



Employees' Retirement Fund
of the City of DALLAS |®

2010

Comprehensive Annual Financial Report

fiscal year ended December 31, 2010



2010 AT - A - GLANCE

(unaudited)

(dollars in thousands)

Active Members	7,034
Benefit Recipients	5,993
Inactive Members	1,111
Fund Net Assets	\$2,868,000
Benefits Paid	\$182,883
Refunds	\$4,476
Member Contributions	\$31,666
City Contributions	\$27,323
Investment Rate of Return	15.77%

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

Cover and Section photography of the Margaret Hunt Hill Bridge. The bridge is currently under construction in Dallas, TX and will be complete in the Spring of 2012.

Cover images, Actuarial and Statistical Section images courtesy of Jered Widmer Photography. Introductory, Financial and Investment Section images courtesy of the City of Dallas Public Affairs Department.

EMPLOYEES' RETIREMENT FUND OF THE CITY OF DALLAS

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010**

**CHERYL D. ALSTON
EXECUTIVE DIRECTOR**

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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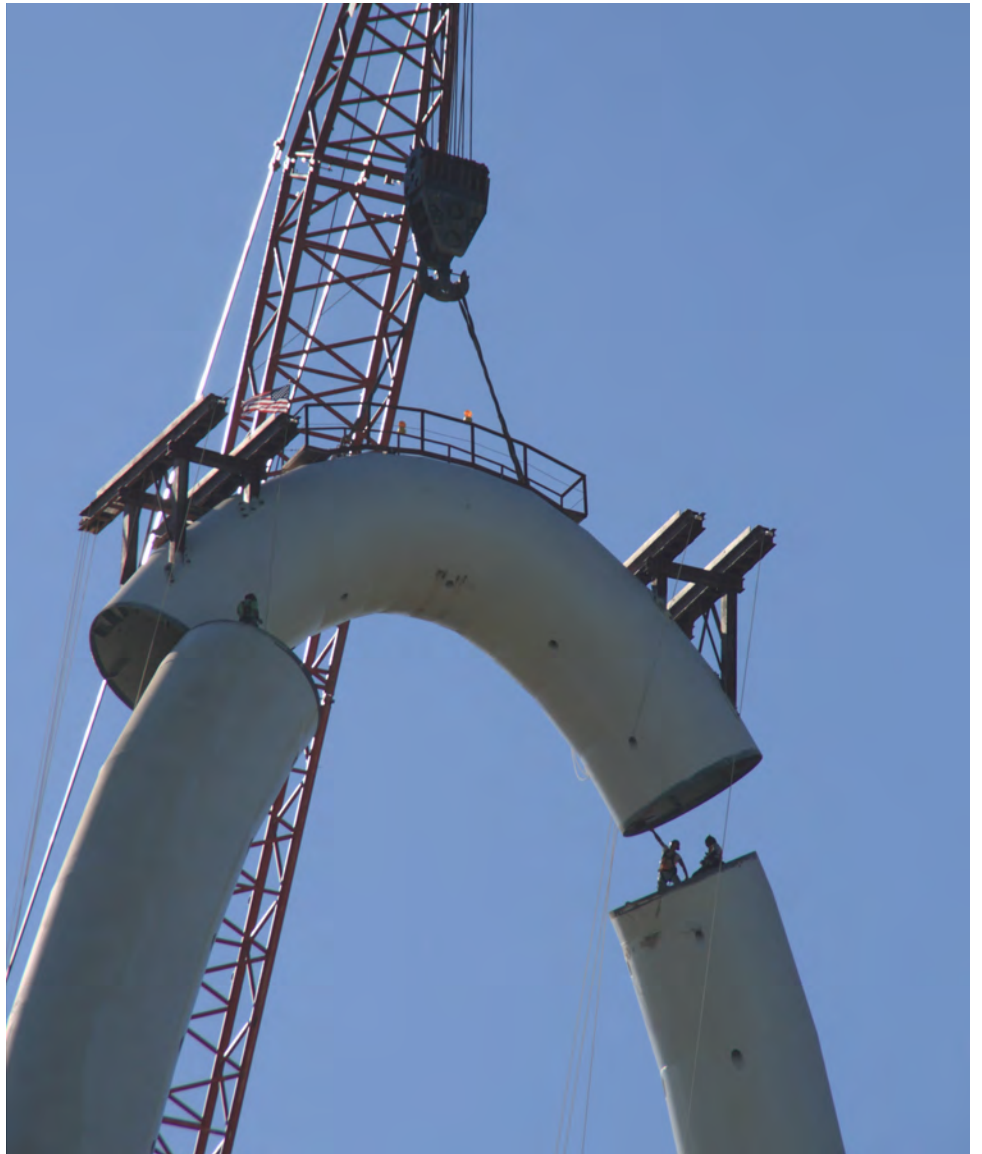
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Introductory Section

unaudited





LETTER OF TRANSMITTAL

August 9, 2011

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, 2010 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.

Investments

The Board of Trustees oversees ERF’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 ERF 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.

2010 was a positive year for ERF with a total fund return of 15.77%. The total return for the past three years was 1.50% and the last five years was 4.94%. The Fund expects and assumes an investment rate 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.

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 2010 totaled \$458,590,000. City and member contributions for the fiscal year were \$59,000,000, an increase of approximately \$2,000,000 from the prior year. This increase is attributed to the change in the contribution rates. The city contribution rate change from 15.60% to 16.70% of which 8.11% is the Pension Obligation Bond Credit Rate. The City contribution to ERF increased from 7.96% to 8.59% and the member rate changed from 9.16% to 9.81%. City contributions received in 2010 were \$27,000,000 and member contributions were \$32,000,000.

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.

Deductions for fiscal year 2010 totaled \$190,594,000, an increase of 5.84% over 2009. This increase is primarily due to an increase in the number of benefit recipients. Administrative expenses, which are controlled by a budget approved by the Board of Trustees, were relatively unchanged from prior year. 2010 reflected a marginal decrease of \$80,000, when compared to fiscal year 2009 expenses.

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 actuarial accrued liability and actuarial value of assets of ERF as of December 31, 2010 amounted to \$3.282 billion and \$3.027 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 Grant Thornton 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 D. Alston
Executive Director

Board of Trustees

As of December 31, 2010

Carla D. Brewer, Chair
Employee Elected Member

John D. Jenkins, Vice Chair
Employee Elected Member

Tina B. Richardson
Employee Elected Member

Carolyn R. Davis
Council Appointed Member

John W. Peavy III
Council Appointed Member

Craig D. Kinton, CPA
City Auditor

Leslie Spencer
Council Appointed Member

Administrative Staff

Cheryl D. Alston, Executive Director
Newton Bruce, Assistant Administrator
Gail Smith, Assistant Administrator
Natalie Jenkins Sorrell, Investment Officer
Evelyn Thomas, Senior Pension Specialist
Deirdre Taylor, Senior Pension Specialist
Judith Greene, Senior Pension Specialist
Susan Oakey, Senior Pension Specialist
Kimberli Henderson, Pension Specialist
Duc Lam, Database Analyst
Jason Thompson, Senior Information Analyst

Sheila Willis, Pension Benefits Specialist
Re’Gine Green, Pension Benefits Specialist
Patricia Jack, Pension Benefits Specialist
Melissa Harris, Communications Specialist
Kate Althoff, Communications Specialist
C. Kay Watson, Office Manager
Lisa Larry, Senior Office Assistant
Beth Turner, Office Assistant
Micaela Galicia, Office Assistant
Jessica Leija, Office Assistant

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Professional Service Providers

Master Custodian

The Northern Trust Company

Consulting Actuary

Gabriel, Roeder, Smith & Company

Investment Consultant

Wilshire Associates, Inc.

Investment Accounting Firm

Financial Control Systems, Inc.

Auditor

Grant Thornton, LLP

Legal Advisors

Strasburger & Price, LLP
Foster Pepper, PLLC

PLAN SUMMARY

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

As of December 31, 2010

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, 2010 the members contributed 9.81% of pay and the City contributed 16.70% of pay of which 8.59% is received by the Fund and 8.11% is the used for the pension obligation bonds debt service.
Definitions	<p>Final Average Salary: Average monthly salary over the member's highest three years of service.</p> <p>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.</p>
Retirement Pension	<p>Eligibility:</p> <ul style="list-style-type: none">a. Attainment of age 60; orb. Attainment of age 55 (if credited service began before May 9, 1972); orc. Completion of 30 years of credited service; ord. At any age after completion of 30 years of credited service with a reduced benefit before age 50; ore. 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	<p>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.</p> <p>Monthly Benefit: The deferred retirement is equal to the retirement pension based on earnings and credited service at the time of termination.</p>

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%.

