2003

Annual Report

DALLAS
POLICE & FIRE
PENSION SYSTEM

2003 at a Glance

Statistical Highlights

The Dallas Police and Fire Pension System provides retirement, disability, and survivor benefits to the Police Officers and Firefighters of the City of Dallas. The System has had a steady growth in both its membership and its assets since it was founded in 1916.

Participants

Active Members Contributing = 4,606

Benefit Recipients = 2,947

Total Participants = 7,553

Service Retirements Added

Police = 71

Fire = 46

Total = 117

Disability Retirements Added

Police = 0

Fire = 1

Total = 1

Fund Net Assets at Market Value = $2,183,058,869

Benefits Paid = $96,246,040

Member Contributions (Net of Refunds) = $15,703,042

City Contributions = $78,323,358

Comprehensive Annual Financial Report
of the
Dallas Police and Fire Pension System

and

Financial Statements
of the
Supplemental Police and Fire Pension Plan
of the City of Dallas

for the Year Ended December 31, 2003

Richard L. Tettamant, Administrator
Dallas Police and Fire Pension System
2301 North Akard Street, Suite 200
Dallas, Texas 75201
214.638.3863 or 1.800.638.3861

Contents

Honorable Mayor, Members of the City Council, and Members of the Dallas Police and Fire Pension System:

The Board of Trustees and staff of the Dallas Police and Fire Pension System (the System) are pleased to present the *Comprehensive Annual Financial Report of the System* and *the Financial Statements of the Supplemental Police and Fire Pension Plan of the City of Dallas* for the fiscal year ended December 31, 2003 (the annual report).

This annual report is divided into six sections:

- The **Introductory Section** includes this transmittal letter and other information about the administrative structure and operations of the System.

- The **Financial Section** includes the independent auditor's report, Management's Discussion and Analysis (MD&A), audited financial statements for the System and required supplementary information.

- The **Investment Section** includes a report on investment activity and performance, a summary of investment policies, and other investment related schedules.

- The **Actuarial Section** contains the consulting actuary's Certification Letter and the annual valuation report.

- The **Statistical Section** includes membership, benefit payment and additional financial information in graphic form and lists significant events in the System's modern history. Both current and historical data are presented.

- The **Supplemental Police and Fire Pension Plan of the City of Dallas Section** contains the *2003 Actuarial Valuation* and *2003 Financial Statements with Independent Auditors' Report* for the Supplemental Police and Fire Pension Plan of the City of Dallas.

HISTORY AND OVERVIEW

The System is a defined benefit plan qualified under section 401 (a) of the Internal Revenue Code. A pension plan was first established for Dallas Police Officers and Firefighters under City Ordinance in 1916. Employees and employers both contributed 1% of pay. The "Old Plan," as we now know it, was created in response to funding pressures in 1935 under 6243a, Vernons' Texas Revised Civil Statutes, a revision of previous state law.

Plan A became effective September 15, 1969, to provide a benefit based on a member's average salary and years of service credit. Plan A and the Old Plan are now viewed together as Group A. There are no current Active Members of the old Plan and only three Active Members of Plan A currently in the System.

The Legislature created Plan B, the current plan for most Members, in March 1, 1973. In 2003, the System celebrated its 87th anniversary of ensuring the financial future of City of Dallas Police Officers and Firefighters and their families.

SYSTEM ADMINISTRATION

Board of Trustees

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

- Three elected from the active membership of the Police Department,
- Three elected from the active membership of the Fire-Rescue Department,
- One elected by retired Police Officers,
- One elected by retired Firefighters, and
- Four appointed by the City Council from among its membership.

Active Police Trustee Sgt. Rector McCollom was reelected to his Trustee position in an election held in March 2003. Three other Trustees, Capt. George Tomasovic and Driver/Engineer Gary Edge, both active Firefighter Trustees, and active Police Trustee Steven Shaw were unopposed for election and deemed reelected to their positions.

The Board has a fiduciary responsibility to the System and its members to exercise prudent oversight and administration of System assets. To meet their responsibility and stay current with technical concepts and approaches to asset management and plan administration, the Board and staff participate in educational conferences and perform due diligence concerning System investments. The Board also maintains active participation in many pension-related associations, notably the National Conference on Public Employee Retirement Systems (NCPERS) and the Texas Association of Public Employee Retirement Systems (TEXPERS).

The Board meets monthly and as needed in the performance of its fiduciary duties. The Board also meets at least quarterly with its investment consultants to review the performance of each investment manager, asset class and fund investments. Periodically, the Board conducts an asset allocation study to optimize the allocation of System assets.

2003 Board of Trustees

Gerald Brown
Fire Department
Chairman

Steve Shaw
Police Department
Vice Chairman

Gary Edge
Fire Department
Deputy Vice Chairman

Rector McCollum
Police Department

George Tomasovic
Fire Department

Steve Umlor
Police Department

John Mays
Police Pensioner Trustee

Richard Wachsman
Fire Pensioner Trustee

Donald Hill
City Councilmember

Maxine Thornton-Reese
City Councilmember

Professional Service Providers

The Board has retained the services of professional consultants and advisors considered essential to the effective operations of the System. These professionals assist the Board in making the decisions that affect the System's investment performance as well as the administration and maintenance of benefit programs.

Professional Service Providers

Investment Advisors

- AEW Capital Management
- Alliance Bernstein
  - Institutional Investment Management
- Bank of Ireland Asset Management
- CDK Realty Advisors
- Clay Finlay, Inc
- Crow Holdings
- Delaware International Advisors
- Deutsche Asset Management
- Fidelity Management Trust Company
- Forest Investment Associates
- Frank Russell Company
- Hancock Agricultural Investment Group
- Hearthstone Advisors
- Heitman Capital Management
- Highland Crusader Fund
- Hudson Advisors
- W. R. Huff Asset Management
- INVESCO Realty Advisors
- Kennedy Associates Real Estate Counsel
- L&B Realty Advisors
- Loomis, Sayles & Company
- The Mitchell Group
- North Texas Investment Advisors, LLC
- Oak Associates
- Oaktree Capital Management
- Olympus Real Estate Partners
- Pareto Partners
- Prudential Asset Management
- RREEF
- State Street Global Advisor
- TCU Special Credits Trust

Actuary

- Mellon Consultants Inc.

Auditor

- Mir•Fox & Rodriguez, P.C.

Custodian Bank

- JP Morgan Chase Bank

Investment Consultants

- The Townsend Group
- Wilshire Associates Inc.

Performance Measurement Consultants

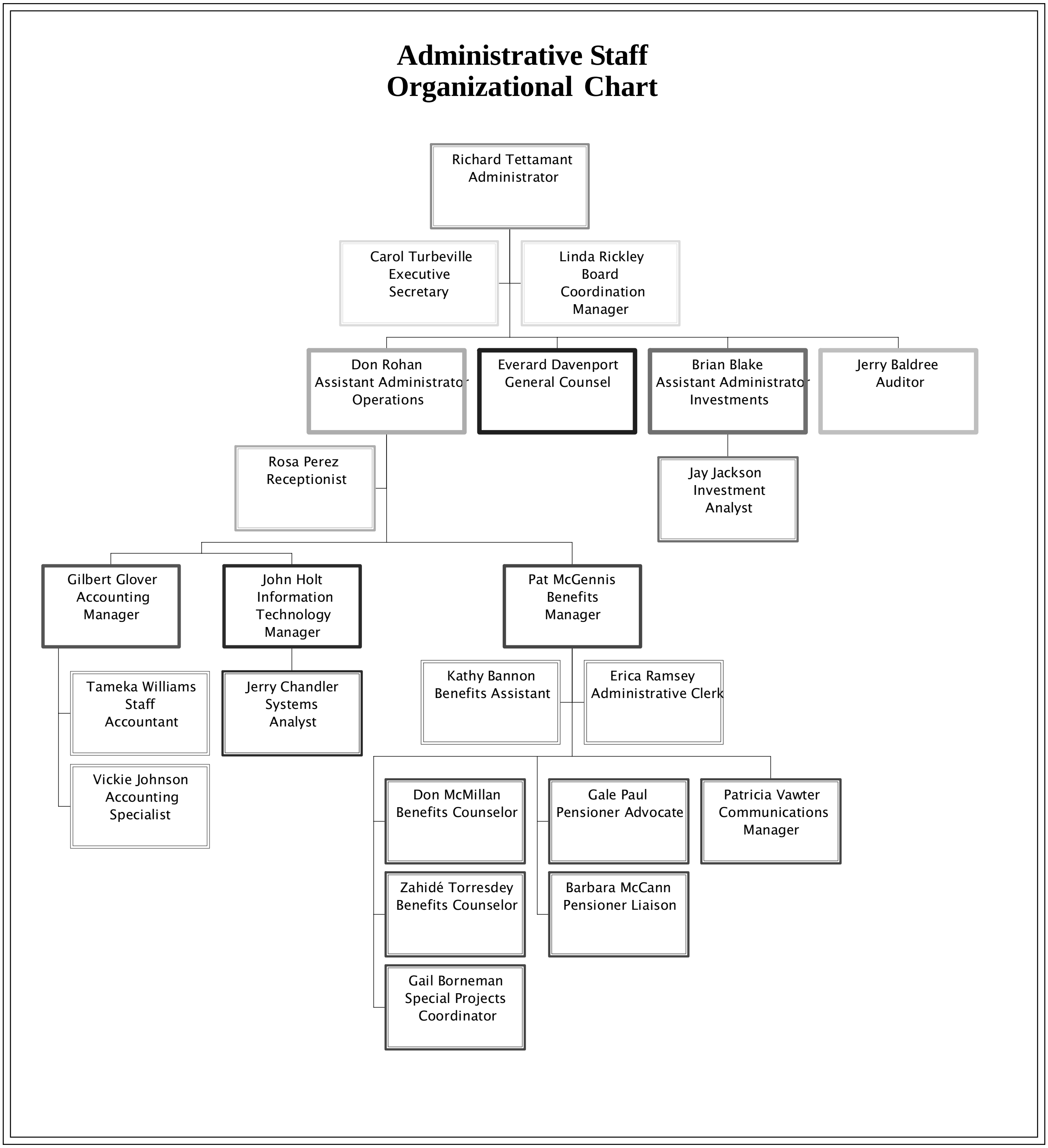
- Financial Control Systems Inc.

