up 8.4%. The Salomon Brothers High Yield Cash Pay Index was up 6.9% for the year.

At December 31, 2001, the net asset value of the Fund was $1.8 billion. This value represents a 7.0% or $139 million decrease over last year's value of $1.91 billion. The Net Assets of the Fund graph below provides a pictorial history of the Fund's growth over the past 10 years.



ASSET ALLOCATION

The Fund's long-term strategic asset allocation policy sets the following targets: 50% in domestic equity including REIT securities; 20% in international equity; 20% in global fixed income; and 10% in high yield fixed income. The chart on the next page shows the investments by asset class at year-end. Real estate and venture capital had small allocations (less than 1%) at year-end and will continue to have some level of investment during the next 2-3 years as the asset classes are liquidated. Although no specific allocation to cash and equivalents is targeted, cash must be available for the payment of benefits and other expenses of the Fund. To accommodate constantly changing market values, the Board has approved ranges for each of the asset classes.



Domestic Equity

The Fund's allocation to domestic equity is targeted at 50% of the Fund's total assets including 10% ultimately allocated to REITs. Passively managed index funds account for 56% of this allocation and actively managed portfolios represent the remaining 44%. The domestic equity segment returned –9.2% for the year while the benchmark Wilshire 5000 Index had a return of –11.0%. The S&P 500 index returned –11.9% for the year.

International equity has a target allocation of 20%, and it is split between three active managers. The Pacific region markets as a general rule were weaker performers than the European markets during 2001. ERF's international equity composite return was –18.1% while the MSCI ACWIFr ex US (G) Index reported a return of –19.5% for the year.

Global Fixed Income

Global fixed income has a target of 20% of total assets. This allocation is split evenly between two investment managers. During the year the global fixed income returned 8.5% while the Salomon Non-US Government Bond Index returned –3.6% and the Lehman Aggregate Index returned 8.4%.

High Yield Fixed Income

High yield fixed income has a target of 10%. This allocation is also evenly split between two investment managers. The high yield return for 2001 was –6.9% and the Salomon High Yield Cash Pay Index returned –6.9%.

Alternative Investments

Although alternative investments, real estate funds and venture capital, are no longer a part of the long-term strategic asset allocation policy, residual values did remain at year-end as these investments are in liquidation status. The venture capital investments had a –11.6% return versus the S&P 500 Index's return of –11.9%.

SCHEDULES

Annualized Returns

Category	2001	3-year	5-year
Total Fund	-5.3%	2.3%	8.6%
Domestic Equity	-9.2%	1.9%	12.0%
S&P 500 Index	-11.9%	-1.1%	10.7%
Wilshire 5000 Index	-11.0%	-0.7%	9.7%
International Equity	-18.1%	-2.4%	1.8%
MSCI ACWIFr ex US (G) Index	-19.5%	-3.6%	0.9%
MSCI EAFE Index	-21.5%	-5.0%	0.9%
Global Fixed Income	8.5%	5.0%	6.5%
Lehman Aggregate Index	8.4%	6.3%	7.4%
Salomon Non-US Govt. Bond Index	-3.6%	-3.8%	0.1%
High Yield Fixed Income	6.9%	3.2%	N/A
Salomon Brothers High Yield Cash Pay Index	6.9%	1.0%	4.0%
Venture Capital	-11.6%	0.9%	-3.4%
Cash Equivalents	4.4%	5.0%	5.2%
T-Bill	4.4%	5.1%	5.2%

Investment Management Fees

Investment Manager Fees	Assets Under Management	Fees	Basis Points
Domestic equity	$937,754,447	$1,155,704	12.3
International equity	$301,413,711	$1,421,235	47.2
Global fixed income	$342,184,806	$886,984	25.9
High yield fixed income	$176,675,851	$914,155	51.7
Real estate	$14,378	$123	85.7
Venture capital	$681,973	$19,030	279.0
Cash Equivalents	$16,048,125	N/A	N/A
Total investment managers	$1,774,773,291	$4,397,231	24.8
Other Investment Services			
Custodian		$156,250	
Securities lending		$7,469,869*	
Investment consultant		$213,600	
Total investment services		$7,839,719	
Total investment management fees		$12,236,950	

*Securities lending fees include broker rebates and the lending agent's fees.