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Financial Section



EMPLOYEES' RETIREMENT FUND OF THE CITY OF DALLAS

Financial Statements
As Of December 31, 2010 and 2009

With Independent Auditor's Report Thereon

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Report of Independent Certified Public Accountants

The Board of Trustees
Employees' Retirement Fund of the City of Dallas

Audit • Tax • Advisory

Grant Thornton LLP
1717 Main Street, Suite 1500
Dallas, TX 75201-4667

T 214.561.2300
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www.GrantThornton.com

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, 2010 and 2009, 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 established by the American Institute of Certified Public Accountants. 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 financial status of the Employees' Retirement Fund of the City of Dallas as of December 31, 2010 and 2009, and the changes in its financial status for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the required supplemental information are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the 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 purposes 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 audit of the basic financial statements and, accordingly, we express no opinion on them.

GRANT THORNTON LLP

Dallas, Texas
August 2, 2011

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplementary Information)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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, 2010, 2009 and 2008. 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 City). 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

Fiscal year 2010 was another good year for the Plan. For the second consecutive year, positive returns were reported for all of the Plan's asset classes. Financial highlights for the Plan at fiscal year ended December 31, 2010 are as follows:

- Although not as impressive as the 30.62% return earned in 2009, the Plan still had a noteworthy total rate of return on market basis of 15.77% for the year.
- The net assets of the Plan held in trust to pay pension benefits were \$2.9 billion as of December 31, 2010. This amount reflects an increase of \$300 million from last year. This increase is primarily the result of the growth in fair value of the investment portfolio.
- Contribution revenue for fiscal year 2010 was \$59 million, an increase of \$2 million from last fiscal year. This is attributed to an increase in the contribution rates.
- Pension benefits paid to retirees and beneficiaries increased \$11 million bringing the total benefit payments to \$183 million. Refunds of contributions paid to former members upon termination of employment increased slightly from \$4.3 million to \$4.5 million.
- Net investment earnings (net appreciation in the fair value of investments, plus interest and dividend income, less investment expenses) decreased \$220 million compared to last fiscal year.
- Administrative expenses of \$3.2 million in 2010 were relatively unchanged from prior year.

CONDENSED FINANCIAL INFORMATION

	<u>2010</u> (in thousands)	<u>2009</u> (in thousands)	<u>2008</u> (in thousands)
Assets	\$ 3,533,518	\$ 3,183,437	\$ 2,563,463
Liabilities	665,322	583,237	460,198
Net Assets Held in Trust for Pension Benefits	2,868,196	2,600,200	2,103,265
Contributions	58,989	57,494	54,559
Investment & other income, net	399,601	619,522	(974,132)
Benefit payments	182,883	172,493	156,575
Refund of contributions	4,476	4,273	2,742
Administrative expenses	3,235	3,315	3,255
Change in Net Assets Held in Trust for Pension Benefits	267,996	496,935	(1,082,145)

FINANCIAL POSITION AND RESULTS OF OPERATIONS

The Plan's total return for fiscal year 2010 was 15.77% as compared to 30.62% in 2009 and -30.85% in 2008. Fiscal year 2010 is the second consecutive year the Plan has had a double digit return rate. Also, every asset class in the Plan's portfolio reported a positive return for another year. The top performing asset classes were real estate securities, domestic equities, international equities, high yield and private equity with returns of 27.74%, 17.20%, 15.58%, 12.67% and 11.42% respectively for the year. The results, both in fiscal year 2010 and 2009, show promising recovery from the economic crisis experienced in the investment markets for 2008. The Plan's investment portfolio increased from \$2.5 billion to \$2.8 billion in fiscal year 2010, an increase of approximately \$300 million. The fiscal year 2009 portfolio, compared to fiscal year 2008, showed an increase of \$600 million over fiscal year 2008 of \$1.9 billion.

Additions to Plan Net Assets consist of employer and employee contributions, investment income, and net realized and unrealized gain on investments. For fiscal year 2010, additions to plan net assets continued to reflect an increase with additions for the year of \$459 million. This increase is a sustained reflection of the improvement in the investment markets noted for fiscal year 2009 where the additions to plan net assets went from a negative \$920 million in 2008 to a positive \$677 million. That increase represented a \$1.6 billion addition to plan net assets over fiscal year 2008 and was due largely to improvement of investment markets for 2009. As experienced in 2009, both city and employee contributions showed marginal increases for 2010. City and employee contributions for fiscal year 2010 were approximately \$27 million and \$32 million, respectively. Collection levels for total contributions for 2010 were \$59 million compared to \$57 million in 2009 and \$55 million in 2008.

Correspondingly, improved market conditions also had a positive impact on the Plan's investment income. Net investment income/(loss) 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. For fiscal year 2010, the Plan had net investment income of \$399 million (which does not include non-investment income of \$888 thousand). Fiscal year 2009 had a much higher surge in income of approximately \$1.6 billion more than the \$975 million loss reported for fiscal year 2008.

Fiscal year 2010 liabilities of \$665 million showed an increase of 14.07% over fiscal year 2009 liabilities of \$583 million. Liabilities for 2009 had an increase of 26.74% over the \$460 million of liabilities for fiscal year 2008. The increase is primarily due to 2010 increases in currency contracts and pending securities purchases at year end which increased by \$74 million and \$10 million respectively. The 2009 increase over 2008 was attributed to a decrease in the security lending collateral deficiency payable and an increase in currency contracts. Year end balances for currency contracts were \$256 million in 2010, \$182 million in 2009 and \$114 million in 2008. Pending securities purchases at year end were \$34 million in 2010, \$24 million in 2009 and \$28 million in 2008. The differences between years were due to market conditions.

Deductions from Plan Net Assets are largely benefit payments. During fiscal year 2010, benefits paid were \$183 million, an increase of \$11 million over payments made in 2009. Benefits paid in fiscal year 2009 were \$172 million, an increase of \$15 million over payments made in 2008. The major cause of the 2010 increase is attributable to new retirements with higher base benefits whereas the increase between 2009 and 2008 was caused by an increase in the activity and dollar value of the large lump sum estate payments.

New retirements were 423, 375 and 263 respectively for fiscal years 2010, 2009 and 2008. Cost-of-living-adjustments (which are effective on January 1 of the succeeding year) paid in each of the respective years were 4.82% in 2009 and 3.73% in 2008. Due to economic conditions, a cost-of-living increase was not granted for 2009, therefore no cost of living adjustments were paid in 2010. A cost of living adjustment is granted if there is an increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) either from October of the prior year to October of the current year or if the monthly changes average is greater than zero. Under both scenarios, the computation resulted in a negative change in the CPI-W for 2009. For a second year, the city's reduction in force also caused a higher request level for refunds of contributions from members who terminated employment. During fiscal year 2010 refunds of contributions amounted to \$4.5 million (457 refunds), compared with \$4.3 million refunded (522 refunds) during fiscal year 2009 and \$2.7 million refunded (426 refunds) during fiscal year 2008. Although fiscal year 2010 reflects a moderate decline in the number of members requesting refunds as compared to fiscal year 2009, the refund dollar values were greater in 2010 than those for 2009. Administrative expenses of approximately \$3.2 million remained relatively unchanged, representing approximately 2.00% of total deductions for all three fiscal years.

CURRENT ENVIRONMENT

Plan membership for active members continued to decrease during fiscal year 2010 due to reduction in force. Active membership declined from 7,654 to 7,034 members, a decrease of 8.1%. Correspondingly, with the reduction in force was also a spike in new retirements. For 2010 the number of new retirements was 423 compared to 375 in 2009. As a consequence, the trend of payments for benefits continues to increase. Similar to most mature plans, benefit payments exceed the level of contribution revenue received and cash generated from investments are needed in order to meet benefit payments.

An actuarial valuation of the Plan's assets and benefit obligations is performed annually. For 2010, the actuarial funded ratio, which is a standard measure of a plan's funded status representing the ratio of the actuarial value of assets to the actuarial accrued liability, was 92.24%, down by 2.73% over 2009. This decrease is due to the continued recognition of the economic downturn experienced in 2008. The ratio for 2009 was 94.97%, down by 1.20% over 2008 ratio of 96.17%. This decrease was primarily a result of the unfavorable investment returns for 2008. Prior to 2008, the plan had three fiscal years of increasing funded ratios, all of which were above 100%.