Legal Advisors

- Dallas City Attorney's Office
- Lawson, Fields, McCue, Lee and Campbell, PC

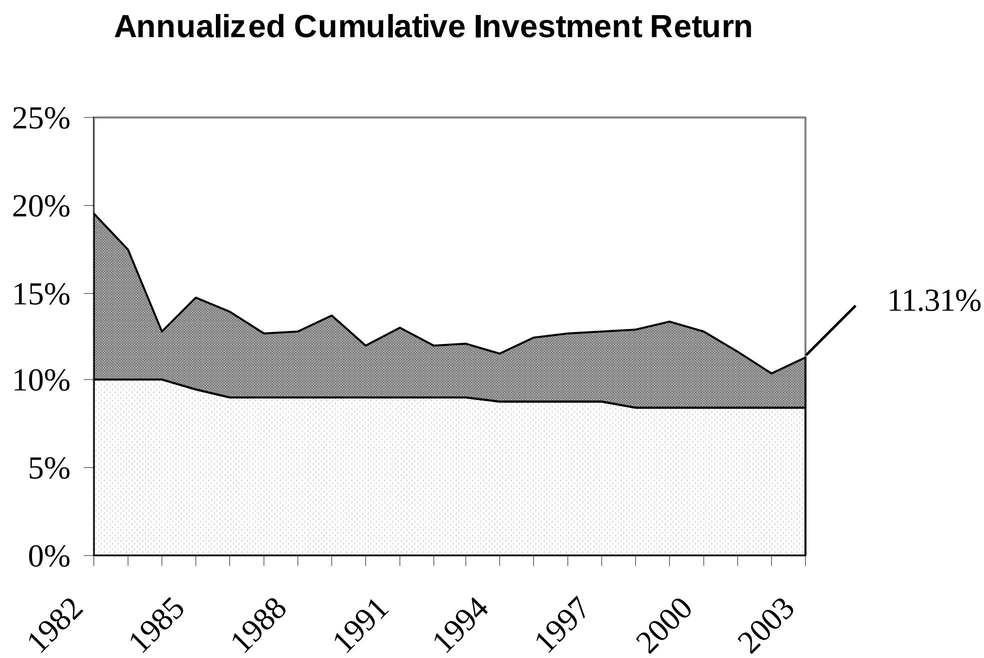
Administrative Staff

The administrative staff performs the day-to-day operations of the System. The staff consists of 23 members and includes the Administrative, Benefits, Accounting, Investment, and Information Systems teams. The staff's main functions are (1) retirement counseling, (2) payment of benefits, (3) Member communications, (4) review and monitoring of investments, (5) audit and control, (6) coordination with professional service providers, (7) legal, and (8) staff support to the Board.



INVESTMENT HIGHLIGHTS

During 2003, System assets, at market value, increased by more than $520 million, reaching $2.18 billion. Through diversification and sound investment management, assets grew during the year at an exceptional rate of return of 31.4%. The outstanding investment performance ranked the System as the top performing fund for 2003 among the plans included in the data base of Wilshire Associates, Inc., the System's investment consulting firm. The System's investment return also placed in the top ten percent of public pension plans measured over the last five and ten year periods at 6.18% and 10.18% respectively. See Section 3, Investments, for more information on System investment performance in 2003.



The System's annualized cumulative investment return since 1982 is 11.31%.

MAJOR INITIATIVES

The Board adopted a Business Continuity Policy and Business Continuity Plan in 2003 to provide a strategy to allow the System to maintain mission-critical services during a business-disruptive event, such as a fire, severe weather conditions, hazardous material incident, earthquake, communications or power failure, explosion, civil disturbance or other situation that disrupts normal operations. This policy will also help assure the safety of System Trustees and staff.

In March 2003, the System hired a Licensed Social Worker to establish a Pensioner Advocate Program. The goals of the pensioner advocate program are to (1) promote the best interests of pensioners and their beneficiaries, (2) assist pensioners and survivors in obtaining access to social service resources available in the community, (3) coordinate a grief support program for survivors, and (4) help survivors obtain survivor and other benefits for which the survivors are entitled. The pensioner advocate has proved to be a valuable asset to the System and its members.

The System also expanded the education programs with the creation of Financial Planning and Pensioner Financial programs. The Financial Planning program focuses on tools to help Active Members plan for their financial future. The Pensioner Financial program assists Pensioners in adjusting to retirement and in understanding investment options. The new programs have been so successful that staff has had to double the number of sessions offered and increase the number of participants allowed per session.

The System also upgraded its pension administration and record-keeping software. Final testing and conversion were completed in early 2003. The new software provides a more user-friendly application that can be updated and maintained with greater efficiency, while maintaining the accuracy of pension calculations.

In another major initiative, the System changed the accounting fiscal year to a calendar-year basis for budget purposes. The change moved the budget yearend from September 30 to December 31 to conform to the System's investment accounting, bank reporting, and various vendors. The change, adopted by the Board in November 2002, was made effective for the 2003-2004 budget through a 15-month transition budget from October 1, 2003 through December 31, 2004.

MEMBER COMMUNICATIONS PROGRAMS

The System's Member programs continued to provide meaningful education and communications to our Members. These programs include Member education programs (PREP—Pre-Retirement Education Program, the Rookie Orientation Program, and the new Financial Planning and Pensioner Financial programs), pre-retirement counseling, the Active Member and Pensioner newsletters and the System website www.dpfp.org. The System's education programs brought together staff and outside professionals to provide retirement, investment and legal information to almost 600 Members and Spouses in 17 sessions.

Pre-retirement Counseling

The System encourages Members to consult with a Benefits Counselor before retiring or entering the Deferred Retirement Option Plan (DROP) program. This affords the Member the opportunity to receive an estimate of benefits and an explanation of benefit options and other programs. A total of 575 Members attended personal pre-retirement counseling in 2003.

Communications

Each month in 2003, the System sent a new issue of the *Pension Update* newsletter to active Members and the *Pension Notes* newsletter to System Pensioners and survivors. Members and others may access agendas and minutes of Board meetings on our Web site. They also may follow the progress and learn the results of issues such as elections, see current and back issues of System publications, and read Question and Answers (FAQs) articles on System benefits and other subjects. We strive to keep the Web site interesting and informative. Our Internet address is *www.dpfp.org.* You may reach System staff by e-mail at *info@dpfp.org*.

Membership and Benefits

2003 Program Highlights

Benefit Statements Distributed
5,201 Annual Benefit and DROP Statements

Counseling Sessions
575 Members

Deferred Retirement Option Plan (DROP)
141 New Active Members in DROP
994 Total Active Members in DROP
115 Retired Members in Deferred DROP
392 Retired Members with DROP accounts
19 Deceased or Spouses with DROP accounts
1517 Total DROP Accounts

New Recruit Education Meetings
5 meetings with 141 new Members

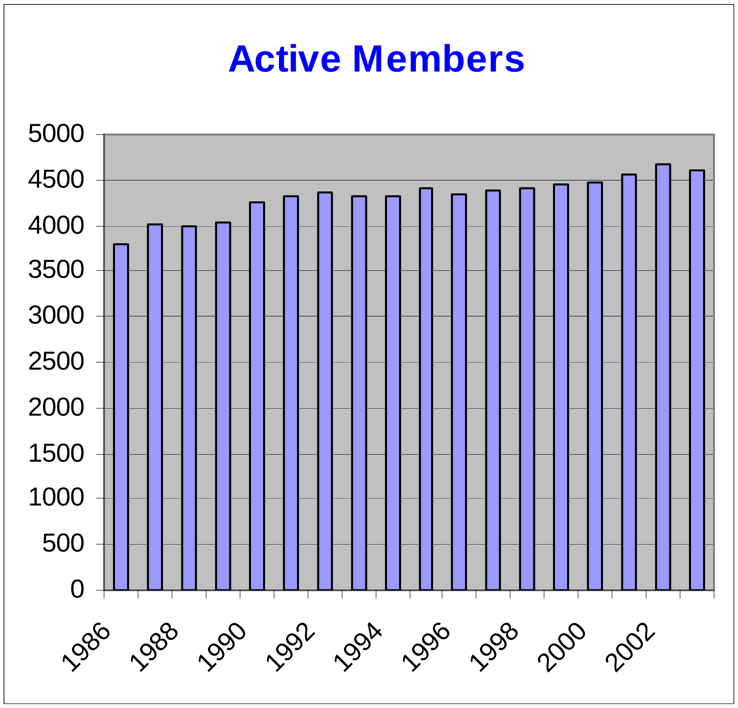
Pre-Retirement Education Program (PREP)
7 meetings, 349 attendees

Financial Planning Program
3 meetings, 89 attendees

PLAN MEMBERSHIP

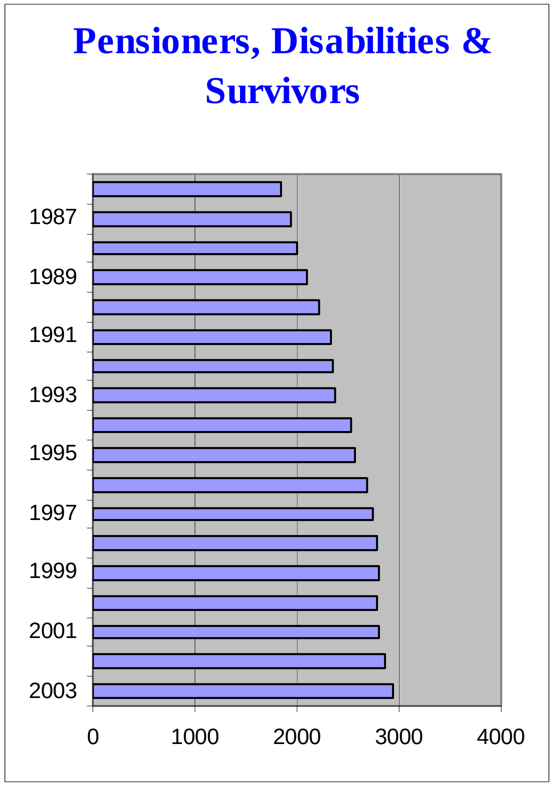
The System provides comprehensive retirement, death, and disability benefits for the City's 7,553 Police Officers, Firefighters, Pensioners, and their beneficiaries. As of December 31, 2003, 1,673 Firefighters and 2,933 Police Officers were Members of the Pension System. The total of 4,606 Active Members reflects a decrease of 59 from last year's total of 4,665 (12 fewer Firefighters and 47 fewer Police Officers). The average Firefighter is 42.99 years of age and has 17.20 years of service with the City of Dallas. The average Police Officer is 40.76 years of age and has 14.60 years of service.