Largest Assets Holdings December 31, 2001

	Equity Holdings	Shares	Market Value
1	BT PYRAMID RUSSELL1000	531,949.39	270,506,372
2	BANKERS TR PYRAMID EQUITY IDX	84,064.81	238,233,355
3	RUSSELL 2000 INDEX FUND	179,576.45	96,504,921
4	UNITED KGDM MSCI FD	2,770281.12	25,744,222
5	PFIZER INCORPORATED	260,350.00	10,374,948
6	VIACOM INCORPORATED	233,400.00	10,304,610
7	FHLMC	150,300.00	9,829,620
8	HARRAHS ENTERTAINMENT INC	253,000.00	9,363,530
9	AOL TIMEWARNER	275,400.00	8,840,340
10	MICROSOFT CORPORATION	126,600.00	8,387,250

	Fixed Income Holdings	Par	Market Value
1	GNMA POOL #TBA 6.000% due 01/15/2029	17,400,000	17,013,894
2	FNMA POOL # TBA 7.000% due 01/01/2029	14,910,000	15,189,563
3	U.S.A. TREASURY NOTES 6.500 % due 02/15/2010	9,340,000	10,252,144
4	U.S.A. TREASURY NOTES 5.750 % due 11/15/2005	8,270,000	8,733,864
5	FNMA POOL #TBA 7.500 % due 01/01/2029	8,020,000	8,275,678
6	U.S.A. TREASURY NOTE 4.250% due 11/15/2003	6,820,000	6,984,089
7	FNMA PREASSIGN 4.375% due 10/15/2006	6,830,000	6,690,190
8	BANKBOSTON NA MTN 6.375% due 03/25/2008	6,500,000	6,638,515
9	FNMA TBA POOL 15YR JAN 6.000% due 01/15/2015	6,020,000	6,035,050
10	U.S.A. TREASURY NOTES 4.625% due 05/15/2006	5,210,000	5,280,804

A complete list of portfolio holdings is available upon request.

Investment Holdings Summary at December 31, 2001

Investment Type	Market Value	Percent of Total Market Value
Fixed Income:		
Government bonds	130,544,522	7.36
Corporate bonds	359,894,904	20.27
Total Fixed Income	490,439,426	27.63
Equity:		
Common stock	623,326,320	35.12
Index funds	605,244,648	34.10
Total Equity	1,228,570,968	69.22
Alternative Investments:		
Real estate	0	0
Venture capital	681,970	0.04
Total Alternative Investments	681,970	0.04
Cash and Equivalents:		
Cash	-2,432,495	-0.14
Short term notes and paper	57,520,623	3.24
Total Cash and Equivalents	55,088,128	3.10
Total Fund	1,774,780,492	100.00

ACTUARIAL SECTION

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The Report of the December 31, 2001 Actuarial Valuation

of the Employees' Retirement Fund of the City of Dallas

GABRIEL, ROEDER, SMITH & COMPANY
Consultants & Actuaries

3017 Douglas Boulevard • Suite 300 • Roseville, CA 95661 • 916-774-7580

July 10, 2002

Board of Trustees
Employees' Retirement Fund of the City of Dallas
600 North Pearl Street
Suite 2450
Dallas, Texas 75201

Dear Members of the Board:

We are pleased to present the report of the actuarial valuation of the Employees' Retirement Fund of the City of Dallas ("ERF") as of December 31, 2001.

This valuation provides information on the funding status of ERF. In addition, it includes a determination of the actuarially calculated contribution level for the 2002 calendar year.

This valuation is based on the provisions of ERF in effect as of the valuation date, data on the ERF membership and information on the asset value of the trust fund as of that date. All member data and asset information were provided by ERF staff. While certain checks for reasonableness were performed, the data was used unaudited.

The actuarial cost method is that used in the prior actuarial valuation of ERF. Based on an analysis of assumptions presented to the Board at its April 2001 meeting, a set of new actuarial assumptions has been adopted. Results are shown herein based on that set of assumptions.

To the best of our knowledge, this actuarial statement is complete and accurate, and has been prepared in accordance with generally accepted actuarial principles and practice.

Respectfully submitted,

Norman S. Losk, F.S.A.
Senior Consultant

Scott A. Terando
Consultant

NSL:cml

SUMMARY OF THE VALUATION

Purposes of the Actuarial Valuation

At your request we have performed the actuarial valuation of the Employees' Retirement Fund of the City of Dallas ("ERF") as of December 31, 2001.

The purposes of an actuarial valuation are as follows:

- To determine the funding status of ERF as of the valuation date, and
- To develop the actuarially determined level of contributions for ERF for the calendar year 2002.