EMPLOYEES' RETIREMENT FUND OF
THE CITY OF DALLAS

Statements of Plan Net Assets

As of December 31, 2010 and 2009
(In thousands)

	<u>2010</u>	<u>2009</u>
ASSETS:		
Cash and short-term investments	\$ 99,101	\$ 87,493
Collateral on loaned securities	<u>368,396</u>	<u>369,108</u>
	467,497	456,601
Receivables:		
Currency contracts	256,176	182,053
Currency gains	1,844	-
Accrued dividends	2,304	2,721
Accrued interest	9,715	9,328
Accrued securities lending	84	76
Securities sold	3,891	2,363
Employer contributions	307	217
Employee contributions	<u>351</u>	<u>239</u>
Total receivables	<u>274,672</u>	<u>196,997</u>
Investments, at fair value:		
Commingled index funds	255,126	355,299
Domestic equities	1,194,162	914,290
United States and foreign government fixed income securities	183,148	167,335
Domestic corporate fixed-income securities	602,180	539,799
International equities	405,246	549,403
Investments, at estimated fair value:		
Private equities	16,434	3,708
Real estate	135,049	-
Venture capital funds	<u>4</u>	<u>5</u>
Total investments	<u>2,791,349</u>	<u>2,529,839</u>
 Total assets	 <u>3,533,518</u>	 <u>3,183,437</u>
LIABILITIES:		
Accounts payable	3,836	4,324
Payable for securities purchased	34,158	23,939
Investment fees payable	2,756	2,558
Currency contracts	256,176	182,053
Securities lending core collateral fund deficiency payable	-	1,255
Securities lending collateral	<u>368,396</u>	<u>369,108</u>
 Total liabilities	 <u>665,322</u>	 <u>583,237</u>
 NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (A Schedule of Funding Progress is presented on page 44)	 <u>\$2,868,196</u>	 <u>\$2,600,200</u>

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

2010 Comprehensive Annual Financial Report

EMPLOYEES' RETIREMENT FUND OF
THE CITY OF DALLAS

Statements of Changes in Plan Net Assets

For the Years Ended December 31, 2010 and 2009
(In thousands)

	<u>2010</u>	<u>2009</u>
ADDITIONS:		
Contributions:		
Employer	\$ 27,323	\$ 25,265
Employee	<u>31,666</u>	<u>32,229</u>
Total contributions	58,989	57,494
Net investment income:		
Dividends	30,251	34,573
Interest	47,559	42,697
Real estate income	305	-
Net appreciation in fair value of investments	330,364	549,631
Securities lending rebates paid by borrowers	83	529
Securities lending income	<u>1,324</u>	<u>1,384</u>
Total investment income	409,886	628,814
Less investment expenses:		
Investment management fees	(10,422)	(8,859)
Custody fees	(150)	(150)
Consultant fees	(320)	(310)
Securities lending management fees	<u>(281)</u>	<u>(318)</u>
Total investment expenses	<u>(11,173)</u>	<u>(9,637)</u>
Net investment income	398,713	619,177
Other income	<u>888</u>	<u>345</u>
Total increases	<u>458,590</u>	<u>677,016</u>
DEDUCTIONS:		
Benefit payments	182,883	172,493
Refund of contributions	4,476	4,273
Administrative expenses	<u>3,235</u>	<u>3,315</u>
Total deductions	<u>190,594</u>	<u>180,081</u>
Net increase in net assets held in trust for pension benefits	267,996	496,935
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of year	<u>2,600,200</u>	<u>2,103,265</u>
End of year	<u>\$2,868,196</u>	<u>\$2,600,200</u>

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, 2010 and 2009

(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 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 31, 2010 and 2009, the Plan's membership consisted of:

	<u>2010</u>	<u>2009</u>
Retirees and beneficiaries currently receiving benefits and inactive members entitled to benefits but not yet receiving them	<u>7,104</u>	<u>6,925</u>
Current members:		
Vested	4,606	4,763
Nonvested	<u>2,428</u>	<u>2,891</u>
Total current members	<u>7,034</u>	<u>7,654</u>
Total membership	<u>14,138</u>	<u>14,579</u>

(b) Pension Benefits

Effective November 7, 1989, members of the Plan are entitled to pension benefits equal to 2.75% 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"). They are then entitled to full pension benefits. The Rule of 78 has 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%. Due to economic conditions, a cost-of-living adjustment was not granted for 2009 resulting in no adjustment payments paid in 2010. The cost-of-living adjustment paid in 2009 was 4.82%.

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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 for less than five years 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 requirement, 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.

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.

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The Board can annually increase or decrease contribution rates in a ratio where the City pays 63% and the employee pays 37% of the contribution rate as determined by the actuarial valuation. The Plan requires notice to the City of the contribution rates and provides 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.

Based on the authorization in the Plan amendment, the annual actuarial valuation will establish any new contribution rates for employees and the City. The new rates which became effective October 1, 2010 are 9.81% of pay for employees and a combined rate of 16.70% of pay for the City. The City's 16.70% is divided into 8.59% cash to the Plan and 8.11% 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

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 \$658 thousand and \$456 thousand at December 31, 2010 and 2009 respectively) as of the Plan's fiscal year end are recorded as contributions receivable. In addition, unsettled investment purchases and sales are accrued.

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(b) Administrative Expenses

Administrative expenses (excluding investment related expenses) totaling approximately \$3.2 million and \$3.3 million for the years ended December 31, 2010 and 2009 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.

(c) Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America 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 private equity and venture capital funds have been determined based upon appraised values or other comparable methods. Purchases and sales of securities and any resulting gain or loss are recorded on a trade-date basis. Net appreciation includes the Plan's gains and losses on investments bought and sold as well as held during the year.

(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, 2010 and 2009 were converted to U.S. dollars at the foreign exchange rates quoted at December 31, 2010 and 2009. These foreign exchange gains and losses are included in net appreciation in fair value of investments in the accompanying Statements of Changes in Plan Net Assets.

(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 local or state statute.

The Plan's securities lending exposure is capped at \$538.2 million.

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Disclosure of securities lending revenue is shown gross with the associated reductions for investment expenses in the Statements of Changes in Plan Net Assets, and the cash collateral and associated securities lending payable is shown in the Statements of Plan Net Assets for the years ended December 31, 2010 and 2009.

(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) Currency 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 2010 and 2009. Currency 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. Currency 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 loss of \$21 thousand at December 31, 2010 and a net realized loss of \$89 thousand at December 2009. At December 31, 2010 and 2009, the Plan had net unrealized gains on forward contracts of \$5.1 million and \$3.6 million, respectively. These gains and losses are included in net appreciation in fair value of investments in the accompanying Statements of Changes in Plan Net Assets. Currency forward contracts outstanding at December 31, 2010 and 2009 were \$256 million and \$182 million respectively.

(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, 2010 and December 31, 2009.

(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. There were no outstanding futures contracts at December 31, 2010 and December 31, 2009.

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(d) Private Equities

To enhance the potential for earning higher rates of return relative to its other asset classes and to provide for broader portfolio diversification, the Plan, in 2009, allocated 5% of its portfolio to private equity. Recognizing that private equity investments have higher risk levels, this target of 5.0% is to be allocated within an acceptable range of 0.0% to 7.0% to private equity-oriented investments. Funding of committed capital in the private equity portfolio will occur over an extended time period and may take several years before the total allocation is fully invested. In order to reach the allocation target, a "committed" allocation up to 1.5 times the allocation is authorized. At year end December 31, 2010 and December 31, 2009, the Plan had one private equity manager.

Investments in these funds as a limited partner are carried at estimated fair value. Estimated fair values of investments in private limited partnerships are determined by the fund managers or general partner based on the latest investee information available, including financial statements and other similar data necessary to the valuation process. The private equity value at December 31, 2010 and December 31, 2009 was \$16.4 million and \$3.7 million respectively.

(e) Real Estate

In this same vein of broadening portfolio diversification, the Plan in 2009 also allocated 5% of its portfolio to private real estate. However, funding, for this investment was not started until fiscal year 2010. The Plan has two managers that are invested in core real estate funds for a value of \$135 million at December 31, 2010.

Estimated fair values of investments in these funds are determined by the fund managers based on their best estimates using fair value estimation techniques substantiated, in part, by their audited financial statements and supported by the due diligence of the Plan investment staff.

(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's 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's custodial credit risk policy is set forth in Chapter 40A of the Dallas City Code and in the master custody agreement which includes the securities lending program. All investments are registered in the name of Employees' Retirement Fund City of Dallas or in the name of the Plan's custodian that 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, 2010 the Plan had \$2.5 million or .09% of its approximate \$2.8 billion total investments (excluding short term investments) exposed to custodial credit risk. The risk exposure at December 31, 2009 was \$687 thousand or .026% of total investments (excluding short term investments) of approximately \$2.5

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billion. These exposures were uninsured and uncollateralized deposits held by custodian banks outside of the United States. The Plan has experienced no such losses on these deposits during the year.