The number of DROP participants in active service was 994 during 2003, an increase of 43 from the prior year. The average DROP participant in active service is 53.91 years of age with 28.05 years of pension service. The average age at which members enter DROP is 50.2 years of age.



Growth in Active membership increased by more than 20% from 1986 to 2003.

The System paid more than $96.2 million to 2,947 total benefit recipients in 2003, including 2,025 Pensioners, 211 disability Pensioners, and 711 beneficiaries.



The number of benefit recipients grew by almost 60% from 1986 to 2003.

For a more thorough review of System provisions, see the *Actuarial Valuation* and the *Notes to Financial Statements*. You may obtain more information on the Pension System's Web site at *www.dpfp.org*.

INTERNAL CONTROLS

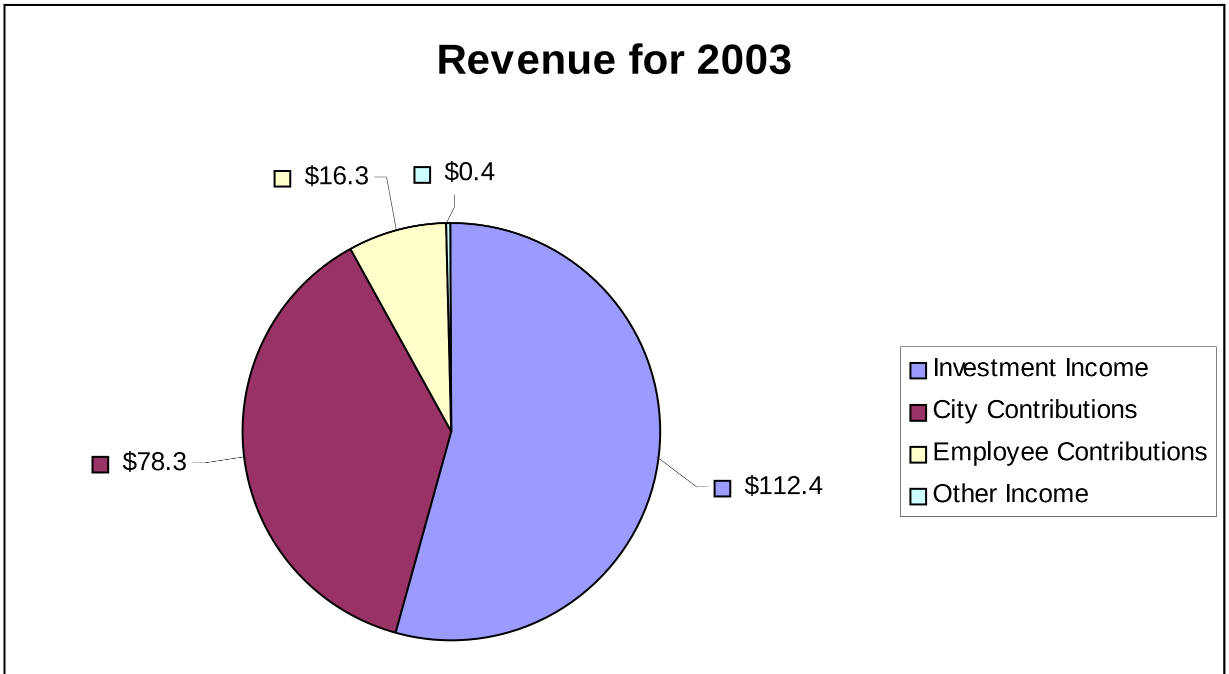
The management staff of the System is responsible for maintaining a system of internal controls. These controls are designed to provide reasonable assurance that the assets are protected and that financial transactions are executed in accordance with Board policy and federal, state, and local laws and regulations. Additionally, the controls provide assurance regarding management's responsibility to the System and facilitate the timely preparation of financial statements in accordance with generally accepted accounting principles.

CONTRIBUTIONS

The System is funded through a combination of Member and City contributions and investment earnings. Members contribute 8.5% of their Computation Pay to the System. Computation Pay is the sum of a Member's Civil Service Pay, State Longevity Pay, and Education Pay. The City makes contributions under the provisions of Article 6243a-1 of the Revised Civil Statutes of Texas in an amount equal to 27.5% of total payroll for Police Officers and Firefighters. The System does not participate in Social Security, and neither the Members nor the City make any retirement contributions to the Social Security program.

REVENUE AND EXPENSES

Revenues received by the System are used to fund current and future benefits for System Members and their beneficiaries. Revenues for 2003 totaled $207.4 million. Revenues came from City contributions ($78.3 million), employee contributions ($16.3 million), and other income ($.4 million). Investment return for 2003 including realized gains and losses from investment activities was $112.4 million. (This return amount does not include $426 million of unrealized gains and losses.)



Revenues totaled $207.4 million

Expenses consisted of benefit payments to service and disability Pensioners and their qualified beneficiaries, refunds of contributions to former Members, fees for professional services, and the cost of administering the programs of the System. Total expenses for 2003 were $110.6 million and consisted of the following: benefit payments ($96.2 million), administrative, professional service and investment management fees ($13.7 million), and refunds ($0.6 million). Administrative and professional service fees were 0.63 %, of total System assets. The System's goal is to keep expenses at less than 1% of System Assets.

Expenses totaled $110.6 million

OTHER INFORMATION

Actuarial Valuation

The *Actuarial Valuation* as of January 1, 2004, performed by Mellon Consultants Inc., concludes that the overall funding of the Plan remains sound and the current contribution rates are sufficient to keep the System actuarially sound. The valuation report demonstrates the progress made in the System's funding during 2003, when the years to fund was reduced to 38 years from 69 years, as determined in the 2002 valuation.

Texas Statutes require Texas public retirement systems to employ a professional actuary to make a valuation at least once every three years of the assets and liabilities of the System on the basis of reasonable assumptions and methods, considering the experience of the program and reasonable expectations, and that, in combination, offer the actuary's best estimate of anticipated experience under the program. The System exceeds the state requirement by having an actuarial valuation completed each fiscal year.

The complete Actuarial Valuation for the Pension System is included in this annual report.

Independent Audit

The opinion of the System's independent auditing firm, Mir· Fox & Rodriguez, P.C. states that the System's financial statements present fairly, in all material respects, the financial position of the System for the period under audit, and that the results of its operations for that period are in conformity with accounting principles generally accepted in the United States of America. The financial statements and notes are included in this report in Section 2, Financial Section.

PLAN AMENDMENTS

The System did not conduct a Plan amendment election in 2003, and no changes were made to the *Plan Document*.

LEGISLATION

During 2003, the System worked with other state public retirement systems and organizations for the successful passage of an amendment to the State Constitution to protect pension benefits in Texas. The Constitutional Amendment preserves a member's rights to vested, accrued pension benefits by preventing a plan sponsor from reducing these benefits.

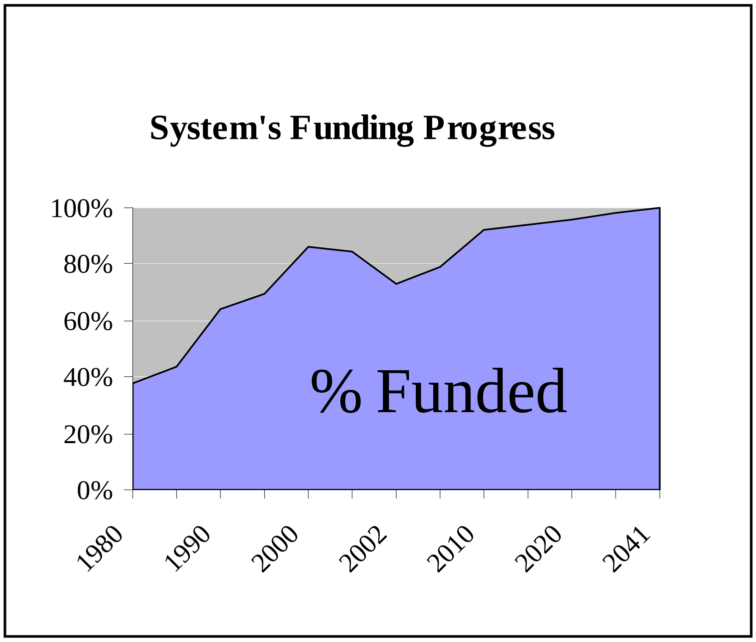
Along with other public pension plans, the System also continued to oppose federal legislation that would require mandatory or universal Social Security coverage. The Board believes that federal legislation that would mandate Social Security coverage for all public employees would be bad public policy, would do little to correct any perceived shortcomings in the Social Security program, and would potentially jeopardize public pension plans. The success of this effort is demonstrated by the fact that there is no current major legislation requiring mandatory provisions for Social Security coverage.

The System supported other legislation that would make Social Security solvent for future generations. The System also supported proposed legislation that would eliminate the 10% early withdrawal penalty tax on DROP distributions. The System's involvement in these activities is ongoing.

SUMMARY

Pension System assets, membership, and programs remained strong. The System's communications efforts continued to improve to better meet the needs of the membership.

The long-term investment performance of the System is rated among the top of all public pension plans. The use of multiple managers employing different investment styles has kept the System's long-term performance on track, significantly outperforming the actuarial rate of 8.5%.



The System remains on track toward full funding by 2041.

This annual report reflects the effort of the System staff under the guidance of the Board of Trustees. The report is intended to provide complete and reliable information regarding the financial performance of the System and a means to measure the responsible stewardship of the System's assets.

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

The Pension System's Board of Trustees and staff realize that our primary commitment to our Members is to maintain the excellent financial condition of the Pension System. We will continue to do our best to "Serve those who protect the Dallas community."

