2006

Comprehensive Annual Financial Report

fiscal year ended December 31, 2006

Employees' Retirement Fund
of the City of DALLAS ®

EMPLOYEES' RETIREMENT FUND
OF THE CITY OF DALLAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

CHERYL CLEMONS
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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Table of Contents

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INTRODUCTORY SECTION

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Employees' Retirement Fund of the City of DALLAS

LETTER OF TRANSMITTAL

July 15, 2007

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, 2006 is submitted herewith. Our mission is to provide retirement benefits and superior service to advance the financial security of our members. 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:

Section One - Introductory Section, contains the administrative organization, a letter of transmittal, and the Plan Summary.
Section Two - Financial Section contains the report of the Independent Auditors, the financial statements of ERF and certain required supplementary information.
Section Three - Investment Section contains a report on investment activity, investment policies, investment results, and various investment schedules.
Section Four - Actuarial Section which contains an Actuary's Certification Letter and the results of the annual actuarial valuation.
Section Five - Statistical Section 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, fire fighters, 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 at the date of eligibility for retirement after five years of service or to survivor benefits after two years of service.

Major Initiatives

The major initiative under taken over the last three years focused on plan funding. A Study Committee was appointed in December 2003 by the City Council to study the unfunded liability issue and to make recommendations to the City Council on how to solve the problem. The Study Committee presented its report to the City Council in May 2004. The Committee made several recommendations to the City Council. The primary recommendations were to issue pension obligation bonds to cover the current unfunded liability, increase the contributions of the City and employees, and place before the voters a plan change amendment that would put a modified automatic contribution adjustment mechanism in the Plan. The Council voted to support the recommendations of the Study Committee.

After the Council voted to support the Study Committee recommendations, the Board, the City Manager, the Chief Financial Officer, and the City Attorney's office all worked to draft a plan amendment to incorporate the recommended changes. This amendment was completed and submitted to the Dallas voters on the November 2, 2004 ballot. The plan amendment passed with 71% of the voters voting in favor of the amendment. Details of the plan amendment are included in the Management's Discussion and Analysis section. After passage of the plan amendment the Council approved the issuance of $399,000,000 in pension obligation bonds (POBs) issued with a premium of $140,000,000 to address the unfunded liability. These bonds are general obligation bonds of the city, and they were issued and the proceeds transferred to the Fund on February 16, 2005. These actions have taken major steps toward resolving the plan funding.

In 2006 as part of our focus on plan funding we reviewed our asset allocation and made a couple of changes to our equity structure. In both domestic and international equity we reduced our exposure to passive index products and increased our exposure to active enhanced index strategies. As a result we added one international equity enhanced index manager and three domestic equity enhanced index managers. This new structure helped to contribute to our total fund return of 17.3% for 2006.

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.

2006 was the fourth year of positive return. The total Fund return for 2006 was 17.3%. The Fund's total return for the past three years was 13.7%, and the last five years was 10.9%. ERF expects and assumes an investment rate of return of 8.25% 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, the alternative venture capital asset class is being liquidated from ERF's portfolio, and is not a part of the strategic asset allocation policy. 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 2006, totaled $518,072,000. Employer contributions of $23,000,000 were lower by $542,569,000 compared to city contributions received in 2005. This decrease is due to the net proceeds received in 2005 from the sale of the pension obligation bonds. Member contributions of $30,123,000 increased $6,731,000. The factors that contributed to this increase were salary increases and the impact of a full year of the contribution rate increase from 6.50% to 9.03% for employees.

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 2006 deductions totaled $145,073,000. This represents an increase of $11,709,000 or 8.78%. Administrative expenses, which are controlled by a budget approved by the Board of Trustees, decreased $321,000 or 11.73%. This decrease is attributed to election costs of the pension obligation bonds paid in 2005.

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.

The Governmental Accounting Standards Board issued Statement No. 44. Economic Condition Reporting: The Statistical Section—an amendment of NCGA Statement 1. This Statement amends the portions of NCGA Statement 1, Governmental Accounting and Financial Reporting Principles, that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition of a government. The statistical section is a required part of a comprehensive annual financial report (CAFR) and applies to any statistical section that accompanies a government's basic financial statements.

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, 2006 amounted to $2.8 billion and $3.0 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,

Cheryl Clemons

Cheryl Clemons
Administrator

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Board of Trustees

As of December 31, 2006

Administrative Staff

Cheryl Clemons, Administrator

Newton Bruce, Assistant Administrator

Gail Smith, Assistant Administrator

Natalie Jenkins, Investment Officer

Evelyn Thomas, Senior Pension Benefits Specialist

Judith Greene, Senior Pension Benefits Specialist

Susan Oakey, Senior Pension Benefits Specialist

Duc Lam, Database Analyst

John Binford, Senior Information Technology Analyst

Jason Thompson, Senior Information Technology Analyst

Sheila Willis, Pension Benefits Specialist

Re'Gine Green, Pension Benefits Specialist

Patricia Jack, Pension Benefits Specialist

Berda Venerable, Management Assistant

Melissa Harris, Communications Specialist

C. Kay Watson, Office Manager

Lisa Larry, Office Assistant

Beth Turner, Office Assistant

Micaela Arredondo, Office Assistant

Professional Service Providers

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

PLAN SUMMARY

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

As of December 31, 2006

Membership

An employee becomes a member upon permanent employment and contributes to the Retirement Fund.

Contributions

The contribution rate is determined each year by the actuarial valuation. The total contribution is split 37% members and 63% City. At December 31, 2006 the members contributed 9.03% of pay and the City contributed 15.38% of pay of which 6.99% is received by the Fund and 8.39% is the used for the pension obligation bonds debt service.

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; or
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 the annual average change of the price index for the latest 12 months available up to 5%.

FINANCIAL SECTION

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EMPLOYEES' RETIREMENT FUND OF THE CITY OF DALLAS

Financial Statements
As Of December 31, 2006 and 2005

With Independent Auditor's Report Thereon

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KPMG LLP
Suite 3100
717 North Harwood Street
Dallas, TX 75201-6585

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, 2006 and 2005, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2006 and 2005, and the changes in its plan net assets for the years then ended in conformity with U.S. generally accepted accounting principles.

Management's Discussion and Analysis, the schedule of city contributions, and the schedule of funding progress are not a required part of the basic financial statements of the Plan, but are supplementary information required by the U.S. generally accepted accounting principles. 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 conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of administrative expenses, schedule of investment expenses, schedule of payments to consultants, the introductory section, the statistical section, the investment section and the actuarial section are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The schedule of administrative expenses, schedule of investment expenses, and schedule of payments to consultants have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, statistical section, investment section and actuarial section have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

July 2, 2007

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplementary Information)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the Employees' Retirement Fund of the City of Dallas (The Plan) financial performance provides an overview of the financial activities and funding conditions for the fiscal years ended December 31, 2006, 2005 and 2004. The intent of this discussion and analysis is to give a narrative overview and analysis of the Plan's financial performance as a whole. For more detailed information regarding performance, readers should also review the financial statements, notes to the financial statements, and required supplementary information in order to enhance their understanding of the Plan's financial performance.

FINANCIAL STATEMENTS

The Plan is a defined benefit plan that provides retirement, disability, and death benefits to full time and permanent part-time civilian employees of the City of Dallas. The Plan has two basic financial statements:

- a statement of plan net assets that provides information about the fair value and composition of plan assets, plan liabilities, and plan net assets; and

- a statement of changes in plan net assets that provides information about the year-to-year changes in plan net assets.

There are also notes to the financial statements that include a brief plan description, a summary of significant accounting policies, and information about contributions, legally required reserves, and investment concentrations. The report also contains required supplemental information in addition to the basic financial statements. Collectively, this information presents the net assets available for pension benefits and summarizes the changes in net assets for those benefits.