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. As the Plan's custodian bank, Northern has responsibility for the safekeeping of certain investments, handling of transactions based on the instructions of investment managers, and recordkeeping 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, 2009 are as shown below (in thousands except per share amounts). There were no investments that met these criteria for fiscal year 2010. The Plan's concentration of credit risk policy is communicated to individual managers in their guidelines through limitations or restrictions to securities, sectors, debt ratings, and other factors that may be applicable to a particular manager.

	<u>2010</u>		<u>2009</u>	
	<u>Number of Shares/Units</u>	<u>Fair Value</u>	<u>Number of Shares/Units</u>	<u>Fair Value</u>
Investments greater than 5% of net assets, at fair value:				
NTGI S&P 500 Equity Index Fund				
Non-Security Lending	-	\$ -	75,594	\$ 243,874
Investments less than 5% of net assets:				
At fair value		3,107,359		2,738,852
At estimated fair value		<u>151,487</u>		<u>3,713</u>
Total cash and investments		<u>\$ 3,258,846</u>		<u>\$2,986,439</u>

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, 2010 and 2009 are included in the schedule below. Securities are rated using Standard and Poor's quality ratings as presented below in the rating scale.

The Plan's strategic fixed income investment policy allocates 30% of the total assets to fixed income. The policy provides for investment of up to 15% of the fixed income assets in investment grade assets and up to 15% of the fixed income assets in high yield (below investment grade) assets. The investment grade allocation also allows selected managers to invest in non-US dollar issues on an opportunistic basis up to 20%

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of their portfolio assets. Long term bond ratings as of December 31, 2010 and 2009 are as follows (in thousands):

Quality Rating	2010		2009	
	Fair Value	Percentage of Bond Portfolio	Fair Value	Percentage of Bond Portfolio
AAA	\$ 183,403	23.36	\$ 206,004	29.13
AA+	3,015	0.38	5,646	0.80
AA	7,584	0.96	7,864	1.11
AA-	8,358	1.06	5,708	0.81
A+	8,160	1.04	7,974	1.13
A	33,706	4.29	23,658	3.35
A-	10,824	1.37	14,086	1.99
BBB+	26,232	3.34	20,461	2.89
BBB	23,406	2.98	28,182	3.99
BBB-	23,413	2.98	18,115	2.56
BB+	31,416	4.00	30,651	4.33
BB	52,606	6.70	47,425	6.71
BB-	99,627	12.69	84,732	11.98
B+	64,629	8.23	69,668	9.85
B	77,860	9.92	41,047	5.80
B-	49,849	6.35	47,867	6.77
CCC+	14,287	1.82	12,955	1.83
CCC	11,223	1.43	9,968	1.41
CCC-	3,423	0.44	3,228	0.46
CC	-	-	136	0.02
C	-	-	278	0.04
D	1,449	0.18	3,331	0.47
Not rated (NR)*	25,051	3.19	12,436	1.76
U. S. Government fixed income securities (NR)**	<u>25,807</u>	<u>3.29</u>	<u>5,714</u>	<u>0.81</u>
	<u>\$ 785,328</u>	<u>100.00</u>	<u>\$ 707,134</u>	<u>100.00</u>

* NR-Investments that are not rated.

**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.

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. The Plan's foreign currency risk policy is communicated to those managers who are authorized to hedge currency in their guidelines and sets specific parameters for each manager individually. 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 18% of assets to international equity. The fixed income policy permits up to 20% of the global manager's portfolio to be invested in global investment grade fixed income bonds.

The Plan's positions in international equity securities, directly and through commingled funds, were 14.52% and 21.72% of invested assets at December 31, 2010 and 2009 respectively. The Plan's positions in global fixed income assets were 1.07% and 0.49% of invested assets at December 31, 2010 and 2009 respectively.

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Non-US Dollar denominated investments at December 31, 2010 and 2009 were as follows (in thousands):

Currency	2010		2009	
	U. S. Dollars Balance of Investments (in thousands)		U. S. Dollars Balance of Investments (in thousands)	
	Equities	Fixed	Equities	Fixed
Australian Dollar	\$ 6,657	\$ 6,901	\$ 8,827	\$ 1,663
Brazil Real	6,424	10,360	1,702	5,339
British Pound Sterling	50,758	-	57,327	-
Canadian Dollar	22,436	-	3836	1,467
Denmark Krone	1,938	-	13	-
Euro	97,811	-	118,408	4,136
Hong Kong Dollars	16,873	-	7,761	-
Hungary-Forint	-	-	324	-
Indonesia-Rupiahs	4,898	-	1,482	-
Israel Shekel	2,387	-	2,650	-
Iceland Krona	-	-	-	348
Japanese Yen	64,342	-	60,544	-
Korean Won	24,298	-	9,009	-
Malaysia Ringgit	9,225	-	3,236	-
Mexican Peso	5,738	5,771	1,100	-
Norwegian Krone	3,704	-	6,634	-
Philippines-Pesos	1,347	-	598	-
Poland-Zlotych	3,337	4,290	559	-
Singapore Dollar	6,761	-	4,398	-
South Africa Rand	1,646	-	3,307	-
Swedish Krona	4,475	-	6,503	-
Swiss Franc	5,624	-	9,829	-
Thailand Baht	7,435	-	6,265	-
Turkish Lira	7,733	-	6,871	-
Total	<u>\$ 355,847</u>	<u>\$27,322</u>	<u>\$ 321,183</u>	<u>\$12,953</u>

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, 2010 and 2009 the weighted-average maturity of the bonds by bond type are as follows:

Bond Category	Fair Value 12/31/2010 (in thousands)	Weighted Average Maturity (years) at 12/31/2010	Fair Value 12/31/2009 (in thousands)	Weighted Average Maturity (years) at 12/31/2009
Asset Backed Securities	\$ 13,574	5.96	\$ 13,951	5.01
Bank Loans	22,099	4.63	17,985	4.20
Commercial Mortgage-Backed	36,712	30.27	32,735	29.47
Corporate Bonds	501,949	12.74	463,064	38.86
Government Agencies	14,420	4.56	11,773	5.41
Government Bonds	72,861	8.54	45,442	10.80
Government Mortgage-Backed Securities	92,049	24.14	100,592	7.81
Government issued Commercial Mortgage-Backed Securities	227	9.41	148	9.41
Guaranteed Fixed Income	778	0.94	1,492	1.46
Index Linked Government Bonds	1,885	29.15	7,478	10.30
Municipal/ Provincial Bonds	2,476	19.09	735	12.05
Non-Government Backed CMOs	26,298	24.39	11,739	26.12
Total	<u>\$785,328</u>		<u>\$707,134</u>	
Portfolio weighted Average maturity		14.45		29.47

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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 12% of the total fixed income portfolio for 2010 and 14% for 2009. Their fair values at year end 2010 and 2009 were \$92 million and \$100.6 million respectively. The Plan's interest rate risk policy is communicated to the fixed income managers through the Fixed Income Asset Policy and each manager's guidelines.

Appreciation or Depreciation of Investments

In 2010 and 2009, the Plan's investments, including investments bought, sold, and held during the year, appreciated (depreciated) in value as follows (in thousands):

	<u>2010</u>	<u>2009</u>
Investments, at fair value:		
Commingled index funds	\$ 5,681	\$ 75,029
Domestic equities	115,706	399,931
United States and foreign government fixed income securities	6,077	1,469
Domestic corporate fixed-income securities	28,459	101,311
International equities	163,222	(37,827)
Short-term investments	(21)	(89)
Currency contracts	<u>5,109</u>	<u>3,633</u>
	324,233	543,457
Investments, at estimated fair value:		
Real estate	3,744	-
Security lending core fund collateral deficiency	1,255	5,160
Private equity and venture capital funds	<u>1,132</u>	<u>1,014</u>
	<u>\$ 330,364</u>	<u>\$ 549,631</u>

Securities Lending

During the fiscal year Northern lent, on behalf of the Plan, securities held by Northern, as Plan custodian, and received 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, 2010 and 2009, the type of collateral held, the market value of the securities on loan, and the market value of the collateral held (in thousands except percentages).