Respectfully submitted,

Gerald Brown	Richard L. Tettamant
Chairman of the Board of Trustees	Administrator

Significant Events in the System's Modern History

1977
- Separation of pension administration from the City Secretary's Office
- Appointment of first Administrator of the Dallas Police and Fire Pension System—Ray Ward
- Retention of A.S. Hansen Inc. as the System's actuary

1978
- Development of a plan to resolve unfunded past service cost
- System's assets topped $74 million (12-31-78)

1979
- Implementation of new city and employee contribution plan
- Retention of Compensation & Capital Inc. to monitor investments
- System's assets topped $85.8 million (12-31-79)

1980
- Retention of Eppler, Guerin & Turner Inc. as the System's first investment consultant
- Retention of Peat, Marwick, Mitchell & Co. as actuary
- Retention of First City Bank as custodian
- System's assets top $103.3 million (9-30-80)

1981
- Distinction of becoming the first retirement system to be officially registered with the Texas State Pension Review Board
- System's assets topped $110.4 million (9-30-81)

1982
- Retention of two real estate investment advisors
- Jerry Hast named as the Fund's second Administrator
- Renewal of Master Custodian service by First City Bank—Dallas
- System's assets topped $136.7 million (9-30-82)

1983
- Largest growth in the history of the System (to date)
- Benefit improvements to Plan B and Plan A, increasing cost of living to 4% simple
- System's assets topped $196.9 million (9-30-83)

1984
- Retention of Pension Real Estate Services Inc. as real estate investment consultant
- Hired three additional real estate managers and designated 10% of fund for real estate
- Citizens voted approval of change in city and employee contribution rates
- System's assets topped $218.8 million (9-30-84)

1985
- Increased Plan A and Plan B benefits, including survivor and retiree minimum benefit amounts
- Equity assets invested 100% with mutual funds
- System's assets topped $262.1 million (9-30-85)

1986
- Creation of Pension System benefit counseling program
- Members vote to begin paying administrative fees from System's assets
- System's assets topped $329.5 million (9-30-86)

1987
- Retention of Wilshire Associates as general investment consultant (10-1-86)
- Reallocation of Assets: 52% domestic equity, 10% international equity, 18% fixed income, and 20% real estate
- System's assets topped $425 million (9-30-87)

1988
- Approval of Plan amendments increased pension service credits from 2.5% to 2.75% per year
- System's assets topped $434 million (9-30-88)

1989
- The Old Pension Plan and Plan A were combined to form the Combined Pension Plan
- Buck Consultants Inc. retained as System's actuary
- Creation of the Finance and Administrative Board Committees
- Participation in securities lending and commission recapture programs
- System's assets topped $547 million (9-30-89)

1990
- Benefit changes made during the year included:
  - the benefit supplement increased and
  - the yearly pension service multiplier was increased from 2.75% to 3%
- Changes in asset allocation included global fixed income (9%) and international small capitalization (5%)
- System's assets decreased to $529.7 million (9-30-90)

1991
- Plan amendment election held July 1991
- Change of System year-end to December 31
- System's assets topped $683 million (12-31-91)

1992
- Plan Amendment election held October 1992:
  - created Deferred Retirement Option Plan (DROP),
  - increased the minimum benefit to $1,500 per month,

- allowed active Members to buy back service time they lost or to repay contributions withdrawn by a Qualified Domestic Relations Order (QDRO), and
- Integrated Plan B of the System into the Combined Pension Plan

• Appointment of new administrator, Richard Tettamant
• System's assets topped $719 million (12-31-92)

1993

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

1994

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

1995

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

1996

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

1997

• Initiation of pretaxing of Member contributions
• Completion of DROP five-year actuarial review
• System's assets exceeded $1.452 billion (12-31-97)

1998

- Initiation of “20 and Out” and/or “20 and DROP”
- Increase in minimum benefit to $1,800 per month
- Change in DROP interest rate calculation to be based on 10-year treasury bond with a range of 8% to 10%
- assignment of place numbers to Trustee positions
- Initiation of Pension System’s Internet Web page
- System’s assets exceeded $1.659 billion (12-31-98)

1999

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

2000

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

2001

- Relocation of Pension System office to 2301 North Akard Street
- Election of first Police Pensioner and Firefighter Pensioner Trustees to the Board
- Plan amendment election held December 2001
    - Pension Service purchase could be made on a pretax basis through payroll deductions
    - Pension Service purchases could be made with pretax dollars from rollovers
    - Partial Pension Service purchases were allowed
    - Persons disabled while on military leave of absence could now receive a non-service disability pension
    - A 100% joint and survivor annuity option added
    - Minimum benefit increased to $2,200 per month
    - DROP interest increased, and future changes in interest rate would be based on the System’s 10-year investment return
    - Special elections required to fill vacant Trustee positions
- System’s assets totaled $1.9 billion (12-31-01)

2002

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

2003

- Initiation of Pensioner Advocate Program
- Initiation of Financial Planning and Pensioner Financial Planning Programs
- System assets at $2.2 billion (12-31-03)

Financial Section

DALLAS POLICE AND FIRE PENSION SYSTEM

Financial Statements
and
Required Supplemental Information

December 31, 2003 and 2002
(With Independent Auditors' Report Thereon)

DALLAS POLICE AND FIRE PENSION SYSTEM

TABLE OF CONTENTS

Mir • Fox & Rodriguez, P.C.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of plan net assets of the Dallas Police and Fire Pension System (the System) as of December 31, 2003, and the related statement of changes in plan net assets for the year then ended. These basic financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The financial statements of the System as of and for the year ended December 31, 2002, were audited by other auditors whose report dated December 5, 2003, expressed an unqualified opinion on those statements.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial status of the System as of December 31, 2003, and the changes in its financial status for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis (MD&A), the schedule of contributions in note 1, and the schedule of funding progress in note 4, are not a required part of the basic financial statements but is required supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A and other required supplemental information. However, we did not audit such information and do not express an opinion it.

Mir Fox & Rodriguez

November 19, 2004

One Riverway, Suite 1900
Houston, TX 77056
Off. (713) 622-1120
Fax (713) 961-0625

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

The Management's Discussion and Analysis (MD&A) of the Dallas Police and Fire Pension System's (the System) financial position and performance provides an overview of the System's financial activities for the fiscal year ended December 31, 2003. The System is a defined benefit pension plan.

The MD&A is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* issued in June 1999.

Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, because the System did not present such information in the 2002 reporting year, certain necessary comparative information of the previous year was not presented. Considering the financial resources necessary to prepare this information for the prior year, the System has elected to exclude the information in this report. Subsequent reports will include the comparative information.

FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the System's financial statements which consist of (1) Basic Financial Statements, (2) Notes to Basic Financial Statements, including supplementary information.

The *Statement of Plan Net Assets* presents the System's assets and liabilities and plan net assets held in trust for the payment of pension benefits. The *Statement of Changes in Plan Net Assets* summarizes additions to and deductions from System assets, providing plan net assets held in trust at the end of the year for pension benefits. The difference between assets and liabilities is one measure of the System's financial position and the change in this measure overtime is an indication of whether the System's financial health is improving or deteriorating.

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

The *Supplementary Information* consists of schedules of funding progress and required contributions and other required information.

CONDENSED FINANCIAL INFORMATION

	2003 (in thousands)
Assets	$ 2,480,812
Liabilities	297,753
Net Assets Available for Benefits	2,183,059
Contributions	94,610
Investment & Other Income (loss)	538,073
Benefit Payments	96,246
Refund of Contributions	584
Administrative Expenses & Professional Fees	13,412

FINANCIAL HIGHLIGHTS

- The System's net assets increased by $522.8 million in 2003.
- The rate of return on System investments was 31.41% for the year, compared to an expected return (actuarial assumed investment rate of return) of 8.5%. The return reflects the recovery of the U.S. and world economic markets and the Board's decision to maintain its policy of investment diversification and the asset allocation model adopted by the Board.
- Liabilities totaled $297.8 million as of December 31, 2003. This total is comprised largely of securities lending collateral of $181.6 and forward currency contracts of $87.3 million.
- The System received $78.3 in employer contributions and $16.3 million in employee contributions.
- The System paid $96.2 million in service retirement, disability retirement and survivor benefits during the year and refunds of contributions to former Members of approximately $584 thousand. No changes to benefit provisions were implemented during the year.
- The cost of administering the benefit programs of the System, including administrative costs and investment fees, was $13.4 million. Administrative and professional service fees were approximately 0.61 %, of net System assets.

The System presents its financial statements solely on the accounts of the System. The accrual basis of accounting is used by the System, whereby revenues are recognized when they are earned and collection is reasonably assured, and expenses are recognized when the liability has been incurred. Investments are reported at fair value.

FUNDING PROGRESS

An Actuarial Valuation Report was prepared by Mellon Consultants, Inc., to determine the actuarial position of the System as of January 1, 2004. The Actuarial Valuation Report indicated that the overall funding of the System remains sound and the current contribution rates are sufficient to keep the System actuarially sound. In preparing the valuation, the actuary uses a smoothing process over a rolling five-year period of investment data to remove year-to-year volatility in asset returns.

The Actuarial Valuation Report shows that market value has increased $522.8 million to a total of $2.18 billion as of January 1, 2004. The actuarial value of the assets (AVA) increased $293.5 million to a total of $2.29 billion as of January 1, 2004.

The ratio of a plan's AVA to the actuarial accrued liability (AAL), expressed as a percentage, is an indicator of the plan's funding status. Generally, the larger the percentage, the stronger the financial health of the plan. The System's AAL ratio is 79.1% as of January 1, 2004.

Another measure of funding status is funding period. This is the length of time in years needed to amortize the current unfunded actuarial accrued liability (UAAL) based on the current contribution rate. The number of years to fully fund the System is 38 years.

When a plan's total liabilities exceed the assets available to pay benefits on an actuarial basis, the plan is said to have an unfunded actuarial accrued liability (UAAL). During 2003, the System made up more than $142 million on its UAAL, with the UAAL decreasing to $603 million at January 1, 2004. The employer contribution rate needed to pay the normal cost and fund the UAAL over 40 years is 27.25%.

ECONOMIC AND MARKET REVIEW

The U.S. equity market wrapped up a recovery in 2003 with a double-digit gain during the fourth qua The U.S. economy expanded through the year and indicators pointed to healthy increases in corpor profits and worker productivity. Optimistic investors continued to snap up stocks in anticipation of be corporate earnings. Investor optimism was a global phenomenon, as the international equity marke also continued to climb during the year. U.S. based investors enjoyed strong currency returns as the dollar experienced depreciation versus the Euro and Pound. The European region, despite the surg Euro and Pound, enjoyed the benefits of recovering regional economies. Japan cooled off in the fou quarter after two quarters of strong performance. The fourth quarter saw investors continuing to rot out of bonds and into stocks. The U.S. fixed income market was slightly positive during the quarter. Mortgage sector again produced the best results within the investment-grade universe. The internal fixed income markets outperformed the U.S. market, as the U.S. dollar continued its depreciation ve other major currencies.