FINANCIAL HIGHLIGHTS

The following financial highlights occurred during the fiscal year ended December 31, 2006:

- Total rate of return on market basis was 17.33% and was due primarily to returns from investments in international equities and REITS.
- The net assets of the Plan held in trust to pay pension benefits were $3.2 billion as of December 31, 2006. This amount reflects an increase of $373 million from last year. This increase is primarily the result of net appreciation of the fair value of the investment portfolio.
- Contribution revenue for fiscal year 2006 was $53 million, a decrease of $ 536 million from last fiscal year. This decrease is attributable to additional contributions made with net proceeds from the pension obligation bonds sold in February in 2005 and adjustment to the city contribution rate for debt service on the bonds.
- Pension benefits paid to retirees and beneficiaries increased $11.6 million bringing the total benefit payments to $139.2 million. Refunds of contributions paid to former members upon termination of employment increased from $3.0 million to $3.5 million.
- Net investment earnings (net appreciation in the fair value of investments, plus interest and dividend income, less investment expenses) increased by 123% compared to last fiscal year.
- Administrative expenses in 2006 totaling $2.4 million decreased by $321 thousand from last fiscal year total of $2.7 million. This change is attributable to election costs paid in 2005.

CONDENSED FINANCIAL INFORMATION

	2006 (in thousands)	2005 (in thousands)	2004 (in thousands)
Assets	$ 4,052,573	$ 3,359,240	$ 2,517,664
Liabilities	881,038	560,705	383,307
Net Assets available for benefits	3,171,534	2,798,535	2,134,357
Contributions	53,123	588,961	56,147
Investment & other income	464,949	208,581	290,187
Benefit payments	139,206	127,578	116,675
Refund of contributions	3,451	3,049	2,976
Administrative expenses	2,416	2,737	2,075
Change in Net Assets	372,999	664,178	224,608

FINANCIAL POSITION AND RESULTS OF OPERATIONS

The Plan's total return for fiscal year 2006 was 17.33% as compared to an 8.27% in 2005 and 15.61% in 2004. The overall market conditions for 2006 were strong producing exceptional returns. Investments in international equities and REITS had 2006 returns of 25.52% and 37.65% respectively for the year. While returns for 2005 were positive, they did not match the 2004 return.

At year ended 2006, the Plan's net asset value was approximately $3.2 billion, an approximate increase of $373 million from the 2005 year ended value of approximately $2.8 billion. This increase is due to the net appreciation in market value and corporate earnings from investments both of which are attributable to the change in market conditions in general. The change in net assets between fiscal years 2005 and 2004 was significant. The value increased from $2.1 billion in 2004 to $2.8 billion in 2005. A large part of this increase was from additional contributions made by the City of Dallas in 2005. To address the 2003 unfunded liability, the City Council approved and issued $399,000,000 in pension obligation bonds. The net proceeds of $533,397,000 from the sale of these bonds were contributed to the Plan in 2005.

Although the contribution rates increased from 6.5% to 9.03% for employees and 11% to 15.38% for the city in 2005, the contribution revenue in fiscal year 2006 was less than the revenue received in 2005. Two factors attributed to this decrease: (1) additional contributions of $533 million from net proceeds on the sale of pension obligation bonds sold in 2005 and (2) an adjustment to the city contribution rate for the debt service payment on the bonds. The debt service on the pension obligation bonds is paid by the city. Even though the city contribution rate increased to 15.38%, a portion of this rate is allocated to the debt service payment. The actual contribution dollars received are consequently lower. See comments regarding contributions in Note 1 (d) on page 4.

Net investment income is presented net of investment expenses and is comprised of interest, gains/(losses) from the sale of investments, net unrealized appreciation/(depreciation) in the fair value of investments, and net income from securities lending activities. Net investment income for fiscal year 2006 had a noteworthy change over 2005. The 123% increase in fiscal year 2006 of $465 million compared to $208 million in income for 2005 is primarily a result of the change in the net unrealized appreciation in the fair value of investments and in the increase of security lending income. Market growth and reallocation from three commingled indexed products to four active managers were contributing factors as well as the increase in the Plan's profit split for security lending from 65% to 75%.

Liabilities for fiscal year 2006 were $881 million. This represents an increase of 57.1% over 2005. In 2005 liabilities increased 46.3% as compared to 2004. In all instances the increases were largely due to securities lending collateral and unsettled security purchases at year end. The volume of securities on loan in the Plan's security lending program for fiscal year 2006 was higher than the 2005 volume. The volume of securities on loan during 2006 significantly soared from 749 in 2005 to 2,462 in 2006. Likewise, the year end market values of purchases that were unsettled for fiscal 2006 were $177 million compared to the $116 million for 2005. Fiscal year 2005 as compared to 2004 had a 63.4 % increase in liabilities. The increases between the years were due to market growth.

Benefits paid in fiscal year 2006 were $139 million, an increase of $11 million over payments made in 2005. Several causes contributed to this increase. Commuted value payments (payments to deceased members' estates) increased from $2.8 million in 2005 to $3.5 million in 2006. Combined with the annual cost-of-living adjustment and new retirements for 2006, these events cumulated to a 9.1% increase over 2005. Payments increased from $117 million to $128 million between fiscal years 2005 and 2004. Increases between these years were attributable to new retirements with higher base benefits and to cost-of-living-adjustments paid to retirees and their beneficiaries. New retirements for these periods were 276 in fiscal year 2006, 285 in fiscal year 2005 and 249 in fiscal year 2004. Cost-of-living-adjustments for each of the respective years were 3.48% in 2006, 4.67% in 2005 and 3.21% in 2004.

CURRENT ENVIRONMENT

Plan membership for active members increased slightly in fiscal 2006 from 7,763 to 7,772, an increase of .12%. Growth in retirements continued to increase at an approximate average of 200 plus members per year. Similarly, the level of benefits paid out continued to exceed the amount of contribution revenue coming in. As along as these trends persist, they create a continual requirement to pull cash, generated from investments, in order to meet benefit payments and expenses.

The 2006 actuarial funded ratio was 108.6%, up by approximately 4% over 2005. This increase was primarily a result of the investment return.

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EMPLOYEES' RETIREMENT FUND OF
THE CITY OF DALLAS

Statements of Plan Net Assets

As of December 31, 2006 and 2005
(In thousands)

	2006	2005
ASSETS:		
Cash and short-term investments	$ 93,872	$ 72,015
Collateral on Loaned Securities	502,669	428,181
	596,541	500,196
Receivables:		
Currency contracts	194,023	9,899
Currency gains	412	194
Accrued dividends	3,980	2,100
Accrued interest	9,687	9,465
Accrued securities lending	90	76
Securities sold	87,251	50,051
Employer contributions	695	682
Employee contributions	916	881
Total receivables	297,054	73,348
Investments, at fair value:		
Commingled index funds	128,599	1,125,465
Domestic equities	1,450,143	492,324
United States and foreign government securities	438,622	319,054
Domestic corporate fixed-income securities	490,094	473,196
International equities	651,456	375,496
Investments, at estimated fair value:		
Venture capital funds	63	161
Total investments	3,158,977	2,785,696
Total assets	4,052,572	3,359,240
LIABILITIES:		
Accounts payable	3,961	4,797
Payable for securities purchased	176,782	115,877
Investment fees payable	3,603	1,951
Currency contracts	194,023	9,899
Securities lending collateral	502,669	428,181
Total liabilities	881,038	560,705
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (A Schedule of Funding Progress is presented on page 16)	$3,171,534	$2,798,535

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, 2006 and 2005
(In thousands)

	2006	2005
ADDITIONS:		
Contributions:		
Employer	$ 23,000	$ 565,569
Employee	30,123	23,392
Total contributions	53,123	588,961
Net investment income:		
Dividends	30,706	21,143
Interest	49,386	40,630
Net appreciation in fair value of investments	393,728	153,271
Securities lending income	26,730	12,135
Less investment expenses:		
Investment management fees	(9,855)	(7,186)
Custody fees	(125)	(125)
Consultant fees	(268)	(250)
Securities lending borrower rebates	(25,220)	(10,984)
Securities lending management fees	(453)	(345)
Total investment expenses	(35,921)	(18,891)
Net investment income	464,629	208,288
Other income	320	293
Total increases	518,072	797,542
DEDUCTIONS:		
Benefit payments	139,206	127,578
Refund of contributions	3,451	3,049
Administrative expenses	2,416	2,737
Total deductions	145,073	133,364
Net increase in net assets available for benefits	372,999	664,178
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of year	2,798,535	2,134,357
End of year	$3,171,534	$2,798,535

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

EMPLOYEES' RETIREMENT FUND OF
THE CITY OF DALLAS

Notes to the Financial Statements

December 31, 2006 and 2005

(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 that 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 from 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 as set forth in Chapter 40A. As of December 3l, 2006 and 2005, the Plan's membership consisted of:

	2006	2005
Retirees and beneficiaries currently receiving benefits and inactive members entitled to benefits but not yet receiving them	6,177	5,813
Current members:		
Vested	5,216	5,361
Nonvested	2,556	2,402
Total current members	7,772	7,763
Total membership	13,949	13,576

(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 2006 and 2005 were 3.48% and 4.67%, respectively.