Collateral Type	Fair Value 12/31/2010	Collateral Market Value 12/31/2010	Collateral Percentage	Fair Value 12/31/2009	Collateral Market Value 12/31/2009	Collateral Percentage
Cash	\$359,382	\$368,396	103%	\$357,454	\$369,108	103%
Non-cash	<u>3,755</u>	<u>3,837</u>	102%	<u>93</u>	<u>95</u>	102%
Total	<u>\$363,137</u>	<u>\$372,233</u>		<u>\$357,547</u>	<u>\$369,203</u>	

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The following represents the balances relating to the securities lending transactions as of December 31, 2010 and 2009 (in thousands):

Securities Lent	Underlying	Securities	Cash	Underlying	Securities	Cash
	Securities	Collateral	Collateral	Securities	Collateral	Collateral
	Value	Value	Investment	Value	Value	Investment
	12/31/2010	12/31/2010	Value	12/31/2009	12/31/2009	Value
Lent for cash collateral:						
Domestic equities	\$164,579	\$ -	\$168,797	\$200,340	\$ -	\$206,747
Domestic corporate fixed income	124,414	-	127,126	88,724	-	91,330
International equities	22,966	-	24,081	34,431	-	36,190
US government, agency & foreign securities	<u>47,423</u>	<u>-</u>	<u>48,392</u>	<u>33,959</u>	<u>-</u>	<u>34,841</u>
subtotal	359,382	-	368,396	357,454	-	369,108
Lent for securities collateral:						
Domestic equities	379	387	-	-	85	-
Domestic corporate fixed income	-	-	-	-	10	-
International equities	142	148	-	10	-	-
US government, agency & foreign securities	<u>3,234</u>	<u>3,302</u>	<u>-</u>	<u>83</u>	<u>-</u>	<u>-</u>
subtotal	3,755	3,837	-	93	95	-
Total	<u>\$363,137</u>	<u>\$3,837</u>	<u>\$368,396</u>	<u>\$357,547</u>	<u>\$95</u>	<u>\$369,108</u>

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, 2010 and 2009. The net income from securities lending in 2010 and 2009 was \$1.1 million and \$1.6 million respectively.

(5) 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 last Plan change occurred in December 2004. 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.

(6) Funded Status and Funding Progress

The funded status of the Plan as December 31, 2010, the most recent actuarial valuation date, is as follows (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)
12/31/10	3,027	3,282	255	92%	332	76.7%

EMPLOYEES' RETIREMENT FUND OF
THE CITY OF DALLAS

Notes to the Financial Statements

December 31, 2010 and 2009

The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL for benefits.

Significant assumptions as of the latest actuarial valuation follows:

Valuation date	December 31, 2010
Actuarial cost method	Entry Age Normal
Asset valuation method	5-year smoothed market
Amortization method	Level percent open, the remaining period is 30 years
Investment rate of return	8.25% compounded annually
Salary increases	3.00% - 7.00%
Payroll growth factor	3.00% per year
Includes inflation at	3.00% per year
Cost-of- Living Adjustment	3.00% per year

REQUIRED SUPPLEMENTARY INFORMATION
(unaudited)

2010 Comprehensive Annual Financial Report

Schedule of City Contributions

The information presented in the required supplementary schedules was determined as part of the actuarial valuation for each year presented. The following table shows information related to City contributions (in thousands):

<u>Years Ended December 31</u>	<u>Annual Actuarially Required Contribution</u>	<u>Percentage Contributed</u>
2001	31,728	110.91
2002	49,475	73.99
2003	65,849	52.74
2004	71,382	49.38
2005	27,898	2,027.29
2006	14,380	159.94
2007	9,387	249.42
2008	10,798	210.41
2009	39,386	64.06
2010	41,099	66.48

Schedule of Funding Progress

The following table shows the Plan's funding progress (dollars in millions):

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (\$) (a)</u>	<u>Actuarial Liability (\$) (AAL) – Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (\$) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (\$) (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
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%
12/31/07	3,183	2,915	-268	109%	370	-72.4%
12/31/08	2,958	3,075	118	96%	389	30.1%
12/31/09	3,032	3,192	160	95%	375	42.8%
12/31/10	3,027	3,282	255	92%	332	76.7%

The actuarial information presented is determined by an actuarial valuation that results from applying various assumptions (see note 6 of notes to the financial statements) termination, disability, retirement, mortality, and the time value of money to the accumulated plan benefits.

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.

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Schedule of Administrative Expenses

as of December 31, 2010

(dollars in thousands)

Personal services:

Salaries	\$1,500
Retirement	148
Insurance	70
Total Personal Services	1,718

Professional services:

Actuary Service	57
Accounting & Audit Fees	56
Attorney fees	341
Communication	-
Medical	8
Total Professional Services	462

Operating Services:

Data Processing	129
Election	31
Parking	29
Printing	38
Rent	219
Supplies and Services	142
Telephone	18
Travel and Training	108
Indirect and Other Costs	337
Total Operating Services	1,051

Furniture & Fixtures:

Furniture	4
Other	-
Total Furniture & Fixtures	4

Total Administrative Expenses	<u>\$3,235</u>
--------------------------------------	-----------------------

Schedule of Investment Expenses

as of December 31, 2010

(dollars in thousands)

Manager Fees	\$10,422
Custodian Fees	150
Securities Lending Fees	281
Investment Consultant Fees	320
<hr/>	
Total Investment Expenses	<u>\$11,173</u>

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

Schedule of Payments for Professional Services

as of December 31, 2010

(dollars in thousands)

Accounting and Audit:

Financial Control Systems	\$56
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Actuarial:

Gabriel, Roeder, Smith & Company	57
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Legal:

Foster Pepper PLLC	191
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Strasburger & Price, LLP	150
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Medical:

various	8
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Investments:

Wilshire Associates, Inc	320
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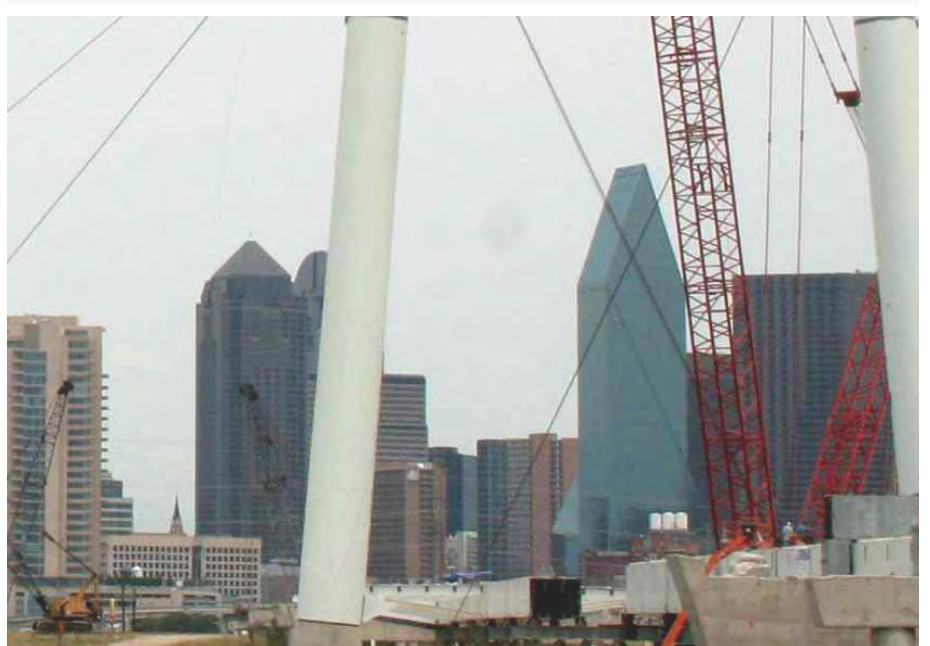
<hr/> Total Professional Services Payments	<u>\$782</u>
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Investment Section

unaudited



*Wilshire Consulting
Prepared for City of Dallas Employees' Retirement Fund*



Andrew H. Junkin
CFA, CIMA, CAIA
Managing Director

July 8, 2011

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

Re: 2010 Performance Results

Dear Cheryl:

The purpose of this letter is to review the 2010 investment performance results of the Dallas Employees' Retirement Fund ("ERF", "the Fund").

ERF maintains a well-diversified investment portfolio that consists of domestic and international equities, fixed income, real estate securities, and private equity. During 2010, the Fund generated a net-of-fee return of 15.77%¹, modestly outpacing its asset allocation policy benchmark's return of 15.62%, and beat its actuarial rate of return of 8.25%. Most of ERF's asset classes performed well and contributed positively during the year, lead by public equities in the U.S. (+17.20%) and real estate securities (+27.74%). These strong gains were supported by favorable macroeconomic data indicating a continued strengthening U.S. economy, stabilizing labor market, as well as contained inflationary pressure, all of which made the likelihood of a double-dip recession in the U.S. to appear more unlikely. Elsewhere in the world, the continued sovereign debt concerns over the Euro-zone weighed on foreign equities' performance in 2010 relative to their U.S. counterpart. Nevertheless, the Fund's international equity asset class still produced solid return for the year (+15.58%). Liquidity remained ample in the U.S., thanks to accommodating fiscal and monetary policies, which helped push up Treasury yield as investors sought relatively higher yielding bonds. While high yield securities did not keep pace with stocks, ERF's high yield segment again returned in double digits in 2010 and outpaced its investment grade counterpart (+12.67% vs. +8.19%, respectively). When compared to other public funds in the Wilshire Cooperative Total Fund Universe,

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

WILSHIRE ASSOCIATES INCORPORATED
1299 Ocean Avenue, Suite 700 Santa Monica, CA 90401-1085
TEL 310.451.3051 FAX 310.458.6936 www.wilshire.com



ERF ranked in the first quartile during 2010, in the second quartile over the three-year and five-year periods, and in the first quartile over the ten-year period. Overall, ERF's diversified asset allocation and discipline have served it well during the year of 2010.