The public real estate market produced very strong performance during the year, as the Wilshire Re Estate Securities Index reported a return of 37.08%. The private real estate market, as represented the NCREIF Property Index, reported a return of 8.97% over the period.

CONTACTING THE SYSTEM'S FINANCIAL MANAGEMENT

This financial section is designed to provide our members and other users with a general overview (System's financial activities. If you have questions about this report or need additional financial information, contact the Administrator of the Dallas Police and Fire Pension System at 2301 North A Road, Suite 200, Dallas, TX 75201.

DALLAS POLICE AND FIRE PENSION SYSTEM

Statements of Plan Net Assets
December 31, 2003 and 2002

Assets	2003	2002
Investments, at fair value (notes 2, 3 and 5):		
Cash and short term investments	$ 247,048,369	218,780,878
United States government securities	41,166,198	30,467,196
Foreign government securities	105,416,195	92,869,805
Commingled index funds	439,886,379	309,213,075
Domestic equities	396,156,097	279,402,690
International equities	525,669,274	374,792,725
Corporate securities	274,835,237	243,075,129
Investments, at appraised value - real estate equity funds	323,708,945	273,849,660
Total investments	2,353,886,694	1,822,451,158
Receivables:		
Accrued interest and dividends	9,756,084	8,350,645
Employer contributions	3,132,354	2,990,086
Member contributions	647,403	632,344
Forward currency contracts	87,915,469	
Securities sold	25,474,316	20,353,573
Total recievables	126,925,626	32,326,648
Total assets	2,480,812,320	1,854,777,806
Liabilities and Net Assets		
Bank overdraft	1,350,480	7,081,036
Payable for securities purchased	25,016,458	21,265,716
Administrative and professional fees payable	2,447,146	2,693,144
Forward currency contracts	87,319,657	
Securities lending collateral (note 3)	181,619,710	163,493,378
Total liabilities	297,753,451	194,533,274
Net assets held in trust for pension benefits (a schedule of funding progress is included on page 17)	$ 2,183,058,869	1,660,244,532

See accompanying notes to basic financial statements.

Statements of Changes in Plan Net Assets
Years Ended December 31, 2003 and 2002

	2003	2002
Additions to plan net assets:		
Investment income:		
Interest	$ 27,948,620	23,218,835
Dividends	17,788,267	11,851,455
Real estate income	14,380,265	17,012,243
Net appreciation (depreciation) in fair value of investments	477,539,489	(271,218,565)
Securities lending income	2,186,241	2,658,357
Less investment expenses:		
Securities lending borrower rebates	(1,447,562)	(1,490,087)
Custody fees	(322,156)	(307,379)
Net investment income (loss)	538,073,164	(218,275,141)
Contributions:		
Employer	78,323,358	77,085,173
Employee	16,286,746	16,274,069
Total contributions	94,610,104	93,359,242
Other income	373,177	1,178,386
Total net additions to plan net assets	633,056,445	(123,737,513)
Deductions from plan net assets:		
Benefit payments	96,246,040	88,891,103
Withdrawal payments and refunds	583,704	851,928
Administrative expenses and professional fees	13,412,364	14,661,817
Total deductions from plan net assets	110,242,108	104,404,848
Net increase (decrease) in plan net assets	522,814,337	(228,142,361)
Plan net assets held in trust for pension benefits:		
Beginning of year	1,660,244,532	1,888,386,893
End of year	$ 2,183,058,869	1,660,244,532

See accompanying notes to basic financial statements.

Notes to Basic Financial Statements
December 31, 2003 and 2002

1. **Description of Plan and Summary of Significant Accounting Policies**

General

The Dallas Police and Fire Pension System (the System) is a single-employer pension and retirement fund for police officers and firefighters employed by the City of Dallas, Texas (the City or Employer). The general terms "police officers" and "firefighters" also include fire and rescue operators, fire alarm operators, fire inspectors, apprentice police officers, and apprentice firefighters. The System is comprised of a single defined benefit pension plan, called the "Combined Pension Plan," designed to provide retirement, death, and disability benefits for firefighters and police officers (members). The System was originally established under former Article 6243a of the Revised Civil Statutes of Texas, and since 1989, derives its authority to continue in operation under the provisions of Article 6243a-1 of the Revised Civil Statutes of Texas. All active police officers and firefighters (as defined above) employed by the City are required to participate. As of December 31, 2003 and 2002, the System's membership consisted of:

	2003	2002
Nonactive member:		
Pensioners and qualified survivors currently receiving benefits and terminated employees entitled to benefits but not yet receiving them:		
Firefighters	1,313	1,282
Police officers	1,634	1,588
Terminated vested members not yet receiving benefits	152	139
Total nonactive members	3,099	3,009
Current employees:		
Vested:		
Firefighters	1,382	1,379
Police officers	2,334	2,338
Total vested current employees	3,716	3,717
Nonvested:		
Firefighters	291	306
Police officers	599	642
Total nonvested current employees	890	948
Total current employees	4,606	4,665

Continued

Pension benefits

Group A members of the Combined Pension Plan may elect to receive one of two benefit structures:

- Members with 20 years or more of pension service are entitled to normal monthly pension benefits beginning at age 50 equal to 50% of the base pay as defined as the maximum monthly civil service pay established by the City for a police officer or firefighter at the time of retirement plus 50% of the Longevity Pay the member was receiving at the time he or she left active service with the City or the effective date the member joined the Deferred Retirement Option Plan (DROP). Benefit payments are adjusted according to changes in base pay. Additionally, a member is eligible to receive 50% of the difference between any annualized City Service Incentive Pay granted to the member less annual Longevity Pay. Members who meet the service prerequisites may elect to take early retirement at age 45 with reduced pension benefits.

- Members with 20 years or more of pension service are entitled to normal monthly pension benefits beginning at age 55 equal to 3% of the base pay computed as noted in the prior paragraph for each year with a maximum of 32 years. In addition, a member receives 50% of the Longevity Pay and 1/24 of any City Service Incentive Pay the member was receiving at the time he or she left active service with the City or the effective date the member joined DROP. Pension benefit payments are increased in the same manner as under Group B (described below). Members who meet the service prerequisite may elect to take early retirement at age 50 with reduced pension benefits.

Group B Benefit - Members with five or more years of pension service are entitled to monthly pension benefits beginning at age 50 equal to 3% of the member's average Computation Pay determined over the highest 36 consecutive months of Computation Pay, multiplied by the number of years of pension service, up to a maximum of 32 years. Computation Pay, for purposes of this calculation, includes Civil Service pay for the highest rank attained by competitive exam and any educational incentive, longevity or City Service Incentive Pay. Certain members who meet the service prerequisite may elect to take early retirement with reduced benefits starting at age 45. A Group B member who has accrued 20 or more years of Pension Service and who has been on Active Service at any time on or after January 1, 1999 may take a pension benefit regardless of age. The pension benefit calculation would be the same except the percent multiplier would be based on the Member's age at the time of applying for the pension. In addition, Group B benefits are increased by 4% of the initial benefit amount each October 1.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

Additional benefits available under the System:

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

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

- Members who are eligible to retire are allowed to enter the DROP program. DROP members have their contribution discontinued but the City's portion of the total contribution continues. The member's monthly benefit remains in the System in a DROP Account and accumulates interest. Upon retirement from the City, the Member is able to withdraw from their DROP Account along with the normal benefits. DROP members' balances are $291,375,346 and $234,605,728 for December 31, 2003 and 2002, respectively.

- A minimum benefit is paid to vested retired members of an amount not less than $2,200 per month subject to any restrictions contained in the plan document. The minimum benefit is prorated for members who retire with less than 20 years of service credit and $1,200 monthly for Qualified Surviving Spouse, if there are no Qualified Surviving Children receiving benefits. The minimum benefit is $1,100 monthly for Qualified Surviving Children and Qualified Surviving Spouse if qualified surviving children are receiving benefits.

Contributions

As a condition of participation, Group A members are required to contribute to the System 6.5% of their base pay, as defined in the System's Plan document. Group B members are required to contribute to the System 8.5% of their Computation pay, as defined in the System's Plan document. Article 6243a-1 of the Revised Civil Statutes of Texas requires the City to make contributions of 27.5% of total wages and salaries as defined in the System's Plan document, in accordance with schedules contained in the plan documents.

The contribution schedules contained in the plan documents can be changed by the Texas State Legislature or majority votes of the voters of the City.

Members of Group B are immediately vested in their contributions and, with five years of pension service may, at termination of employment, leave their contribution on deposit with the System and receive a monthly benefit at normal retirement age. If a member's employment is terminated and the member elects not to receive present or future pension benefits, the member's contributions to the System are returned, without interest, upon written application. If application for refund is not made within three years, the member forfeits the right to a refund of his or her contribution; however, a procedure does exist whereby the member's right to the contributions can be reinstated. Under current law Group A members must have 20 years of service to be eligible for a benefit. Group A member contributions are not refunded upon termination from employment.

Continued

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

Schedule of Contributions

Year ended December 31,	Annual required contribution	Percentage contributed
1997	$ 57,039	100 %
1998	60,843	100 %
1999	63,441	100 %
2000	66,691	100 %
2001	75,592	100 %
2002	77,085	100 %
2003	78,323	100 %

The percent contributed may vary from the legally required rate as the term "Annual Required Contribution" is based upon covered payroll as of the actuarial valuation date, January 1, whereas contributions are calculated and paid based upon actual payrolls throughout the year.

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

Termination

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

System administration

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

Basis of presentation

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

Continued

Recent accounting pronouncement

The GASB has issued Statement No. 40, *Deposit and Investment Risk Disclosures,* which amends GASB Statement No. 3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements.* GASB Statement No. 40 requires disclosure information related to common risks inherent in deposit and investment transactions. The statement is effective for financial statements for periods beginning after June 15, 2004 and accordingly, will be implemented by the System in fiscal year 2004.

Basis of accounting

The basis of accounting is the method by which revenues and expenses are recognized in the accounts and reported in the basic financial statements. The accrual basis of accounting is used by the System. Under the accrual basis of accounting, revenues, which include contributions and investment income, are recognized when they are earned and collection is reasonably assured, and expenses are recognized when the liability is incurred. Member and Employer contributions are recognized as revenue in the period in which the compensation is earned. In addition, the System records contributions according to System requirements and State statute. Benefits paid to members and contribution refunds are recognized when due and payable in accordance with the terms of the System. Accrued income, when deemed uncollectible, is charged to operations.