EMPLOYEES' RETIREMENT FUND OF
THE CITY OF DALLAS

Notes to the Financial Statements

December 31, 2006 and 2005

In addition, the Plan provides retirees who have five 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 may qualify for a service-connected disability with no minimum service, or a non-service connected disability with five or more years of credited service. Non-service connected benefits are based on actual credited service or a minimum of 10 years. Service-connected benefits are equal to normal retirement benefits or a minimum of $500.

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 the date of termination.

EMPLOYEES' RETIREMENT FUND OF
THE CITY OF DALLAS

Notes to the Financial Statements

December 31, 2006 and 2005

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 Plan's Board of Trustees (the "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 made by the Working Group which would require voter approval 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. This recommendation was initially approved by the City Council. However, the recommended Plan change was not placed on a ballot for voter approval. A new Mayor and City Council became concerned with the size of the unfunded actuarial liability and recommended a new study be completed. A new study committee consisting of seven members was appointed in December 2003 to again study the unfunded liability issue and to make recommendations to the City Council on how to solve the problem. The study committee presented its report to the City Council at the May 12, 2004 Council Meeting. The study committee made several recommendations to the City Council. The primary recommendations were to issue pension obligation bonds to cover the current unfunded liability, increase the contributions of the City and employees, and place before the voters a plan change amendment that would put a modified automatic contribution adjustment mechanism in the Plan. The Council voted to support the recommendations of the study committee.

After the Council voted to support the study committee recommendations, the Board, the City Manager, the Chief Financial Officer, and the City Attorney's office all worked to draft a plan amendment to incorporate the recommended changes. This amendment was completed and submitted to the Dallas voters on the November 2, 2004 ballot. The plan amendment passed with 71% of the voters voting in favor of the amendment.

The changes this amendment made to the Plan included: providing authorization and procedures for the Board to annually increase or decrease contribution rates beginning October 1, 2005 in a ratio where the City pays 63% and the employee pays 37% of the contribution rate as determined by the actuarial valuation; requiring notice to the City of the contribution rates and providing procedures by which the City may review and challenge those rates; codifying the Board's policies and procedures relating to the Plan's actuarial process and the City's participation in the selection of an actuarial firm to perform a peer review/audit; increasing the Board from five members to seven by adding another employee elected representative and another council appointed representative effective March 1, 2005; increasing from three to four the number of board members required to constitute a quorum; increasing the terms of the employee elected representatives from two to three years; requiring Council approval before the Board may grant temporary or permanent discretionary adjustments to retirement benefits over and above the regular cost-of-living increases; correcting section references to the term "qualified recipient"; and authorizing either the Council or the Board to propose amendments to Chapter 40A, subject to approval by the Board, the Council, and the voters of the city.

EMPLOYEES' RETIREMENT FUND OF
THE CITY OF DALLAS

Notes to the Financial Statements

December 31, 2006 and 2005

After passage of the plan amendment the Council approved the issuance of $399,000,000 in pension obligation bonds (POBs) with a $140,000,000 premium to address the unfunded liability. These bonds are general obligation bonds of the City, and the net proceeds of $533,397,000 were contributed to the Plan on February 16, 2005. The plan amendment provided that the City's payment of the principal and interest on the POBs is part of their 63% of the contribution rate to the Plan.

Based on the authorization in the plan amendment, the 2004 actuarial valuation established new contribution rates for employees and the City. The new rates which became effective October 1, 2005 are 9.03% of pay for employees and a combined rate of 15.38% of pay for the City. The City's 15.38% is divided into 6.99% cash to the Plan and 8.39% for debt service payments on the pension obligation bonds.

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 Plan or the actuarial assumptions used, may significantly affect the identification of trends in the amounts reported in this schedule.

(e) Plan Administration

Effective March 1, 2005 as a result of the Plan change amendment passed in November 2004, the Board of Trustees (the "Board") composition changed from five to seven members. The Plan is governed by seven-members consisting of three members appointed by the City Council who may be Council members, three 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 economic resources measurement focus and 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 (approximately $1,611,000 and $1,563,000 at December 31, 2006 and 2005 respectively) as of the Plan's fiscal year-end are recorded as contributions receivable. In addition, unsettled investment purchases and sales are accrued.

(b) Administrative Expenses

Administrative expenses (excluding investment related expenses) totaling approximately $2,416,000 and $2,737,000 for the years ended December 31, 2006 and 2005 respectively are paid from the Plan's investment income only when the Plan's actuary certifies payment will not have an adverse effect on the payment of benefits.

EMPLOYEES' RETIREMENT FUND OF
THE CITY OF DALLAS

Notes to the Financial Statements

December 31, 2006 and 2005

(c) Use of Estimates

The preparation of financial statements in accordance with generally accepted U. S. 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.

(d) Investments

The Plan's investment policy requires that 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 (See derivatives disclosure in footnote 3).

Investments are valued at fair value based on quoted market prices, where available. Estimated fair values of 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.

(e) 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, 2006 and 2005 were converted to U.S. dollars at the foreign exchange rates quoted at December 31, 2006 and 2005. 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.

(f) Securities Lending

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.

Disclosure of securities lending revenue is shown gross with the associated reductions for investment expenses on the face of the Statements of Changes in Plan Net Assets, and the cash collateral and associated securities lending payable is shown on the face of the Statements of Plan Net Assets for the years ended December 31, 2006 and 2005.

EMPLOYEES' RETIREMENT FUND OF
THE CITY OF DALLAS

Notes to the Financial Statements

December 31, 2006 and 2005

(g) Reclassification

Certain amounts in 2005 have been reclassified to conform to current year presentation.

(3) Derivatives

Derivatives are generally defined as contracts whose value depend on, or are derived from, the value of an underlying asset; reference rate or index. The Plan has classified the following as derivatives:

(a) Forward Contracts

A currency forward is a contractual agreement between two parties to pay or receive specific amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. Forward commitments are not standardized and carry credit risk due to the possible nonperformance by one of the counterparties. The maximum potential loss is the aggregate face value in U.S. dollars at the time the contract was opened; however, the likelihood of such loss is remote. No such losses occurred during fiscal years 2006 and 2005. 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 Plan records the unrealized currency translation gain or loss based on the applicable forward exchange rates.

The Plan recognized a net realized gain of $1,305,138 at December 31, 2006 and a net realized loss of $948,165 at December 2005. At December 31, 2006 and 2005, the Plan had net unrealized loss on forward contracts of $1,190,251 and $547,444 respectively. These gains and losses are included in net appreciation in fair value of investments in the accompanying statements of changes in net assets.

(b) Swaps

A swap is an agreement between two or more parties to exchange a sequence of cash flows over a period of time in the future. No principal is exchanged at the beginning of the swap. The cash flows that the counterparties exchange are tied to a “notional” amount. The agreements provide that, at predetermined future dates, the Plan pays interest based upon a notional principal amount and receives a return based upon the underlying index. Notional amounts represent the volume of outstanding transactions and do not represent the potential gain or loss associated with market risk or credit risk of such instruments. Risk associated with swaps includes adverse movements in the underlying index. The Plan has one investment manager authorized to enter into swaps. The Plan held no open swap contracts at December 31, 2006 and December 31, 2005.