Based on research conducted in 2008 aimed to further optimize its existing asset allocation, the ERF Board of Trustees adopted a new policy mix in 2009 by adding allocations to real assets and private equity. As the Trustees look to pro-actively diversify its investments across asset classes, the Fund will continue to examine potential investments in private equity, private real estate and inflation-linked assets such as commodities. The approved allocations as of the end of 2010 were:

<u>Asset Class</u>	<u>Allocation</u>
Domestic Equity	37%
Fixed Income	15%
International Equity	18%
High Yield	15%
Real Estate Securities	5%
Real Assets	5%
Private Equity	5%

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

Sincerely,



Andrew Junkin
 Managing Director

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.

<u>Investment Category</u>	<u>2010 Rate Of Return</u>
Domestic Equities	17.20%
International Equities	15.58%
Fixed Income	8.19%
High Yield Bonds	12.67%
Real Estate Securities	27.74%
Cash Equivalents	0.13%
Private Equity	11.42%
Total Portfolio	15.77%

Investment Managers

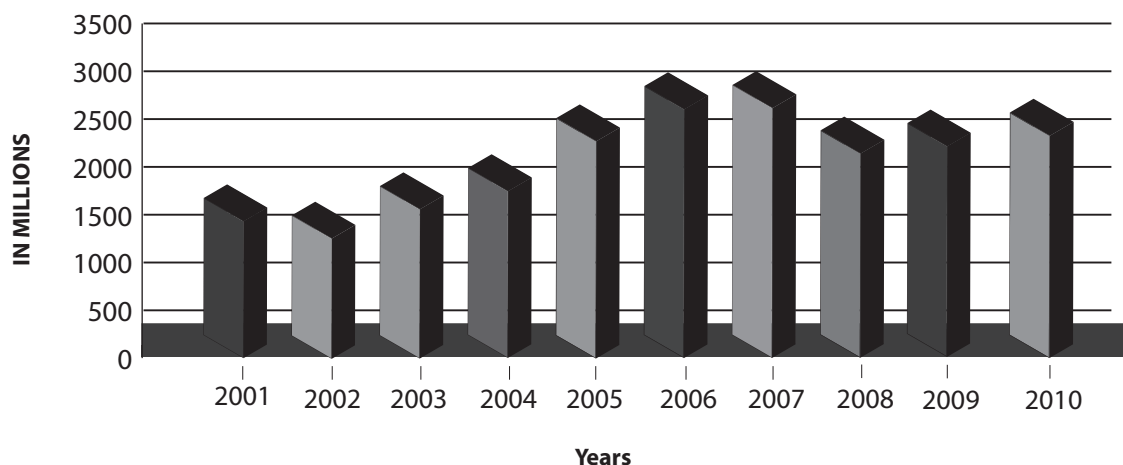
Domestic Equities, REITs & Commingled Index Funds	Adelante Capital Management, LLC Intech Northern Trust Global Investments Piedmont Investment Advisors, LLC Security Capital Research & Management, Inc. SIT Investment Associates, INC Systematic Financial Management, LP T. Rowe Price Associates, Inc.
International Equities	Acadian Asset Management Inc. AQR Capital Management, LLC Baring International Investment Limited
Fixed Income	Advantus Capital Management, Inc. Artio Global Investors Black Rock Financial Management Oaktree Capital Management, LLC
Cash Equivalents	The Northern Trust Company
Private Equity	Brinson Partners Hamilton Lane
Real Estate	Heitman Real Estate Investment Management INVESCO Real Estate

Total Plan Results

Fiscal year 2010 was the Plan's second consecutive year of very good investment results. The world equity markets as measured by various indices were positive for 2010 with the MSCI All World ex-US Index returning 12.73% and the Dow Jones Wilshire 5000 returning 17.16%. The Barclays Aggregate Bond Index was up 6.54%. The Citigroup High Yield Cash Pay Index was up 14.98% for the year.

At December 31, 2010, the net asset value of the Plan was \$2.9 billion. This value represents a 11.54% or \$300 million increase over last year's value. The Net Assets of the Plan graph below provides a pictorial history of the Plan's growth over the past 10 years.

Market Value of Net Assets



Asset Allocation

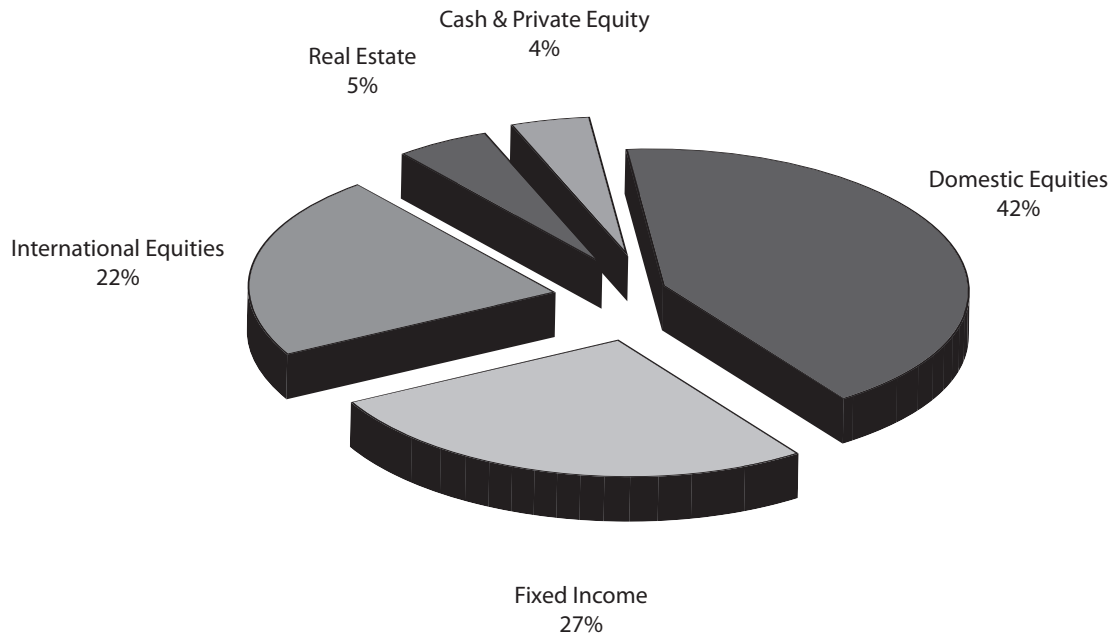
The Plan's long-term strategic asset allocation policy sets the following targets: 52% in domestic equity including real estate securities and private equity; 18% in international equity; 15% in global fixed income; and 15% in high yield fixed income. The chart on the next page shows the investments by asset class at year-end. Private equity had a small allocation of approximately 1% at year-end. 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 52% of the Plan's total assets including 10% allocated to real estate and 5% to private equity. Passively managed index funds totaled 21% of domestic equity assets at year end, and actively managed portfolios represented the remaining 79%. The domestic equity and REIT's segment returned 17.20% and 27.74% respectively for the year while the benchmark Wilshire 5000 Index had a return of 17.16% and the Wilshire Real Estate Securities index returned 29.12%. The S&P 500 index returned 15.05% for the year.

International equity has a target allocation of 18%, and it is split between two active managers and one enhanced index manager. The Plan's international equity composite return was 15.58% while the MSCI All World ex-US Index reported a return of 12.73% for the year.

Asset Allocation



Global Fixed Income

Global fixed income has a target of 15% of total assets. This allocation is allocated to two investment managers. During the year the global fixed income returned 8.19% while the Citigroup Non-US Government Bond Index returned 5.21% and the Barclays Aggregate Bond Index returned 6.54%.

High Yield Fixed Income

High yield fixed income has a target of 15%. This allocation is also evenly split between two investment managers. The high yield return for 2010 was 12.67% and the Citigroup High Yield Cash Pay Index returned 14.98%.

Alternative Investments

Private equity has a target allocation of 5%. At year end the allocation was approximately 1%. The rate of return for the year was 11.42%.

Venture capital had a small residual value (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.

Real Estate

Real estate target allocation is 5% of total assets. This allocation is split between two investment managers. The real estate return for 2010 was 27.74% and the Wilshire RE Securities Index was 29.12%.