Accordingly, interest earned but not received and dividends declared but not received as of the System's fiscal year-end are recorded as accrued interest and dividends receivable, respectively. In addition, unsettled investment purchases and sales are accrued.

As part of an emphasis to conform financial statement disclosures for employee benefit plans, the GASB issued Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, which was implemented by the System in fiscal year 1997. This statement requires greater consistency among all governmental employee benefit plans for the measurement and display of information in the basic financial statements.

Reporting entity

The System is a component unit of the City and its basic financial statements and required supplemental information are included in the City's Comprehensive Annual Financial Report.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

The System considers only demand deposits as cash. Cash equivalent securities, which are composed of all highly liquid investments with a maturity of three months or less when purchased, are considered to be cash equivalents.

Continued

Investment valuation and income recognition

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

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Short-term investments are government and corporate bonds with a maturity of less than one year and are valued based on current market rates. The fair value of limited partnerships and real estate is based on independent appraisals and recent financial results. Investments that do not have an established market are reported at their estimated fair values.

Unrealized gains and losses are presented as net appreciation (depreciation) in fair value of investments on the statement of changes in plan net assets along with gains and losses realized on sales of investments. Purchases and sales of investments and forward foreign exchange contracts are recorded on the settlement date. Gains or losses on forward foreign exchange contracts are recognized when the contract is complete.

Dividend income is recorded on the ex-dividend date. Interest and income from other investments are recorded as earned.

Benefits

Benefits and refunds are recorded in these basic financial statements when they are due and payable to members.

Foreign currency transactions

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

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

Continued

Investments and broker accounts denominated in foreign currencies outstanding at December 31, 2003 and 2002 were converted to the System's functional currency (United States Dollars) at the foreign exchange rates quoted at December 31, 2003 and 2002. These foreign exchange gains and losses are included in net appreciation (depreciation) in fair value of investments in the accompanying statements of changes in net assets.

Administrative expenses

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

2. **Cash and Investments**

The following shows the schedule of investments in Category 1 for custodial credit risk, which are insured or registered or for which the investments are held by the System or its agent in the System's name.

Investments - Category I (Held by System's agent in System's name)	Fair Value at December 31, 2003	2002
Cash and short-term investments	$ 65,428,659	55,287,500
Commingled index funds	439,886,379	309,213,075
Domestic corporate fixed-income	197,079,881	200,727,979
International fixed income	101,451,869	85,523,062
U.S. government and agency securities - not on securities loan	38,346,548	20,475,908
Domestic equities:		
Not on securities loan	334,216,123	201,697,354
On securities loan for securities collateral	—	8,995,162
Total domestic equities	334,216,123	210,692,516
International equities	$ 489,488,686	345,169,933

Continued

Investments - not categorized

Investments held by broker-dealers under securities loans with cash collateral:		
U.S. government and agency securities	$ 2,819,650	9,991,287
Domestic corporate fixed-income	77,755,356	42,347,150
Domestic equities	61,939,974	68,710,174
International equities	36,180,588	29,622,793
International fixed income	3,964,326	7,346,743
Total investments held by broker-dealer under securities loans with cash collateral	182,659,894	158,018,147
Securities lending short-term collateral investment pool	181,619,710	163,493,378
Real estate	323,708,945	273,849,660
Total investments	$ 2,353,886,694	1,822,451,158

Continued

3. **Securities Lending**

The Board has authorized the System to enter into an agreement with State Street Bank and Trust Company (State Street) and effective September 1, 2002 with JP Morgan Chase (JP Morgan) for the lending of certain of the System'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 allowed by State statute.

During the 2003 and 2002 fiscal years, State Street and effective September 1, 2002, JP Morgan lent, on behalf of the System, securities held by State Street, and JP Morgan as the System's custodians, and received United States dollar cash and United States Government securities as collateral. State Street and JP Morgan did not have the ability to pledge or sell collateral securities absent a borrower default. Borrowers were required to put up collateral for each loan equal to: (i) in the case of loaned securities denominated in United States dollars or whose primary trading market was in the United States or sovereign debt issued by foreign governments, 102% of the fair market value of the loaned securities; and (ii) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not in the United States, 105% of the fair market value of the loaned securities.

The Board did not impose any restrictions during 2003 and 2002 years on the amount of the loans that State Street and JP Morgan made on its behalf. There were no failures by any borrowers to return the loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers, State Street or JP Morgan. State Street and JP Morgan maintain a Banker's Blanket Bond in the amount of $75 million and have insurance coverage in the amount of $50 million for any losses which could result from borrower's defaults.

During the 2003 and 2002 fiscal years, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral was invested, together with the collateral of other qualified tax-exempt plan lenders, in a collective investment pool maintained by State Street and effective September 1, 2002 by JP Morgan. The relationship between the average maturities of the investment pool and the Board's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine. On December 31, 2003 and 2002, the System had no credit risk exposure to borrowers. The market value of securities on loan and collateral held for the System were $182,659,894 and $188,596,427 at December 31, 2003, and $167,013,309 and $172,668,442 at December 31, 2002.

Disclosure of securities lending revenue is shown gross with the associated reductions for investment expenses on the face of the statements of changes in plan net assets, and the cash collateral and associated securities lending payable is shown on the face of the statements of plan net assets for December 31, 2003 and 2002

Continued

4. **Funding Progress**

The actuarial information presented was determined by the actuarial firm Mellon Consultants, Inc. (formerly known as Buck Consultants) for 2003 and 2002 and results from applying various assumptions with regard to termination, disability, retirement, mortality and the time value of money to the accumulated plan benefits.

The actuarial assumptions are based on the presumption that the System will continue. Were the System to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

Actuarial calculations were made by the consulting actuary Mellon Consultants, Inc. as of January 1, 2004 and 2003, and are not materially different from what they would have been had they been calculated on December 31, 2003 and 2002, respectively. The following assumptions are used by the System's actuaries to determine the System's obligations only, and are not used to calculate the actual System benefits. Plan benefits are fully described in the System's document. The significant assumptions underlying the actuarial calculations at January 1, 2004 and 2003 are as follows:

Actuarially assumed investment rate of return *	8.5% per annum, compounded annually
Mortality, retirement, disability and separation rates	Graduated rates detailed in actuary's report
Projected salary increases *	Range 4.3 to 10%
Actuarial cost method	Entry age normal cost method

* Includes inflation rate of 4%

Post retirement benefit increases:	
Group A (former Plan A) and Group B members	4% of original pension annually
Group A (former Old Plan) members	4% compounded annually
Asset valuation	5-year smoothing
Amortization method	Open level percent of payroll
Remaining amortization period	38 years 2004, 69 years 2003
DROP account returns	9% per annum
Post retirement mortality	1994 Group Annuity Mortality Table

Continued

GASB required supplementary information (unaudited) related to the System's funding progress is as follows (amounts are in the millions):

Schedule of Funding Progress

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)
1/1/1997	$ 1,137	$ 1,630	$ 493	69.7 %	$ 178	277.0 %
1/1/1998	1,307	1,782	475	73.3	193	246.1
1/1/1999	1,503	1,958	455	76.8	205	222.0
1/1/2000	1,772	2,094	322	84.6	213	151.2
1/1/2001	2,005	2,328	323	86.1	224	144.2
1/1/2002	2,158	2,554	396	84.5	251	157.8
1/1/2003	1,992	2,738	746	72.8	270	276.3
1/1/2004	2,286	2,889	603	79.1	265	227.5

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

Continued

5. **Investments**

The Board has contracted with investment managers to manage the investment portfolio of the System, subject to the policies and guidelines established by the Board. The Board has custody agreements with State Street Bank and Trust Company and, effective September 1, 2002, JP Morgan Chase and under such agreements State Street and, effective September 1, 2002, JP Morgan assumes responsibility for the safekeeping of certain investments, handling of transactions based on the instructions of investment managers, and accounting for the investment transactions.

Investments that individually represent 5% or more of the net assets available for benefits, unless otherwise noted with asterisk representing less than 5% but in category for comparison, and the total of investments that individually represent less than 5% of the net assets available for benefits at December 31, 2003 and 2002, are as follows:

	2003		2002	
	Number of shares/units	Fair value	Number of shares/units	Fair value
Investments greater than 5% of net assets, at quoted market value:				
Bank commingled trust funds:				
S&P 500 Index fund State Street Global Advisors	1,627,777	$ 324,311,752	1,467,733	$ 227,168,454
International equity - Clay Finlay Inc. EAFE	9,216,943	132,187,404	9,667,290	91,216,600
Securities lending:				
State Street Bank and Trust Global Securities Lending				163,493,378
JP Morgan		182,970,190		
International equity:				
Bank of Ireland	18,873,857	244,621,638	20,580,943	163,355,682
Fidelity Management Trust Co.	14,994,529	156,063,016	14,546,705	111,398,553
Domestic equities funds:				
Deutsche Asset Management MircoCap(*)	5,722,465	102,469,389	5,389,665	69,380,954
Oak Associates	4,800,000	125,313,814	6,740,000	95,306,025
Alliance Capital	3,689,010	123,831,932	3,102,987	93,141,013
Corporate securities funds:				
W.R. Huff Asset Management (*)	100,749,066	103,836,862	111,133,000	71,903,181
International Fixed Income - Loomis Sayles	187,057,459	186,062,467	226,669,366	115,457,366
Deutsche Asset Management			1,132,669,652	162,490,893
Total investments greater than 5% of net assets		1,681,668,464		1,364,312,099
Investments less than 5% of net assets:				
At quoted market value		348,509,285		184,289,399
At appraised value		323,708,945		273,849,660
Total investments		$ 2,353,886,694		$ 1,822,451,158

Continued

6. **Forward Contracts**

During fiscal years 2003 and 2002, the System entered into forward foreign exchange contracts. A currency forward is a contractual agreement between two parties to pay or receive specific amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. Forward commitments are not standardized and carry credit risk due to the possible nonperformance by one of the counterparties. The maximum potential loss is the aggregate face value in U.S. dollars at the time the contract was opened; however, the likelihood of such loss is remote. Forwards are usually traded over-the-counter. These transactions are entered into in order to hedge risks from exposure to foreign currency rate fluctuation and to facilitate trade settlement of foreign security transactions. Forwards carry market risk resulting from adverse fluctuations in foreign exchange rates. Recognition of realized gain or loss depends on whether the currency exchange rate has moved favorable or unfavorable to the contract holder upon termination of the contract. Prior to termination of the contract, the System records the unrealized currency translation gain or loss based on the applicable forward exchange rates.