(c) Futures

Financial futures are agreements to purchase or sell a specific amount of an asset at a specified delivery or maturity date for an agreed upon price. These derivative securities are used to improve yield, adjust the duration of the fixed income portfolio, circumvent changes in interest rates, or to replicate an index. Futures contracts are standardized and traded on organized exchanges, thereby minimizing the Plan’s risk. The Plan had one outstanding equity future contract with a fair value of $1,945,325 at December 31, 2006 and none at December 31, 2005.

EMPLOYEES' RETIREMENT FUND OF
THE CITY OF DALLAS

Notes to the Financial Statements

December 31, 2006 and 2005

(4) Deposit and Investment Risk Disclosures

Deposits and investments of state and local governments are exposed to risks that have the potential to result in losses. GASB Statement No. 40, *Deposit and Investment Risk Disclosures - an amendment to GASB Statement No. 3,* addresses common deposit and investment risks including custodial credit risk, credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The required disclosures related to these risks and the Plan' exposures to these risks are disclosed in the following sections.

Custodial Credit Risk

Custodial credit risk is the risk that, in event of the failure of the counterparty, the Plan will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The plan does not have a formal policy for custodial credit risk. All investments are registered in the name of Employees' Retirement Fund City of Dallas or in the name of the Plan's custodian which was established through a master trust custodial agreement. The securities are held by the custodian in the name of the Plan.

As of December 31, 2006 the Plan had $2,413,000 or .08% of its approximate $3,159,000,000 total investments (excluding short term investments) were exposed to custodial credit risk. The risk exposure at December 31, 2005 was $5,359,000 or .19% of total investments (excluding short term investments) of approximate $2,786,000,000. These exposures were uninsured and uncollateralized deposits held by custodian banks outside of the United States.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. A concentration of investments in any one single issuer of debt securities presents a greater risk for loss in the event that the issuer fails on its obligations.

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. The Northern Trust Company ("Northern") 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, 2006 and 2005 are as shown below (in thousands except per share amounts). The plan does not have a policy for concentration credit risk.

	2006		2005	
	Number of Shares/Units	Fair Value	Number of Shares/Units	Fair Value
Investments greater than 5% of net assets, at fair value:				
NTGI S&P 500 Equity Index Fund			180,011	$596,846
NTGI Collective Russell 1000			450,374	314,336
NTGI EAFE			663,404	214,283
Investments less than 5% of net assets:				
At fair value		3,755,357		2,160,266
At estimated fair value		161		161
Total cash and investments		$3,755,518		$3,285,892

EMPLOYEES' RETIREMENT FUND OF
THE CITY OF DALLAS

Notes to the Financial Statements

December 31, 2006 and 2005

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality ratings for the Plan's investments in fixed income securities as of December 31, 2006 and December 31, 2005 are included in the schedule below. Securities are rated using Standard and Poor's and/or Moody's and are presented below using the Moody's rating scale.

The Plan's strategic fixed income investment policy allocates 30 percent of the total assets to fixed income. The policy provides for investment of up to 20 percent of the fixed income assets in investment grade assets and up to 10 percent of the fixed income assets in high yield (below investment grade) assets. The investment grade allocation also allows the managers to invest in non-US dollar issues on an opportunistic basis up to 20 percent of their portfolio assets. Long term bond ratings as of December 31, 2006 and 2005 are as follows (in thousands):

Bond Category	Moody's Rating* (unless noted) 12/31/2006	Fair Value 12/31/2006	Percentage of Bond Portfolio 12/31/2006	Fair Value 12/31/2005	Percentage of Bond Portfolio 12/31/2005
U. S. Agencies	Aaa	$ 193,440	20.83	$ 174,711	22.06
U. S. Treasury Bonds	Aaa	-	-	9,330	1.18
U. S. Treasury Notes	Aaa	159,089	17.13	105,853	13.36
Corporate Bonds	Aaa	55,726	6.00	55,881	7.05
Foreign Bonds	Aaa	9,271	1.00	11,826	1.49
Mortgages	Aaa	78,149	8.42	53,701	6.78
Corporate Bonds	Aa1	682	0.07	828	0.10
Corporate Bonds	Aa2	3,003	0.32	4,018	0.51
Corporate Bonds	Aa3	5,913	0.64	12,494	1.58
Mortgages	Aa3	2,941	0.32	-	-
Corporate Bonds	A1	7,055	0.76	13,250	1.67
Corporate Bonds	A2	4,673	0.50	21,977	2.77
Mortgages	A2	291	0.03	-	-
Corporate Bonds	A3	838	0.09	7,902	1.00
Corporate Bonds	Baa1	5,090	0.55	23,514	2.97
Foreign Bonds	Baa1	4,812	0.52	8,026	1.01
Corporate Bonds	Baa2	8,504	0.91	29,484	3.72
Foreign Bonds	Baa2	744	0.08	1,668	0.21
Corporate Bonds	Baa3	17,959	1.93	21,127	2.67
Foreign Bonds	Baa3	1,789	0.19	2,151	0.27
Corporate Bonds	Ba1	18,565	2.00	2,330	0.29
Foreign Bonds	Ba1	-	-	2,527	0.32
Corporate Bonds	Ba2	22,822	2.46	28,903	3.65
Private Placements	Ba2	256	0.03	-	-
Corporate Bonds	Ba3	36,728	3.96	37,062	4.68
Private Placements	Ba3	513	0.05	-	-
Foreign Bonds	Ba3	-	-	404	0.05
Foreign Bonds	BBB (S&P)	-	-	2,559	0.32
Corporate Bonds	B1	53,655	5.78	41,000	5.18
Private Placements	B1	1,015	0.11	-	-
Corporate Bonds	B2	47,059	5.07	59,444	7.50
Foreign Bonds	B2	741	0.08	-	-
Private Placements	B2	2,960	0.32	-	-
Corporate Bonds	B3	47,431	5.11	43,201	5.45
Private Placements	B3	1,252	0.13	-	-
Corporate Bonds	Caa1	15,297	1.65	10,606	1.34
Private Placements	Caa1	2,404	0.26	-	-
Corporate Bonds	Caa2	3,707	0.40	4,225	0.53

EMPLOYEES' RETIREMENT FUND OF
THE CITY OF DALLAS

Notes to the Financial Statements

December 31, 2006 and 2005

Bond Category	Moody's Rating* (unless noted) 12/31/2006	Fair Value 12/31/2006	Percentage of Bond Portfolio 12/31/2006	Fair Value 12/31/2005	Percentage of Bond Portfolio 12/31/2005
Private Placements	Caa2	1,489	0.16	-	-
Corporate Bonds	NR	24,296	2.62	2,042	0.26
Foreign Bonds	NR	6,674	0.71	-	-
Mortgages	NR	19,821	2.13	-	-
U. S. Agencies	NR	51,935	5.59	-	-
U. S. Treasury Notes	NR	10,126	1.09	206	0.03
	Total	$ 928,715	100.00	$ 792,250	100.00

*The Moody's ratings are used when available. The Standard & Poor's rating is used when it is available and a Moody's rating is not available.

**NR-U. S. Treasury Bonds and Notes are obligations of the U. S government or explicitly guaranteed by the U. S. government and therefore are not considered to have a credit risk.

NR-Investments that are not rated.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. Although the Plan does not have a formal policy to limit foreign currency risk, the Plan's investment policies limit the aggregate amount that can be invested in each class of investments. The equity investment policy sets an allocation of 20 percent of assets to international equity. The fixed income policy permits up to twenty percent of the global manager's portfolio to be invested in global investment grade fixed income bonds.

The Plan's positions in these equity securities invested in directly and through commingled funds, were 20.62% and 21.17% of invested assets at December 31, 2006 and 2005 respectively. The Plan's positions in such fixed income assets invested were 0.76% and 1.05% of invested assets at December 31, 2006 and 2005 respectively.