Report Highlights

The following is a set of key results for the prior year valuation and for the current year:

	2001	2002	
Contribution Rates (% of Payroll)		**All Assumptions**	**No 2002 Pay Increase**
Normal Cost (including administrative expense)	16.80%	16.93%	16.58%
Total Actuarial Contribution Rate	17.58%	21.41%	20.43%
Total Support Rate	16.00%	17.50%	17.50%
Excess of Actuarial Contribution over Support Rate	1.58%	3.91%	2.93%
Total Projected Actuarial Contribution	$52,535	$71,246	$66,072
Funding Status	**12-31-00**	**12-31-01**	**12-31-01**
Actuarial Accrued Liability	$2,038,078	$2,276,488	$2,240,316
Actuarial Value of Assets	1,997,828	2,017,041	2,017,041
Unfunded Actuarial Accrued Liability	40,250	259,447	223,275

It should be noted that there were unusually large pay increases in last year. These increases have had a significant impact on the results of this valuation. Since it is expected that there will be little or no pay increases in 2002, we have developed an additional set of results based a modified pay increase assumption. This modification assumes that there will be no pay increases in 2002 and that, thereafter, the pay increases will continue in accordance with our normal assumptions. All other assumptions remain unchanged. While the official results of the valuation are those based on "All Actuarial Assumptions", results based on the modified pay increase assumption ("No 2002 Pay Increase") are provided to give a more balanced view of the current status of funding.

Total Actuarial Contribution

The Total Actuarial Contribution Rate developed in this actuarial valuation, based on "All Assumptions", is 21.41% of active member payroll. This rate is 3.83% higher than that developed in the prior valuation.

The investment gains of 1997-99 have evaporated in the last two years. In addition, the large pay increases implemented in late 2000 and 2001 were fully felt in this valuation. The combined impact of the large actuarial losses from investments and from pay increases has produced a huge effect on the funding level of the system and the actuarially calculated contribution rate for 2002.

Funding Process

Based on the work of the Joint ERF/City Working Group that has been ratified by both the ERF membership and the City Council, a new funding process commenced October 1, 2000. As of that date, the City contribution rate increased from 8.50% of pay to 9.75% and the member contribution rate increased from 5.00% to 5.75%. On October 1, 2001, the City contribution rate increased to 11.00% of pay and the member contribution rate increased to 6.50%.

Subject to voter approval, member and City contribution rates may be adjusted as of October 2003 based on the results of the actuarial valuation as of December 31, 2002. The contribution rates will be adjusted upward if that valuation produces a total contribution level exceeding 19.50%. They will be adjusted downward if that valuation produces a contribution rate less than 15.50%. About 63% of the change will be borne by the City and the remaining 37% by the members.

This process will recur every three years thereafter.

Actuarial Assumptions

The actuarial method and actuarial assumptions used in this valuation are identical to those disclosed in the prior valuation report.

ERF Benefits

There have been no changes in the benefit provisions of ERF since the prior valuation.

Experience During 2001

Actuarial Gain and Loss Analysis reviews the effects of experience that differs from that assumed on actuarial results. If such a difference increases assets or reduces liabilities, we have an actuarial gain. The reverse is an actuarial loss.

ERF experienced an overall actuarial loss in 2001, for the second consecutive year. This year's overall ERF actuarial loss amounted to about $224 million.

The total actuarial loss is the net of the gain from assets and the loss from liabilities. The total loss is broken down as follows ($ in millions):

		1998	1999	2000	2001
1.	Actuarial (Gain)/Loss on Assets	$(94.0)	$(146.8)	$(20.0)	$113.8
2.	Actuarial (Gain)/Loss on Liabilities	(35.9)	7.0	51.4	109.9
3.	Total Actuarial (Gain) or Loss (1+2)	(129.9)	(139.8)	31.4	223.7

There was an actuarial loss of $113.8 million from investment return. For the second consecutive year, the fund earned negative returns at market value. Due to the smoothing technique used in developing the actuarial value of assets, the return at actuarial value was 2.76%. This result, while positive, was substantially less than the 8.50% assumption. In addition, it should be noted that the actuarial value of assets is significantly higher than the market value. Thus, it will take substantial return at market in the next few years to produce gains from assets.

In addition, during 2001, there was an actuarial loss of $109.9 million from demographic assumptions and non-investment economic assumptions. Pay increases account for $100.6 million of the loss from liabilities.