During 2003 and 2002, the System recognized net realized gains (losses) on foreign currency forward contracts of $(1,476,077) and $(3,112,628), respectively. At December 31, 2003 and 2002, the System had net unrealized appreciation (depreciation) on forward contracts reflected in the accompanying basic financial statements of approximately $595,812 and $(580,222), respectively.

7. **Federal Income Tax Status**

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

8. **Administrative Expenses**

The System's plan document authorizes the Board to pay administrative costs from the System, provided that the System's actuary has determined that the System has sufficient income to pay such costs. Of the System's total administrative costs, $577,172 and $731,482 were reimbursed to the City by the System during the years ended December 31, 2003 and 2002, respectively.

Investment related expenses for the years ended December 31, 2003 and 2002, also include approximately $9,853,845 and $10,438,407, respectively, in asset management fees.

Continued

9. Commitments and Contingencies

As described in note 1, certain members of the System are entitled to refunds of their accumulated contributions on termination of employment with the City, prior to being eligible for pension benefits. As of December 31, 2003, aggregate contributions from active members of the System with less than five years of service were approximately $6,725,730.

The System had outstanding investment commitments to various limited partnerships and international investment advisors of approximately $24 million at December 31, 2003.

10. Risk and Uncertainties

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

The System contribution rates and the actuarial information included in the schedule of contributions, page 10, and schedule of funding progress, page 17, are based on certain assumptions pertaining to interest rates, inflation rates and participant demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term could be material to the basic financial statements.

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

The System has intervened in the above lawsuits to protect the System's right to members and City contributions which the System believes will be due if the police officers' and firefighters' claims are successful. The ultimate outcome of these lawsuits cannot be determined at this time and, accordingly, no amounts related to these claims have been accrued in the City's or Plan's basic financial statements as of December 31, 2003.

Investment Section

Strategic Investment Policy

The strategic investment policy of the Dallas Police and Fire Pension System ("the System") provides the framework for management of the System's assets. It has been designed to allow sufficient flexibility in the management process to capture investment opportunities as they may occur, yet provide reasonable parameters to ensure prudence and care in the execution of the investment program.

It is essential that the value added by the System's investment management be appropriate not only to meet inflationary effects, but also to provide additional returns above inflation to meet the investment goals of the System. Meeting the System's investment goals finances an optimal package of retirement benefits for Dallas police officers and firefighters and maximizes the utilization of the members' contributions and the tax dollars of the citizens of Dallas.

Statement Of Investment Goals

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

1. The overall goal of the System is to provide benefits, as anticipated under the pension plan, to its participants and their beneficiaries through a carefully planned and executed investment program.

2. The System seeks to produce the highest return on investment that is consistent with levels of liquidity and investment risk that are prudent and reasonable, given prevailing 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.

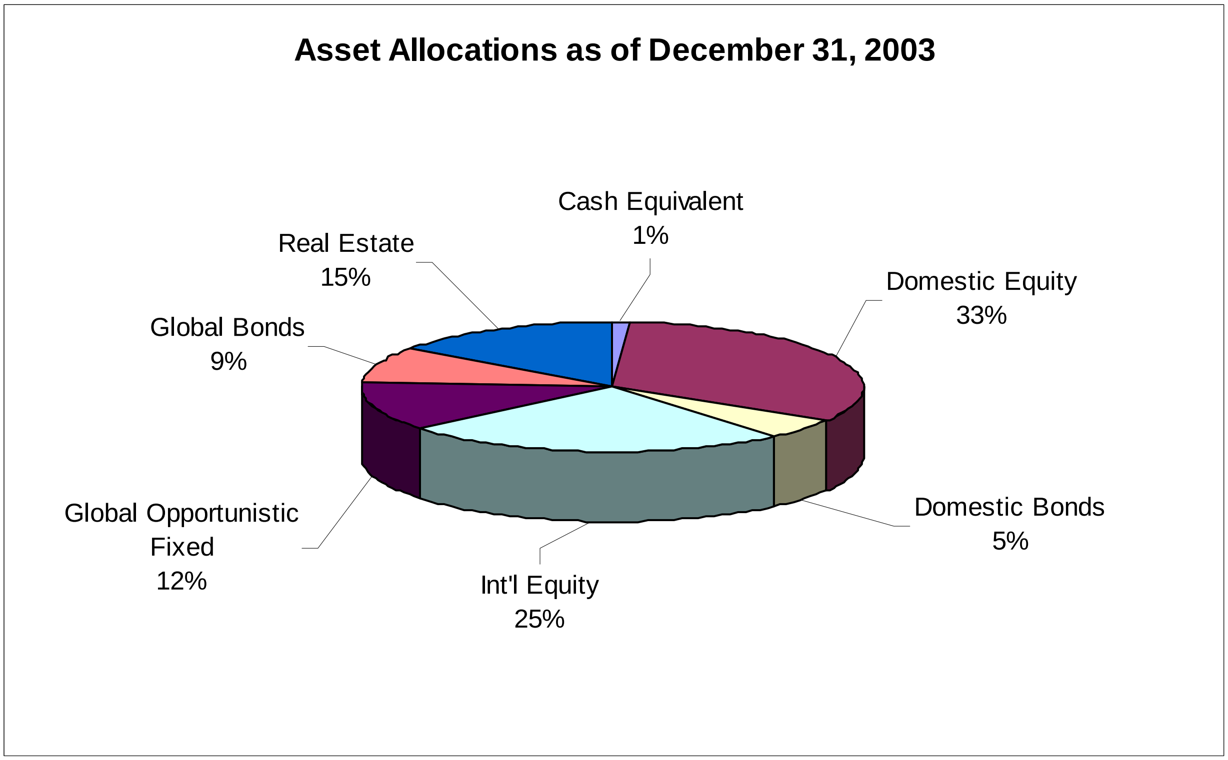
3. The pension investment program shall at all times comply with existing and future applicable state and federal regulations.

Strategic Asset Allocation Policy

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

The Board has adopted an asset allocation policy with three primary asset groups, Equity (Domestic and International), Fixed Income (Global High Quality, High Yield and Global Opportunistic) and Real Estate, as well as cash and cash equivalents. The allocation as of December 31, 2003 is shown on the next page.

An asset allocation review is conducted at least quarterly. This comparison is developed from the month end asset valuation obtained from the System's custodian. If this comparison reveals that an account is at the upper or lower boundary of the designated range, as specified in the Investment Implementation Policy, the Board may direct the Administrator to effect a reallocation of assets by monthend and return to the target percentage.



Pension system assets were diversified into the categories shown as of December 31, 2003.

General Investment Manager Guidelines

Investment management for the System is provided by external investment managers. Each investment manager operates under a set of guidelines specific to the strategic role its portfolio is to fulfill in the overall investment structure. Individual managers are evaluated according to benchmarks that reflect the objectives and characteristics of the strategic role their managed portfolio is to fulfill.

Investment Highlights

The market value of the System assets increased from approximately $1.7 billion as of December 31, 2002 to approximately $2.2 billion as of December 31, 2003. The System's investment return for 2003 of 31.41% exceeded the actuarial interest rate of 8.50% that the System expects to earn over an extended period into the future. For a more detailed comparison, see "Rates of Return by Asset Class" below.

Rates of Return by Asset Class

Investment Category	Rate of Return	Benchmark Comparison	
Domestic Equities	36.76%	28.69%	S&P 500 Index
International Equities	35.46%	38.58%	EAFE Index
Domestic Fixed Income	34.46%	32.27%	Citigroup Comp. High Yield
Global Fixed Income	13.26%	12.50%	Lehman Global Aggregate
Global Opportunistic Fixed	48.74%	28.89%	Custom Bond Index
Real Estate	11.74%	8.97%	NCREIF Property Index
Cash & Equivalents	1.46%	1.15%	91-Day Treasury Bill
		1.90%	Consumer Price Index (CPI-U)
Total Portfolio	31.41%	8.50%	Actuarial Assumption

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

The System's use of multiple investment strategies, asset diversification, and asset rebalancing, has served the pension well over many market cycles. The System continues to rank among the best performing pension plans in the nation. The 31.41% return for the year 2003 ranks the System in the top one percent of funds tracked by Callan Associates Inc.'s (CAI) Corporate Plan Sponsor Database. The System's five year annualized performance of 6.18% ranks above the top fifth percentile in the same Callan survey. Perhaps the most impressive performance number is the System's 10.33% annualized return over the last twenty years, which ranks the System in the top 10 percent of all funds in the Callan survey. Historical return on System investments is shown in the "Annualized Cumulative Investment Return" graph in this section.

Equity Portfolio

For the fourth year in a row, large capitalization value stocks outperformed large capitalization growth stocks. The Wilshire Large Value Index returned 32.26% versus the Wilshire Large Growth Index that returned 25.76%. Small capitalization stocks outperformed the large capitalization indexes as evidenced by the Wilshire Small Cap 1750 Index return of 47.97%. International stocks tracked by Morgan Stanley Capital International (MSCI) All Country World Index excluding the United States (ACWI ex U. S.) returned 41.40% outperforming the 28.69% showing of domestic stocks as represented by S&P500 Index.

The System's domestic equity portfolio, representing approximately 33.8% of the entire investment portfolio, returned 36.76% for the year. Oak Associates, the System's growth manager, was the best performing domestic equity investment advisor returning 65.40% for the year 2003. Oak Associates has an annualized return of 15.67% since September of 1990. The System's micro capitalization manager, Deutsche Asset Management, returned 44.71% for the year. AllianceBernstein, a large capitalization value manager, delivered a 32.21% return during the year.

Fixed Income Portfolio

Domestic high yield bonds as evidenced by the Citigroup Composite High Yield Index returned 32.27% outperforming domestic high grade bonds in the Lehman Aggregate Index that returned 4.11%. U.S. inflation protected bonds returned 8.40% as benchmarked by Lehman U.S. Treasury Inflation Protected Securities (TIPS) Index.

Fixed income holdings account for approximately 26.4% of the total investment portfolio for the System. The System's fixed income categories are divided into three categories; Domestic High Yield, Global Quality, and Global Opportunistic.

The Domestic High Yield portfolio represents approximately 4.90 % of the total fund and is managed by W.R. Huff Asset Management. W.R. Huff returned 34.46% in the high yield category for in 2003 and has outstanding long tern performance returning an impressive 13.46% annualized since December of 1990 for the System.