Non-US Dollar denominated investments at December 31, 2006 and 2005 were as follows (in thousands):

Currency	Investment Type	U. S. Dollars Balance of Investment at 12/31/2006 (in thousands)	U. S. Dollars Balance of Investment at 12/31/2005 (in thousands)
Australian Dollar	Equities	$ 19,662	$ 13,058
Brazil Real	Equities	335	-
British Pound Sterling	Equities	85,442	21,668
	Fixed Income	-	9,748
Canadian Dollar	Equities	961	1,613
Danish Krone	Equities	-	272
Denmark Krone	Equities	2,686	-
Euro	Equities	115,951	24,645
	Fixed Income	884	-
	Short term	4,411	-
Hong Kong Dollars	Equities	6,841	5,624
Israel Shekel	Equities	213	-
Japanese Yen	Equities	99,925	47,266
	Fixed Income	11,529	985
Korean Won	Equities	5,172	2,950
Mexican Peso	Fixed Income	1,949	6,783
Norwegian Krone	Equities	2,802	1,867
	Fixed Income	3,156	-
Philippines Peso	Equities	158	-
Singapore Dollar	Equities	3,935	1,053
Swiss Franc	Equities	22,832	4,848
Swedish Krona	Equities	10,435	660
	Fixed Income	2,928	1,093
Thailand Baht	Equities	204	-
Turkish Lira	Equities	420	262
	Total	$ 402,831	$ 144,395

EMPLOYEES' RETIREMENT FUND OF
THE CITY OF DALLAS

Notes to the Financial Statements

December 31, 2006 and 2005

Interest Rate Risk

Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The fair values of securities with long terms to maturity may be highly sensitive to interest rate changes.

As of December 31, 2006 and 2005 the weighted-average maturity of the bonds by bond type are as follows. The 2005 amounts have been reclassified to conform to current year presentation fair value.

Bond Category	Fair Value 12/31/2006 (in thousands)	Weighted Average Maturity (years) at 12/31/2006	Fair Value 12/31/2005 (in thousands)	Weighted Average Maturity (years) at 12/31/2005
Asset Backed	$ 77,377	0.73	$ 61,330	.75
Bank Deposits	-	-	2,500	.00
Commercial Mortgage-Backed	48,161	1.87	23,297	.97
Corporate Bonds	349,526	3.71	365,015	3.57
Government Agencies	33,484	0.05	16,066	.09
Corporate Convertible Bonds	359	0.01	-	-
Government Bonds	182,563	2.12	141,289	1.08
Government Mortgage-Backed Securities	212,333	8.05	159,911	4 .94
Non-Government Backed C.M.O.s	29,371	0.91	25,358	.92
Repurchase Agreement	-	-	1,235	.01
Short Term Bills and Notes	-	-	13,760	.00
Total	$ 933,174		$ 809,761	
Portfolio weighted Average maturity		3.83		2.89

Government Mortgage Backed Securities are most sensitive to changes in interest rates as their prepayments can vary significantly with interest rate changes. This change in prepayments will generally cause the duration, or interest rate risk, of these securities to increase when interest rates rise and decrease when interest rates fall. These securities represent 23% of the total fixed income portfolio for 2006 and 19.75% for 2005. Their fair values at year end 2006 and 2005 were $212,333 and $159,911 respectively. The Board does not have a separate policy for interest rate risk.

Appreciation or Depreciation of Investments

In 2006 and 2005, the Plan's investments, including investments bought, sold, and held during the year, appreciated (depreciated) in value as follows (in thousands):

	2006	2005
Investments, at fair value:		
Commingled index funds	$ 63,849	$55,635
Domestic equities	208,742	53,044
United States and foreign government securities	(8,120)	(4,807)
Corporate bonds and notes	6,263	(20,306)
International equities	122,918	69,434
Short-term investments	1,303	(547)
Currency contracts	(1,396)	784
	153,236	153,236
Investments, at estimated fair value:		
Venture capital funds	168	34
	$393,728	$153,271

EMPLOYEES' RETIREMENT FUND OF
THE CITY OF DALLAS

Notes to the Financial Statements

December 31, 2006 and 2005

Securities Lending

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, 2006 and 2005, 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	Fair Value 12/31/2006	Collateral Market Value 12/31/2006	Collateral Percentage	Fair Value 12/31/2005	Collateral Market Value 12/31/2005	Collateral Percentage
Cash	$488,311	$502,669	103%	$416,626	$428,180	103%
Non-cash	36,309	37,235	103%	16,508	16,908	102%
Total	$524,620	$539,904		$433,134	$445,088	

The Board did not impose any restrictions during the respective 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 respective 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, 2006 and 2005, the Plan had no credit risk exposure to borrowers.

The following represents the balances relating to the securities lending transactions as of December 31, 2006 and 2005 (in thousands):

Securities Lent	Underlying Securities 12/31/2006	Securities Collateral Value 12/31/2006	Cash Collateral Investment Value 12/31/2006	Underlying Securities 12/31/2005	Securities Collateral Value 12/31/2005	Cash Collateral Investment Value 12/31/2005
Lent for cash Collateral:						
Domestic equities	$203,097		$208,749	$170,681		$175,312
Domestic corporate fixed income	74,231		76,172	79,210		81,300
International equities	61,881		65,021	30,177		31,919
US government, agency & foreign securities	147,135		150,673	136,558		139,649
subtotal	486,344		500,615	416,626		428,180

EMPLOYEES' RETIREMENT FUND OF
THE CITY OF DALLAS

Notes to the Financial Statements

December 31, 2006 and 2005

Securities Lent	Underlying Securities 12/31/2006	Securities Collateral Value 12/31/2006	Cash Collateral Investment Value 12/31/2006	Underlying Securities 12/31/2005	Securities Collateral Value 12/31/2005	Cash Collateral Investment Value 12/31/2005
Lent for securities Collateral:						
Domestic equities	1,436	8,710		-	-	
Domestic corporate fixed income	1 3,831	12,843		6,684	10,059	
International equities	12,548	1,507		9,824	-	
US government, agency & foreign securities	8,494	14,175		-	6849	
subtotal	36,309	37,235		16,508	16,908	
Total	$522,653	$ 37,235	$500,615	$433,134	$ 16,908	$428,180

Disclosure of securities lending income is shown gross with the associated reductions for investment expenses on the statements of changes in plan net assets, and the cash collateral and associated securities lending payable is shown on the statements of plan net assets for December 31, 2006 and 2005.

(4) Federal Income Tax Status

The Internal Revenue Service issued a determination letter dated January 14, 2003, stating that the Plan was designed in accordance with applicable Internal Revenue Code requirements as of that date. 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.

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited Data)

Schedule of City Contributions

The following table shows information related to City contributions (in thousands):

Years Ended December 31	Annual Actuarially Required Contribution	Percentage Contributed
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
2002	49,475	74.0
2003	65,849	52.7
2004	71,382	49.4
2005	27,898	2027.3
2006	14,380	159.94

Schedule of Funding Progress

The following table shows the Plan's funding progress (dollars 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)
12/31/97	1,438	1,674	236	86%	262	90.2%
12/31/98	1,617	1,750	133	92%	276	48.3%
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%
12/31/02	1,864	2,400	536	78%	325	165.0%
12/31/03	1,843	2,489	646	74%	318	202.8%
12/31/04	2,482	2,488	6	99%	331	1.9%
12/31/05	2,739	2,606	-133	105%	332	-40.0 %
12/31/06	2,998	2,761	-237	109%	345	-68.6 %

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.

Actuarial methods used are entry age normal for actuarial cost method and level percent open for amortization method. The remaining amortization period is 30 years. Significant actuarial assumptions used include: (a) an annual rate of return on the investment of present and future assets of 8.25% for 2006 and 2005, compounded annually; (b) projected salary increases based on graded rates in 2006 and 2005, compounded annually, attributable to inflation; (c) post retirement benefit increases of 3% in 2005 and 3% in 2004 calculated annually; (d) Mortality rates are based on 1994 Uninsured Pensioners Mortality Table (healthy participants); 1965 Railroad Retirement Board Disabled Life Table (disabled participants), and (e) asset valuation method three year smoothed market.