It should be noted that the actuarial loss from liabilities amounts to about 5.40% of actuarial accrued liabilities at the beginning of the year. This impact was nearly double that of the previous largest gain or loss from liabilities since 1996.

Asset Information

The market value of the assets of the fund, which are available for benefits, has dropped from $2,019 million as of December 31, 1999 and $1,908 million as of December 31, 2000 to $1,770 million as of December 31, 2001. The markets, which produced several years of huge investment gains during the late 1990's, have turned downward significantly in the last two years.

The assets recognized for actuarial purposes (actuarial value of assets) are the product of a smoothing technique. The purpose of such a technique is to allow the use of market values, but to dampen the effect of market volatility. See Table 3 for the determination of the actuarial value of assets.

As a result of this technique, the actuarial value of assets has grown from $1,998 million to $2,017 million during 2001. The rate of investment return for 2001 on actuarial value of assets was 2.76% compared to 9.6% in 2000 and 17.7% in 1999. The detailed determinations of asset values utilized in this valuation and asset growth in the last year are set out in Appendix A.

Funding Status

The funding status of ERF is measured by the Funding Ratio and the Unfunded Actuarial Accrued Liability (UAAL). The Funding Ratio is the ratio of the actuarial value of assets available for benefits to the actuarial accrued liability (AAL) of the Fund. Thus, it reflects the portion of the AAL that is covered by ERF assets. The UAAL is the difference between these items.

A funding ratio of 100% means that the funding of ERF is precisely on schedule. By monitoring changes in the funding ratio each year we can determine whether or not funding progress is being made.

Based on the actuarial value of assets, the ERF funding ratio fell from 99.4% at December 31, 1999 to 98.0% at December 31, 2000 and to 88.6% as of December 31, 2001

The UAAL increased from $11 million at December 31, 1999 to $40 million at December 31, 2000 to $259 million at December 31, 2001.

GASB Disclosure

GASB Statements Numbers 25 and 27 set out the current accounting standards for ERF. Tables 11, 12, and 13 in Appendix D provide footnotes and/or Required Supplemental Information tables required to be disclosed by those statements.

NOTE: Copies of the complete actuarial valuation including appendixes A-G are available at the Fund's office.

STATISTICAL SECTION

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Schedule of Revenue by Source

Year Ending	Member Contributions ($'s 000)	Employer Contributions ($'s 000)	% of Annual Covered Payroll	Investment Income ($'s 000)	Total ($'s 000)
1996	12,391	21,073	8.2	166,035	199,499
1997	13,193	22,404	8.4	262,475	298,072
1998	14,001	23,762	9.0	258,591	296,354
1999	14,932	25,217	8.9	290,691	330,833
2000	16,460	27,847	9.3	(68,847)	(24,540)
2001	20,814	35,182	10.6	(103,558)	(47,562)

Schedule of Expenses by Type

Year Ending	Benefit Payments ($'s 000)	Administrative Expenses ($'s 000)	Refunds ($'s 000)	Investment and Professional Expenses ($'s 000)	Total ($'s 000)
1996	61,402	1,665	2,473	8,470	74,010
1997	65,636	1,415	2,640	7,133	76,824
1998	69,111	1,138	3,020	8,411	81,680
1999	73,530	1,470	2,706	11,168	88,874
2000	81,006	1,860	2,971	16,212	102,049
2001	87,054	1,918	2,434	12,237	103,643

Schedule of Benefit Expenses by Type

Year Ending	Retiree ($'s 000)	Beneficiary ($'s 000)	Disability ($'s 000)	Supplement ($'s 000)	Total ($'s 000)
1996	50,719	3,014	1,828	5,841	61,402
1997	53,961	3,795	1,956	5,924	65,636
1998	57,299	3,713	2,111	5,988	69,111
1999	61,730	3,461	2,204	6,135	73,530
2000	67,714	4,563	2,427	6,302	81,006
2001	73,963	4,076	2,554	6,431	87,054

Schedule of Average Benefit Payment Amount

At 12/31 Year Ending	Average Monthly Benefit ($'s)	Average Age at Retirement	Average Current Age of Retirees
1996	1,311	59.4	64.4
1997	1,355	56.5	60.5
1998	1,454	55.8	58.8
1999	1,393	56.1	58.1
2000	1,432	55.3	56.3
2001	1,574	57.3	57.3

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