Annualized Rate of Return

as of December 31, 2010

	2010	3-Year	5-Year
Total Fund	15.77%	1.50%	4.94
Domestic Equity	17.20	-1.59	2.79
S&P 500 Index	17.16	-1.92	2.90
Dow Jones Wilshire 5000 Index	15.05	-2.87	2.29
International Equity	15.58	-3.65	4.63
MSCI ACWI ex US IMI Index	12.73	-4.38	5.12
MSCI EAFE Index	7.75	-7.01	2.46
Global Fixed Income	8.19	4.52	4.71
Barclays Aggregate Bond Index	6.54	5.91	5.80
High Yield Fixed Income	12.67	7.95	6.86
Citigroup High Yield Cash Pay	14.98	7.69	7.43
Cash Equivalents	0.13	-4.00	-0.53
T-Bills	0.13	0.79	2.42
Real Estate	27.74	-2.09	1.37
Wilshire RE Securities Index	29.12	0.12	2.32
NCREIF Property Index	13.11	-	-
Private Equity	11.42	-	-
Private Equity Benchmark	13.83	-	-

Investment Management Fees

as of December 31, 2010

(dollars in thousands)

Investment**	Assets Under Management	Fees	Basis Points
Domestic Equity	\$1,223,496	\$4,591	37.6
International Equity	632,038	2,984	47.2
Global Fixed Income	360,314	884	24.5
High Yield Fixed Income	425,013	1,963	46.2
Real Estate***	135,049	-	
Private equity***	16,439	-	
Cash Equivalents	<u>97,093</u>	<u>-</u>	
subtotal	\$2,888,442	\$10,422	
<hr/>			
Other Investment Services			
<hr/>			
Investment Consultant		320	
Custodian		150	
Security Lending*		<u>281</u>	
subtotal		751	
<hr/>			
Total Investment Management Fees		<u>\$11,173</u>	
<hr/>			

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

**Excludes cash.

***Fees are netted in capital cost and are not billed separately.

Ten Largest Holdings

as of December 31, 2010

Equity	Shares	Fair Value
MFB NTGI-QM COLTV Daily S&P 500	34,673.87	\$128,224,006
MFB S&P 500 Non-lending	34,178.16	126,902,380
CF INVESCO Core RE Fund	753.32	77,710,042
Heitman America Real Estate	77,819.18	57,338,798
UK MSCI Index	400,729.94	24,883,726
Exxon Mobil Corp. COM	276,386.00	20,209,344
MSCI Industrials Sector Index	1,078,010.64	16,784,626
Germany MSCI Index	213,505.52	16,194,394
Japan MSCI Index	1,797,466.80	16,164,619
Canada MSCI Index	185,329.87	15,747,293

Fixed Income	Par Value	Fair Value
U.S.A. Treasury Notes 1.375% due 11/30/2015	17,163,400	\$16,679,392
Brazil (Fed Rep of) 10.000% due 01/01/2012	16,710	10,359,975
FNMA 4.000% due 01/15/2039	8,170,000	8,126,617
FHLMC Gold 4.500% due 01/15/2040	5,775,000	5,917,585
Mexico (UTD Mex ST) 10.000% due 12/05/2024	571,000	5,771,109
CIT Group 7.000% due 05/01/2017	5,400,000	5,413,500
U.S.A. Treasury Bonds 3.875% due 08/15/2040	5,265,000	4,849,539
Clear Channel 9.250% due 12/15/2017	3,953,000	4,328,535
Poland (Rep of) 6.250% due 10/24/2015	12,233,000	4,289,738
CMO J P Morgan Chase COML MTG 5.523% due 05/12/2045	3,850,000	4,107,527

Investment Holdings Summary

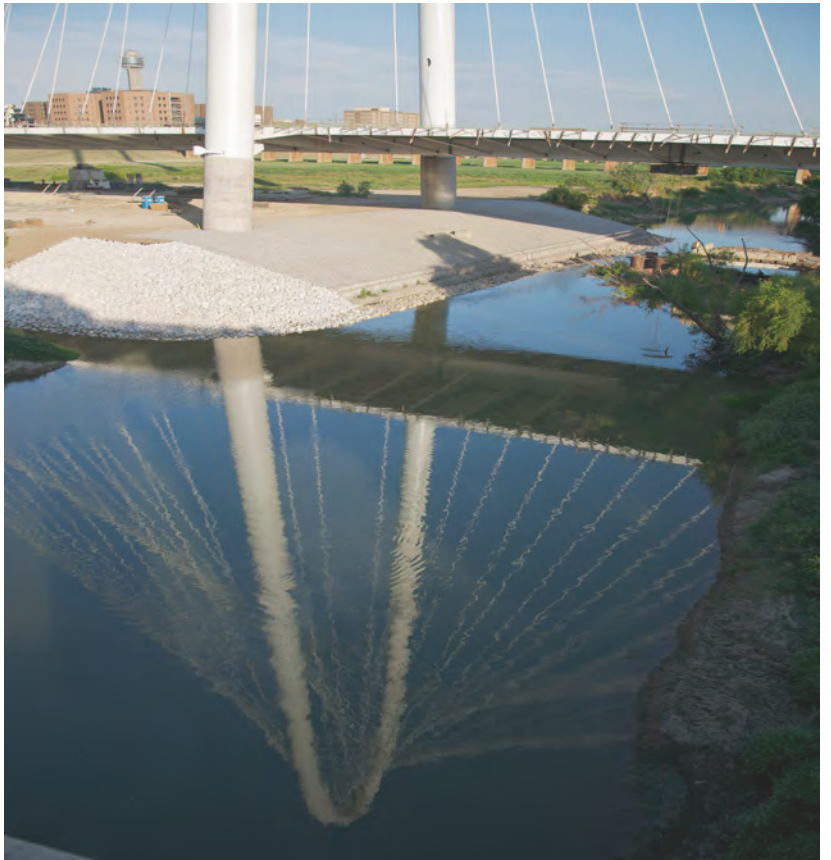
as of December 31, 2010

(dollars in thousands)

Fixed Income	Market Value	Percentage of Market Value
Government Bonds	\$ 183,148	6.34%
Corporate Bonds	<u>602,180</u>	<u>20.83%</u>
Total Fixed Income	785,328	27.17%
Equity		
Common Stock	1,599,408	55.33%
Index & Commingled	<u>255,126</u>	<u>8.83%</u>
Total Equity	1,854,534	64.16%
Real Estate		
Real Estate	<u>135,049</u>	<u>4.67%</u>
Total Real Estate	135,049	4.67%
Alternative Investments		
Venture Capital	4	0.00%
Private Equity	<u>16,434</u>	<u>0.57%</u>
Total Alternative Investments	16,438	0.57%
Cash and Equivalents		
Cash	2,008	0.07%
Cash Equivalents	<u>97,093</u>	<u>3.36%</u>
Total Cash and Equivalents	99,101	3.43%
Total Fund*	<u>\$2,890,450</u>	<u>100.00%</u>

*Does not include security lending collateral or receivables.

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Actuarial Section

unaudited

The Report of the
December 31, 2010 Actuarial Valuation
of the Employees' Retirement Fund
of the City of Dallas

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April 21, 2011

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

Dear Members of the Board:

We are pleased to present our report of the actuarial valuation of the Employees' Retirement Fund of the City of Dallas, Texas ("ERF" or the "Fund") as of December 31, 2010.

This valuation provides information on the funding status of ERF. It includes a determination of the actuarially calculated contribution rates for the 2011 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, 2011 per City Ordinance. 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 previously issued pension obligation bonds for fiscal year 2012.

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 values of the Fund as of December 31, 2010. The member, annuitant and asset data used in the valuation were all prepared and furnished by ERF staff. While certain checks for reasonableness were performed, the data used was not audited.

As part of the five year experience review, the actuary recommended new assumptions to the Board of Trustees. The Board modified these recommendations and adopted new actuarial assumptions effective with this valuation. All actuarial assumptions and methods are described under Section N of this report and meet the parameters of Governmental Accounting Standards Board Statement No. 25. We believe the actuarial assumptions individually and collectively represent reasonable expectations of experience over the long-term future.

To the best of our knowledge, this report is complete and accurate and was conducted in accordance with the Actuarial Standards of Practice as set forth by the Actuarial Standards Board and in compliance with the provisions of the City Ordinance. The actuarial valuation was produced under the supervision of a Member of the American Academy of Actuaries and both signatories have significant experience valuing large public employee retirement systems.

Respectfully submitted,

Lewis Ward
Consultant

Mark R. Randall, MAAA, FCA, EA
Executive Vice President & Senior Consultant

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SUMMARY OF THE VALUATION

(This summary is an excerpt of the 2010 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, which was ratified by both the City Council and the voters of Dallas, a new funding process commenced October 1, 2005. From this 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 the pension obligation bonds issued in 2005 and the contributions to the ERF. In subsequent years, the contribution rate changes only if the actuarial valuation develops a "current total obligation rate" which differs from the "prior adjusted total obligation rate" by more than 3.00%.