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

Schedule of Administrative Expenses

as of December 31, 2006

Personal services:	
Salaries	$1,166,542
Retirement	196,935
Insurance	64,301
Total Personal Services	1,427,778
Professional services:	
Actuary Service	59,081
Acconting & Audit Fees	38,000
Attorney fees	-
Communication	-
Medical	7,545
Total Professional Services	104,626
Operating Services:	
Data Processing	182,669
Election	18,783
Parking	12,996
Printing	46,636
Rent	241,830
Supplies and Services	113,862
Telephone	16,192
Travel and Training	56,906
Indirect and Other Costs	153,869
Total Operating Services	843,743
Furniture & Fixtures:	
Furniture	39,627
Other	-
Total Furniture & Fixtures	39,627
Total Administrative Expenses	$2,415,774

Schedule of Investment Expenses
as of December 31, 2006

Manager Fees	$ 9,855,294
Custodian Fees	125,000
Securities Lending Fees	25,673,090
Investment Consultant Fees	267,500
Total Investment Expenses	$35,920,884

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

Schedule of Payments for Professional Services
as of December 31, 2006

Accounting and Audit:	
Financial Control Systems	$ 38,000
Acturial:	
Gabriel, Roeder, Smith & Company	59,081
Election:	
Voice Retrieval & Information Services	18,783
Legal:	
various	0
Medical:	
various	7,545
Investments:	
Wilshire Associates, Inc	267,500
Total Professional Services Payments	$390,909

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INVESTMENT SECTION
(unaudited)

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WILSHIRE CONSULTING

Andrew H. Junkin
CFA, CIMA, CAIA
Managing Director

April 24, 2007

Ms. Cheryl Alston
Administrator
City of Dallas Employees' Retirement Fund
600 North Pearl Street #2450
Dallas, TX 75201

Re: 2006 Performance Results

Dear Cheryl:

The purpose of this letter is to review the 2006 investment performance results of the Dallas Employees' Retirement Fund System ("ERF, the Fund").

ERF maintains a well-diversified investment portfolio that consists of domestic and international equities, fixed income, and real estate securities. During 2006, the Fund generated a net-of-fee return of 17.33%[1], which outpaced both the Fund's asset allocation policy benchmark return of 17.15% and the actuarial rate of interest of 8.25%. Strong performance within the global equity markets and the continued rise of real estate securities benefited ERF's performance. Overall, ERF enjoyed solid gains in 2006.

In the beginning of 2006, the ERF Board of Trustees reviewed the Fund's asset allocation policy and reconfirmed its long-term strategic asset allocation. The approved allocations are:

Asset Class	Allocation
Domestic Equity	40%
Fixed Income	20%
International Equity	20%
High Yield	10%
Real Estate Securities	10%

As always, we thank you for the opportunity to be of service to ERF.

Sincerely,

Andrew Junkin
Managing Director

[1] Performance calculations are consistent with the computations and methodologies approved by the CFA Institute.

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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.

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Investment Results

Investment Summary

The investment managers and the returns by investment category are shown in the following tables.

Investment Category	2006 Rate Of Return
Domestic Equities	16.54%
International Equities	25.52%
Fixed Income	4.16%
High Yield Bonds	7.10%
Real Estate Securities	37.65%
Cash Equivalents	4.81%
Venture Capital	-53.73%
Total Portfolio	17.33%

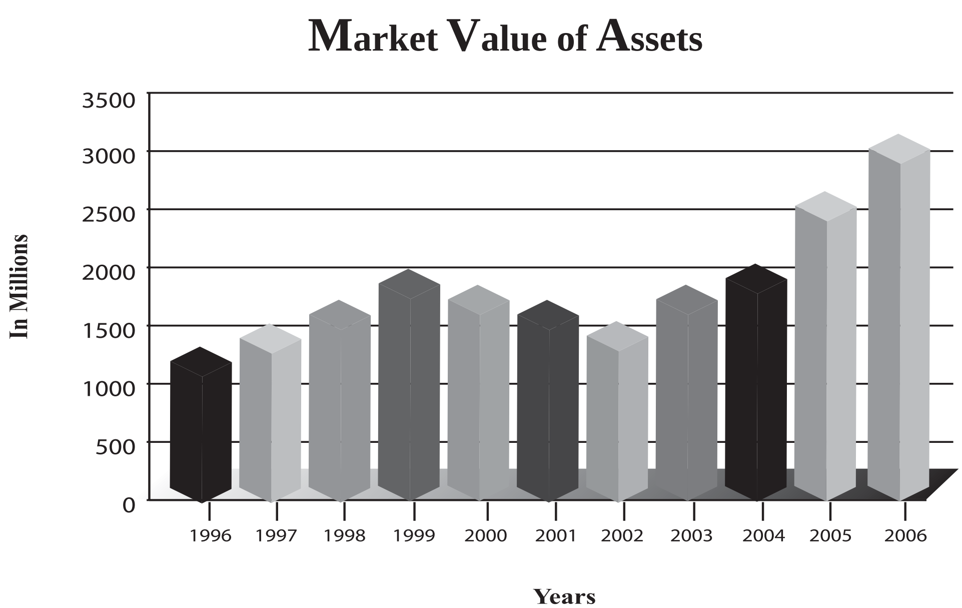
Investment Managers

Domestic Equities, REITs & Commingled Index Funds	Adelente Capital Management, LLC Barclays Global Investors Intech Northern Trust Global Investments Security Capital Research & Management Systematic Financial Management, LP T. Rowe Price
International Equities	Acadian Asset Management Inc. AQR Capital Management, LLC Baring International Investment Limited
Fixed Income	Black Rock Financial Management Loomis Sayles & Company Oaktree Capital Management, LLC Payden & Rygel
Cash Equivalents	The Northern Trust Company
Venture Capital	Alliance Capital Brinson Partners

Total Plan Results

The world equity markets as measured by various indices were positive for 2006 with the MSCI All World ex-US Index returning 27.15% and the Dow Jones Wilshire 5000 returning 15.77%. The Lehman Aggregate was up 4.33%. The Citigroup High Yield Cash Pay Index was up 11.72% for the year.

At December 31, 2006, the net asset value of the Plan was $3.2 billion. This value represents a 14.29% or $373 million increase over last year's value of $2.8 billion. The Net Assets of the Plan graph below provides a pictorial history of the Plan's growth over the past 10 years.



Asset Allocation

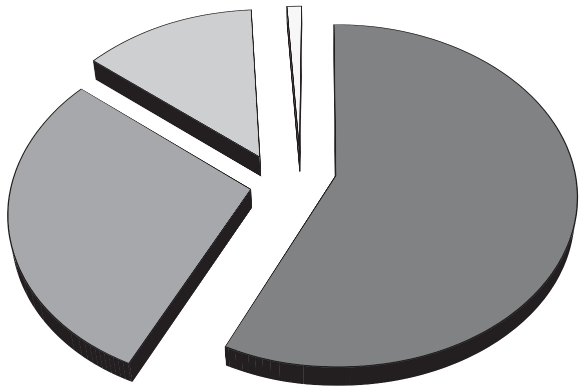
The Plan's long-term strategic asset allocation policy sets the following targets: 50% in domestic equity including REIT securities; 20% in international equity; 20% in global fixed income; and 10% in high yield fixed income. The chart on the next page shows the investments by asset class at year-end. Venture capital had a small allocation (less than 1%) at year-end and will continue to have some level of investment during the next 2-3 years as the asset class is 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 Plan. To accommodate constantly changing market values, the Board has approved ranges for each of the asset classes.

Domestic Equity

The Plan's allocation to domestic equity is targeted at 50% of the Plan's total assets including 10% ultimately allocated to REITs. Passively managed index funds totaled 8.07% of domestic equity assets at year end, and actively managed portfolios represented the remaining 91.93%. The domestic equity and REIT's segment returned 16.54% and 37.65% respectively for the year while the benchmark Wilshire 5000 Index had a return of 15.77% and the Wilshire Real Estate Securities index returned 35.67%. The S&P 500 index returned 15.81% for the year.

International equity has a target allocation of 20%, and it is split between two active managers and one enhanced index manager. The Plan's international equity composite return was 25.52% while the MSCI All World ex-US Index reported a return of 27.15% for the year.

Asset Allocation



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 4.16% while the Citigroup Non-US Government Bond Index returned 6.96% and the Lehman Aggregate Index returned 4.33%.

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 2006 was 7.10% and the Citigroup High Yield Cash Pay Index returned 11.72%.

Alternative Investments

Although venture capital is no longer a part of the long-term strategic asset allocation policy, residual values did remain at year-end as this investment is in liquidation status. The venture capital investments had a -53.73% return versus the S&P 500 Index's return of 15.81%.

Annualized Rate of Return

as of December 31, 2006

	2006	3-Year	5-Year
Total Fund	17.33%	13.67%	10.93%
Domestic Equity	16.54	12.04	8.02
S&P 500 Index	15.81	10.43	6.18
Dow Jones Wilshire 5000 Index	15.77	11.47	7.61
International Equity	25.52	22.23	17.60
MSCI ACWI ex US (G) Index	27.15	21.80	16.87
MSCI EAFE Index	26.34	19.92	14.97
Global Fixed Income	4.16	3.30	5.07
Lehman Aggregate Bond Index	4.33	3.70	5.06
Citigroup Non-US Government Bond Index	6.96	2.88	9.50
High Yield Fixed Income	7.10	5.41	7.77
Citigroup High Yield Cash Pay	11.72	8.01	10.14
Venture Capital	-53.73	-22.82	-22.12
Cash Equivalents	4.81	3.06	2.42
T-Bills	4.81	3.06	2.42
Real Estate Securities	37.65	30.13	24.95
Dow Jones Wilshire REIT Index	35.67	27.69	23.98

Investment Management Fees

as of December 31, 2006

Investment	Assets Under Management	Fees	Basis Points
Domestic Equity	$1,593,307,830	$5,110,470	32.1
International Equity	667,659,065	2,506,219	37.5
Global Fixed Income	686,864,867	1,425,599	20.8
High Yield Fixed Income	279,443,223	811,596	29.0
Venture Capital	63,456	1,410	222.2
Cash Equivalents	25,510,360	N/A	N/A
subtotal	$3,252,848,801	$9,855,294	

Other Investment Services		
Investment Consultant		267,500
Custodian		125,000
Security Lending*		25,673,090
subtotal		26,065,590
Total Investment Management Fees		$35,920,884

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

Ten Largest Holdings*

as of December 31, 2006

Equity	Shares	Market
MFB NTGI-QM COLTV Daily S&P 500	33,472.89	$128,598,626
Japan MSCI Index	3,279,347.12	35,289,054
Exxon Mobil Corp Com	368,398.00	28,230,339
Simon PPTY Group Inc New	247,208.00	25,039,698
General Electric Company	667,690.00	24,844,745
Citigroup Inc	441,782.00	24,607,257
Avalonbay CMNTYS Inc	182,100.00	23,682,105
UK MSCI Index	308,658.27	22,032,027
Bank Of America Corp	411,682.00	21,979,702
Microsoft Corp	724,002.00	21,618,700

Fixed Income	Par Value	Market
U.S.A. Treasury Notes3.125% due 10/15/2008	35,530,000	$34,504,355
U.S.A. Treasury Notes 4.500% due 11/15/2015	30,568,000	30,097,528
FNMA 30 YR Pass-Throughs 5.500% due 02/15/2033	29,160,000	28,804,598
FNMA 30 YR Pass-Throughs 6.000% due 02/15/2034	27,780,000	27,953,625
U.S.A. Treasury Notes 4.500% due 02/15/2036	26,732,000	25,420,475
FHLB 0.000% due 01/10/2007	17,630,000	17,612,388
U.S.A. Treasury Notes 4.250% due 08/15/2013	14,885,000	14,511,714
FHLMC GOLG GO-1994 5.000% due 12/01/2035	14,264,952	13,768,817
U.S.A. Treasury Notes 4.875% due 08/15/2016	13,181,000	13,338,552
FHLMC POOL #G1-2402 5.000% due 11/01/2021	11,603,646	11,398,841

*A complete list of portfolio holdings is available upon request.

Investment Holdings Summary

as of December 31, 2006

Fixed Income	Market Value	Percentage of Market Value
Government Bonds	$438,621,350.00	13.48%
Corporate Bonds	490,094,091.18	15.07%
Total Fixed Income	928,715,441.18	28.55%
Equity		
Common Stock	2,101,599,161.83	64.61%
Index & Commingled	128,598,625.80	3.95%
Total Equity	2,230,197,787.63	68.56%
Alternative Investments		
Venture Capital	63,455.20	0.00%
Total Alternative Investments	63,455.20	0.00%
Cash and Equivalents		
Cash	2,987,443.70	0.09%
Cash Equivalents	90,884,672.99	2.79%
Total Cash and Equivalents	93,872,116.69	2.89%
Total Fund*	$3,252,848,800.70	100.00%

*Does not include security lending collateral or receivables.

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ACTUARIAL SECTION

(Unaudited)

The Report of the December 31, 2006 Actuarial Valuation of the Employees' Retirement Fund of the City of Dallas

Employees' Retirement Fund
of the City of DALLAS ®

GRS
Gabriel Roeder Smith & Company
Consultants & Actuaries
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Irving, TX 75038-2631
469.524.0000 phone
469.524.0003 fax
www.gabrielroeder.com

May 8, 2007

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, 2006.

This valuation provides information on the funding status of ERF. It includes a determination of the actuarially calculated contribution level for the 2007 calendar year. In addition, it also contains the information necessary to determine the current total obligation rate and the current adjusted total obligation rate for the fiscal year beginning October 1, 2007. This rate is a function of the previous year's adjusted total obligation rate, this year's actuarially calculated contribution rate, and the rate necessary to make the debt service payment on the pension obligation bonds for fiscal year 2008.

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 used was not audited.

The actuarial assumptions and cost method are those adopted by the Board of Trustees in April 2006 following the completion of an experience investigation. Those assumptions were further modified this year to reflect our recommendations regarding the election of a refund of contributions by terminated members.

To the best of our knowledge, this report is complete and accurate and was conducted in accordance with standards of practice by the Actuarial Standards Board and in compliance with the provisions of the ordinance. The actuarial assumptions used for the valuation produce results which, in the aggregate, are reasonable. The valuation was produced under the supervision of a Member of the American Academy of Actuaries, and all three signatories have significant experience valuing large, public employee retirement systems.

Respectfully submitted,

Norman S. Losk
Lewis Ward
Mark R. Randall

Norman S. Losk, F.S.A.	Lewis Ward	Mark R. Randall, M.A.A.A
Senior Consultant	Consultant	Senior Consultant

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SUMMARY OF THE VALUATION

(This summary is an exert of the 2006 Actuarial Valuation report. Sections referenced in this summary are available in the full report.)

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Funding Process

Based on the previous work of the Employees' Retirement Fund Study Committee, that was ratified by both the City Council and the voters, a new funding process commenced October 1, 2005. From that date forward, a new "current adjusted total obligation rate" will be contributed jointly by the City (63%) and the Membership (37%). This current adjusted total obligation rate will cover both the debt service tied to pension obligation bonds issued in 2005 and the contributions to the ERF. In subsequent years, the contribution rate will change only if the actuarial valuation develops a "current total obligation rate" which differs from the "prior adjusted total obligation rate" by 3.00% or more.

As shown on Table 3 and discussed later in this report, the "current total obligation rate" is more than 3.00% less than the "prior adjusted total obligation rate". This means that the "current adjusted total obligation rate" will decrease this year.

Actuarial Contribution

The Actuarially Required Contribution Rate developed in this actuarial valuation is 12.62% of active member payroll. This rate excludes the amount needed to make the City's debt service payment on the pension obligation bonds in fiscal year 2008. As shown on Table 3, the debt service payment was determined to be 8.38% of projected payroll. The sum of these rates is 21.00% (the Current Total Obligation Rate) which is 3.41% less than the Prior Adjusted Total Obligation Rate of 24.41%. Because the difference is more than 3.00%, the total contribution rate in fiscal year 2008 (the Current Adjusted Total Obligation Rate) to fund the ERF and make the debt service payment on the pension will decrease when compared to last year's rate.