As shown in Table 3 (under Section L) and discussed later in this report, the "current total obligation rate" differs from the "prior adjusted total obligation rate" by more than 3.00% as of December 31, 2010. This means that the "current adjusted total obligation rate" will increase from 26.51% to 29.16% of active member payroll effective October 1, 2011.

EXPERIENCE DURING 2010

An Actuarial (Gain)/Loss Analysis [(G)/L] reviews the effects of the actual experience that differs from the assumed experience based on the actual results for the year. If any difference increases assets or reduces liabilities, we have an actuarial gain. The reverse is an actuarial loss.

On a market value return basis, the Fund gained approximately 15.77% (calculated on a dollar-weighted basis, net of investment expenses). Given this positive return, the actual investment income was more than the expected investment income on the actuarial value of assets; therefore, an investment income gain is being partially recognized this year (1/5) and partially deferred into the near future (4/5). After recognizing prior years' deferred investment gains and losses (years 2009, 2008, 2007 and 2006), there was an overall actuarial loss of approximately \$117 million on the actuarial value of assets as of December 31, 2010. The rate of return on the actuarial value of assets for 2010 was 4.30% (calculated on a dollar-weighted basis, net of investment expenses). This result was less than the current investment return assumption of 8.25% per annum.

During 2010 there was an aggregate actuarial gain of about \$99.1 million derived from demographic assumptions and non-investment economic assumptions (salary increases). As seen below, ERF experienced an overall actuarial loss in calendar year 2010. This year's overall actuarial experience loss amounted to approximately \$18.3 million.

The total (G)/L for the prior 4 years is broken down as follows (\$ in millions):

	2007	2008	2009	2010
1) Actuarial (Gain)/Loss on Assets	(\$39.19)	\$375.99	\$146.94	\$117.40
2) Actuarial (Gain)/Loss on Liabilities	21.73	29.25	(23.70)	(101.31)
3) Total Actuarial (Gain) or Loss (1+2)	(17.46)	405.24	123.24	16.09

In addition, as previously discussed in Section F, the experience study changes resulted in an actuarial loss of approximately \$66.6 million. Also, the UAAL increased \$9.1 million because of the difference between the calculated contribution rate and the actual contributions during 2010.

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. Therefore, it reflects the portion of the AAL that is covered by ERF assets. The UAAL is the difference between these two amounts.

A Funded Ratio of 100% means that the funding of ERF is precisely on schedule. In addition, an increasing funded ratio from year-to-year also means that the funding of ERF is 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 Funded Ratio of ERF decreased from 95.0% as of December 31, 2009 to 92.2% as of December 31, 2010. This decrease is due to the continued recognition of the significant downturn in the investment markets during 4th quarter of 2008 and due to the change in assumptions adopted by the Board effective with this valuation.

The UAAL increased from \$160.5 million (shortfall) as of December 31, 2009 to \$254.7 million (shortfall) as of December 31, 2010. Since the UAAL is positive, this implies the actuarial accrued liabilities exceed the actuarial assets of the Fund as of December 31, 2010.

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Statistical Section

unaudited

Schedule of Revenue by Source (dollars in thousands)

Year Ending	Member Contributions	Employer Contributions	% of Annual Covered P/R	Investment Income	Total
2001	20,814	35,182	10.6	(103,558)	(47,562)
2002	21,771	36,606	11.3	(171,787)	(113,410)
2003	20,580	34,729	109.1	412,128	467,437
2004	20,896	35,251	10.6	289,947	346,094
2005	23,392	565,569	170.1	208,288	797,249
2006	30,123	23,000	6.7	464,629	517,752
2007	31,806	23,493	6.3	110,659	165,958
2008	31,839	22,720	5.8	(975,641)	(921,082)
2009	32,229	25,265	6.7	619,177	676,671
2010	31,666	27,323	8.2	398,713	457,702

Schedule of Expenses by Type (dollars in thousands)

Year Ending	Benefit Payments	Administrative Expenses	Refunds	Investment Professional Expenses	Total
2001	87,054	1,918	2,434	12,237	103,643
2002	97,363	1,944	2,552	7,458	109,317
2003	108,402	2,119	2,605	7,322	120,448
2004	116,675	2,075	2,976	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
2007	146,810	2,675	3,056	39,855	192,396
2008	156,575	3,255	2,742	20,926	183,498
2009	172,493	3,315	4,273	9,637	189,718
2010	182,883	3,235	4,476	11,173	201,767

Schedule of Benefit Expenses by Type (dollars in thousands)

Year Ending	Retiree	Beneficiary	Disability	Supplement	Total
2001	73,963	4,076	2,554	6,431	87,024
2002	82,918	5,012	2,753	6,681	97,364
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
2007	129,326	5,897	3,806	7,781	146,810
2008	138,695	5,959	3,979	7,942	156,575
2009	150,843	9,340	4,149	8,161	172,493
2010	162,042	7,984	4,322	8,535	182,883

Average Benefit Payment

as of December 31, 2010

Retirement Effective Dates	Years of Credited Service						
	<u>0 - 5</u>	<u>5 - 10</u>	<u>10 - 15</u>	<u>15 - 20</u>	<u>20 - 25</u>	<u>25 - 30</u>	<u>30+</u>
Period 01/01/2010 to 12/31/2010							
Average monthly benefit	\$223.93	\$734.08	\$1,302.73	\$1,830.30	\$2,995.36	\$3,710.91	\$4,116.13
Average final average salary	\$2,594.83	\$3,678.95	\$4,364.32	\$4,784.05	\$4,903.64	\$5,039.60	\$4,771.62
Number of retired members	8	36	49	44	70	133	91
Period 01/01/2009 to 12/31/2009							
Average monthly benefit	\$301.96	\$784.21	\$1,294.02	\$2,149.66	\$2,949.94	\$3,576.69	\$4,305.35
Average final average salary	\$3,287.00	\$3,605.72	\$3,878.74	\$4,396.37	\$4,788.12	\$4,881.66	\$4,969.17
Number of retired members	27	25	36	37	65	110	79
Period 01/01/2008 to 12/31/2008							
Average monthly benefit	\$256.93	\$992.79	\$1,160.28	\$2,059.59	\$2,717.68	\$3,490.12	\$4,168.44
Average final average salary	\$3,816.62	\$4,347.54	\$3,472.80	\$4,301.64	\$4,446.61	\$4,739.25	\$4,930.47
Number of retired members	8	33	26	18	68	73	38
Period 01/01/2007 to 12/31/2007							
Average monthly benefit	\$330.49	\$760.80	\$1,251.93	\$2,168.34	\$2,565.23	\$3,226.37	\$4,030.12
Average final average salary	\$3,350.81	\$3,387.56	\$3,787.73	\$2,941.32	\$4,272.21	\$4,516.64	\$4,476.76
Number of retired members	12	29	36	26	69	52	27
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	\$3,883.23
Average final average salary	\$3,421.25	\$3,359.50	\$3,382.90	\$3,213.03	\$4,263.23	\$4,483.42	\$4,605.96
Number of retired members	9	31	30	25	73	72	50
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	\$4,215.25
Average final average salary	\$3,260.48	\$3,652.23	\$3,894.79	\$3,710.63	\$4,515.87	\$4,399.20	\$4,949.87
Number of retired members	8	31	24	28	84	74	41

Retired Members By Type of Benefit

as of December 31, 2010

Amount of Monthly Benefits	Type of Retirement ^a							Option Selected ^b		
	1	2	3	4	5	6	7	#1	#2	#3
\$1 - 250	48	0	7	0	0	0	1	18	18	20
\$251 - 500	117	3	50	42	0	2	16	62	114	54
\$501 - 750	198	8	75	51	3	13	26	79	203	92
\$751 - 1,000	233	11	90	29	27	25	7	109	189	124
\$1,001 - 1,250	231	19	78	31	11	16	8	115	180	99
\$1,251 - 1,500	229	21	58	14	6	18	5	115	133	103
\$1,501 - 1,750	223	13	49	18	8	14	3	127	113	88
\$1,751 - 2,000	204	32	52	14	2	7	7	123	113	82
over 2,000	3,038	171	197	53	6	39	16	1,167	1,384	969
Total	4,521	278	656	252	63	134	89	1,915	2,447	1,631

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

Average Age and Pension at Retirement

as of December 31, 2010

Status	Average Age	Average Pension	Average Age at Retirement
Members Only	67.2	\$2,780.45	57.1
Members and Survivors	68.0	\$2,519.41	N/A
Survivors Only	72.3	\$1,570.15	N/A

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