The new Current Adjusted Total Obligation Rate is determined as the greater of (i) the midway point between the Prior Adjusted Total Obligation Rate and the Current Total Obligation Rate (22.71%) and (ii) 90% of the Prior Adjusted Total Obligation Rate (21.97%), which is 22.71%.

Actuarial Assumptions

Section N of this report includes a summary of the actuarial assumptions and methods used in this valuation. In short, costs are determined using the Entry Age actuarial cost method. The assumed annual investment return rate is 8.25%.

An experience investigation was completed for the five-year period ending December 31, 2005. Based on that investigation, the actuary recommended numerous changes to the actuarial assumptions.

One assumption recommended by the experience study but not adopted by the Board, was the assumption that terminated vested employees would elect the most valuable benefit between a refund of their contributions or a deferred annuity. The actuarial audit performed last year recommended that the Board adopt our assumption, therefore that change has been reflected this year. Another recommendation of the actuarial audit was to make an assumption about sick leave conversions. We have added that assumption this year. Please see Section N for a complete description of these assumptions.

ERF Benefits

There have been no changes in the benefit provisions of ERF since the prior valuation. Please see Section O for a summary description of ERF benefits.

Experience During 2006

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 gain in calendar year 2006. This year’s overall actuarial gain amounted to approximately $119.40 million.

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

	2003	2004	2005	2006
1) Actuarial (Gain)/Loss on Assets	$118.79	($15.80)	($133.36)	($128.75)
2) Actuarial (Gain)/Loss on Liabilities	(51.16)	(27.52)	(0.64)	9.35
3) Total Actuarial (Gain) or Loss (1+2)	67.63	(43.32)	(134.00)	(119.40)

On a market value basis, the fund earned approximately 16.90% (on a dollar weighted basis net of investment expenses). The actual investment income was significantly more than the expected investment income on the actuarial value of assets, therefore, a large amount of excess investment income is being deferred into the future. Due to the recognition of prior years' deferred investment gains, there was an actuarial gain of nearly $128.75 million on the actuarial value of assets. The rate of return on the actuarial value for 2006 was 13.03% (on a dollar weighted basis net of investment expenses). This result was more than the current investment return assumption of 8.25%.

In addition, during 2006, there was an aggregate actuarial loss of about $9.35 million from demographic assumptions and non-investment economic assumptions (salary increases).

Asset Information

The assets of the fund (on a market value basis), that are available for benefits, increased from $2,799 million as of December 31, 2005 (includes proceeds of the pension obligation bond) to $3,172 million as of December 31, 2006. The investment markets, which turned downward significantly in the first three years of the 21st century, have reversed themselves to produce significant investment gains in the last four calendar 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 6 for the determination of the actuarial value of assets.

The actuarial value of assets has been increased from $2,739 million to $2,998 million during 2006. The rate of return on investments for 2006 on the actuarial value of assets was 13.03% compared to 13.71% in 2005. The detailed determinations of asset values utilized in this valuation and asset growth in the last year are set out in Tables 4 and 5.

Funded Status

The funded status of ERF is measured by the Funded Ratio and the Unfunded Actuarial Accrued Liability (UAAL). The Funded 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 funded 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 funded ratio increased from 105.11% as of December 31, 2005 to 108.57% as of December 31, 2006.

The UAAL decreased from -$133.1 million at December 31, 2005 to -$236.7 million at December 31, 2006. Since the UAAL is negative, this implies the actuarial assets exceed the actuarial liabilities of the Fund.

GASB Disclosure

GASB Statements Numbers 25 and 27 set out the current accounting standards for ERF and the Fund's sponsor, the City of Dallas. Tables 10a, 10b, and 10c provide footnotes and/or Required Supplemental Information tables required to be disclosed by those statements.

STATISTICAL SECTION
(unaudited)

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Schedule of Revenue by Source

Year Ending	Member Contributions ($'s000)	Employer Contributions ($'s 000)	% of Annual Covered Payroll	Investment Income ($'s 000)	Total ($'s 000)
1997	13,193	22,404	8.4	262,475	298,072
1998	14,001	23,762	9.0	258,591	298,072
1999	14,001	25,217	8.9	290,691	330,354
2000	16,460	27,847	9.3	(68,847)	(24,540)
2001	20,814	35,182	10.6	(103,558)	(47,562)
2002	21,771	36,606	8.9	(171,787)	(113,410)
2003	20,580	34,729	9.2	412,128	467,437
2004	20,896	35,251	9.4	289,947	346,094
2005	23,392	565,569	0.6	208,288	797,249
2006	30,123	23,000	15.0	464,629	517,752

Schedule of Expenses by Type

Year Ending	Benefit Payments ($'s 000)	Administrative Expenses ($'s 000)	Refunds ($'s 000)	Investment Professional Expenses ($'s 000)	Total ($'s 000)
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
2002	97,363	2,552	2,552	7,458	109,317
2003	108,402	2,119	2,605	7,322	120,448
2004	116,675	2,075	2,605	10,003	131,729
2005	127,578	2,737	3,049	18,891	152,255
2006	139,206	2,416	3,451	35,921	180,994

Schedule of Benefit Expenses by Type

Year Ending	Retiree ($'s 000)	Beneficiary ($'s 000)	Disability ($'s 000)	Supplement ($'s 000)	Total ($'s 000)
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
2002	82,918	5,012	2,753	6,681	97,363
2003	93,859	4,562	2,951	7,030	108,402
2004	101,284	5,076	3,128	7,187	116,675
2005	110,761	6,054	3,376	7,387	127,578
2006	121,085	6,897	3,628	7,597	139,207

Average Age and Pension at Retirement

as of December 31, 2006

Status	Average Age	Average Pension	Average Age at Retirement
Members Only	67.4	$2,403.53	57.5
Members and Survivors	67.2	$2,190.36	N/A
Survivors Only	71.2	$1,339.62	N/A

Average Benefit Payment

as of December 31, 2006

Retirement Effective Dates	**Years of Credited Service**					
	0 - 5	**5 - 10**	**10 - 15**	**15 - 20**	**20 - 25**	**25 - 30**
Period 01/01/2005 to 12/31/2005						
Average monthly benefit	$315.77	$763.76	$1,454.99	$1,800.93	$2,765.44	$3,123.08
Average final average salary	$3,260.47	$3,652.23	$3,894.79	$3,710.63	$4,515.87	$4,399.20
Number of retired members	8	31	24	28	84	74
Period 01/01/2006 to 12/31/2006						
Average monthly benefit	$208.24	$741.86	$1,187.64	$1,522.49	$2,566.20	$3,252.67
Average final average salary	$3,421.25	$3,359.50	$3,382.90	$3,213.03	$4,263.23	$4,483.42
Number of retired members	9	31	30	25	73	72

Retired Members By Type of Benefit

as of December 31, 2006

	Type of Retirement[a]							Option Selected[b]		
Amount of Monthly Benefits	1	2	3	4	5	6	7	**#1**	**#2**	**#3**
$1 - 250	43	0	12	0	0	0	0	13	15	27
$251 - 500	131	3	81	60	0	5	24	37	123	145
$501 - 750	194	11	109	44	13	20	17	87	115	206
$751 - 1,000	247	18	82	32	25	24	6	87	153	193
$1,001 - 1,250	245	27	69	27	11	24	11	110	148	156
$1,251 - 1,500	223	21	58	21	6	17	6	108	108	136
$1,501 - 1,750	234	36	40	16	4	14	6	126	108	116
$1,751 - 2,000	219	44	36	10	2	8	4	99	108	116
over 2,000	2,181	157	148	38	5	22	6	862	982	713
Total	3,717	317	635	248	66	134	80	1,529	1,860	1,808

Type of Retirement[a]

1 Normal retirement for age, service or Rule of 78
2 Early retirement
3 Beneficiary payment, normal or early retirement
4 Beneficiary payment, service connected death
5 Service connected disability retirement
6 Non-Service connected disability retirement
7 Beneficiary payment, disability retirement

Option Selected[b]

1 10 Year Certain - beneficiary receives member’s unused benefit
2 Joint & 100% - beneficiary receives 100% of member’s benefit
3 Joint & 50% - beneficiary receives 50% of member’s benefit

Employees' Retirement Fund
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