The System added two new London based investment advisors, Delaware International and Pareto Partners, to manage the Global Quality fixed income portfolio. The Global Quality portfolio represents approximately 9.30% of the total fund and the category returned 13.26% for the year.

The Global Opportunistic portfolio returned 48.74% for the year and is approximately 12.20% of the System's total assets in size. Oaktree Capital Management's OCM Fund IV, a distressed debt fund, returned 69.21 % for the year. Loomis Sayles & Company, returned 46.61% as a global high yield investment manager. Loomis Sayles has returned 12.12% annualized as an investment manager with the System beginning in September 1998. Highland Capital Management, a distressed debt manager, was added as a new advisor in the Global Opportunistic portfolio in August of 2003. Although the new investment advisor has not completed a full year of performance, Highland Capital returned 21.66% since inception.

Real Estate Portfolio

The System's real estate portfolio comprised approximately 14.70% of the fund and returned 11.74% for the year 2003. The Townsend Group, the System's real estate investment consultant, calculated net after fee returns of 9.29% annualized and 10.56% annualized for the last five years and last ten years, respectively for the real estate portfolio.

Private real estate, representing approximately 63.0% of the real estate portfolio returned net after fees of 7.98%, 9.93%, and 10.90% for the one-year, five year, and ten year annualized periods respectively. INVESCO, a Dallas based real estate investment manager, had the outstanding return in this category for the System returning 13.55% after fees for the year 2003.

Public REITs (Real Estate Investment Trusts) represent approximately 11.1% of the System's real estate portfolio and returned 38.28% after fees for the year 2003. The REIT category, managed by RREEF, has had outstanding performances of 19.12% and 17.50% after fees on an annualized basis for the last three and five years respectively.

Timber comprises approximately 13.1% of the real estate portfolio and is managed by Forest Investment Associates. Although last year's results returned 2.54% after fees, the timber investments have produced a net after fee return of 9.32% annualized since the March 1992 inception date for the System. Farmland investments, managed by the Hancock Agricultural Investment Group, represent approximately 12.8% of the System's real estate portfolio and returned 20.53% after fees for the year.

Inflation

Inflation as measured by the Consumer Price Index for all Urban Consumers (CPI-U), reported by the U.S. Department of Labor, decreased from 2.4% for the year 2002 to 1.9% for the year 2003.

Actuarial Section

DALLAS POLICE AND FIRE PENSION SYSTEM

ACTUARIAL VALUATION

AS OF JANUARY 1, 2004

January 27, 2005

Mr. Richard L. Tettamant
Administrator
Dallas Police and Fire Pension System
2301 N. Akard Street, Suite 200
Dallas, TX 75201

Re: Dallas Police and Fire Pension System Actuarial Valuation as of January 1, 2004

Dear Mr. Tettamant:

We certify that the information contained in this report is accurate and fairly presents the actuarial position of the Dallas Police and Fire Pension System (the System) as of January 1, 2004.

Actuarial Valuation

The primary purpose of the valuation report is to determine the adequacy of the current City's contribution rate, to describe the current financial condition of the System, and to analyze changes in the System's condition. In addition, the report provides information required by the City of Dallas in connection with Governmental Accounting Standards Board Statements Number 25 and Number 27.

Basis for Funding

The member and City contribution rates are established by statute. The City's and the members' contributions are intended to be sufficient to pay the normal cost and to amortize the System's unfunded actuarial accrued liability.

Funding Progress

As of January 1, 2004, the employer contribution rate needed in order to pay the normal cost and fund the Unfunded Actuarial Accrued Liability over 40 years is 27.25%. This amount is less than the 29.33% employer contribution calculated as of January 1, 2003. The current contribution rate covers the normal cost and the amortization of the Unfunded Actuarial Accrued Liability (UAAL) over 38 years.

Benefit Provisions

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

Assumptions and Methods

The actuarial assumptions and methods used in the valuation are presented in Schedule C. The valuation is based on the same actuarial assumptions as the previous valuation. The assumptions used are individually reasonable and reasonable in the aggregate.

Data

Asset information and member data for retired, active, and inactive members was supplied as of January 1, 2004 by the Administrator. We have not subjected this data to any auditing procedures, but have examined the data for reasonableness and consistency with the prior year's data.

Very truly yours,

Signed (RICHARD A. MACKESEY)

Richard A. Mackesey, F.S.A.
Principal and Consulting Actuary

RAM:km
\DPF\VAL\2004PLAN.DOC

Enclosures

Table of Contents

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2004

Summary of Principal Results

	January 1, 2004	January 1, 2003
Membership		
Active	4,606	4,665
Terminated with deferred benefits	152	139
Retired members and beneficiaries	2,947	2,870
Compensation		
Total	$ 265,226,676	$ 270,199,284
Average	$ 57,583	$ 57,921
Assets		
Market value	$ 2,183,058,868	$ 1,660,210,281
Actuarial value	$ 2,285,744,890	$ 1,992,252,337
Valuation Results		
Unfunded actuarial accrued liability	$ 603,180,958	$ 745,776,422
Funding period	38	69
40-year funding cost (City)	27.25%	29.33%
Margin	0.25%	-1.83%
GASB No. 25		
Actuarial accrued liability (AAL)	$ 2,888,925,848	$ 2,738,028,759
Assets (actuarial)	$ 2,285,744,890	$ 1,992,252,337
GASB ratio	79.1%	72.8%
Unfunded AAL	$ 603,180,958	$ 745,776,422

Comments on the Valuation

Overview

The current contribution rates are sufficient to keep the System actuarially sound, based on the current membership data, the current financial data, the current benefit provisions and the actuarial assumptions and methods used to determine liabilities and costs.

The overall funding of the Plan remains sound. The funding period decreased to 38 years from 69 years. This decrease was primarily due to a significant gain on the actuarial value of assets. Due to the asset valuation method, losses on the actuarial value of assets may occur over the next few years unless the performance on the assets continues to improve.

Section 3 shows in more detail the changes to the 40-year funding cost and the funding period based on the current contribution rates.

Funding status

There are two significant measures of the funding status of the System. The first is the 40-year funding cost. This is the City contribution rate required to pay the normal cost and to amortize the UAAL over a 40-year period. This rate is currently 27.25% compared with the City's actual contribution rate of 27.50% and with the 40-year funding cost in 2003 of 29.33%. Section 3 shows a reconciliation of the changes between the 2003 and 2004 figures.

The other measure is the funding period. This is the length of time in years that will be required to amortize the current UAAL based on the current contribution rate. The current contribution rate is sufficient to pay the normal cost and amortize the UAAL over 38 years.

The UAAL is the excess of the liability assigned to prior years (the actuarial accrued liability) over the value of assets. Section 3 shows a reconciliation of this amount between 2003 and 2004.

GASB Statements

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

Benefit Provisions

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

Actuarial Assumptions and Methods

The actuarial assumptions and methods used in the valuation are presented in Schedule C. The valuation is based on the same actuarial assumptions as the previous valuation. The assumptions used are individually reasonable and reasonable in the aggregate.

Schedule D compares the assumptions to the recent experience of the system and describes the adequacy of the assumptions.

GASB Statement No. 27

Under GASB Statement No. 27, which is effective for fiscal years beginning after June 15, 1997, employers must determine a pension expense based on a 40-year amortization of the UAAL. The amortization can assume payroll growth due to inflation, but no membership growth. After a 10-year transition period, the required amortization period will drop to 30 years. If the actual contribution rate is less than the rate required by GASB No. 27, the excess must be expensed. This will result in the employer showing an accrued but unpaid liability for pension benefits on its financial statements.

A City Contribution rate of 27.25% will be required for the City to avoid showing an accrued pension liability on its financial statements for the fiscal year beginning in 2004 if not for the fact that previous contributions have exceeded the GASB requirements. At the current rate of contribution, and assuming no other changes, the City will not be required to show an accrued but unpaid pension liability for the System on its financial statement in the future.

Financial Data

The financial data used in this report was supplied by the System.

Section 5 reconciles the System's assets between 2003 and 2004 and shows the development of the actuarial value of assets (AVA). Rather than using the market value for cost calculations, an adjusted market value, which phases in gains and losses (compared to the assumed investment return rate) over five years, is used. This method is designed to reduce the volatility of the results. The estimated rates of return for 2003 are 31.65% and 14.85% for the market value of assets and the actuarial value of assets, respectively.

Membership Statistics

Data on active members and on retired members was supplied by the Administrator. Growth among active members was relatively flat and the total payroll for active members decreased during the last year. The active membership decreased from 4,665 members as of January 1, 2003 to 4,606 members as of January 1, 2004. The total active payroll decreased from $270,199,284 to $265,226,676 over the same period, a 1.8% decrease. Schedule A shows a summary of the membership data.

Experience

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

Actuarial Cost, Margin and Funding Period

	January 1, 2004	January 1, 2003
1. Covered Payroll		
a. Active members excluding DROP	$ 193,154,969	$ 201,770,834
b. DROP members	$ 72,071,707	$ 68,428,450
c. Total	$ 265,226,676	$ 270,199,284
2. Actuarial value of future pay		
a. Active members excluding DROP	$ 1,366,799,000	$ 1,438,433,000
b. DROP members	$ 931,192,700	$ 939,715,800
c. Total	$ 2,297,991,700	$ 2,378,148,800
3. Current contribution rates		
a. City	27.50%	27.50%
b. Member	8.50%	8.50%
c. Total	36.00%	36.00%
4. Actuarial present value of future benefits	$ 3,430,493,676	$ 3,295,344,564
5. Actuarial present value of future normal costs		
a. Total	$ 541,567,828	$ 557,315,805
b. Member (3b x 2a)	$ 116,177,915	$ 122,266,805
c. City (5a - 5b)	$ 425,389,913	$ 435,049,000
6. Actuarial accrued liability (4 - 5a)	$ 2,888,925,848	$ 2,738,028,759
7. Actuarial value of assets	$ 2,285,744,890	$ 1,992,252,337
8. Unfunded actuarial accrued liability (UAAL) (6 - 7)	$ 603,180,958	$ 745,776,422
9. Normal cost		
a. Normal cost percentage (5a ÷ 2c)	23.57%	23.43%
b. Total normal cost (1c x 9a)	$ 62,513,928	$ 63,307,692
c. Member normal cost (1a x 3b)	$ 16,418,172	$ 17,150,521
d. City normal cost (9b - 9c)	$ 46,095,756	$ 46,157,171
e. City normal rate (9d ÷ [1c x 1.07])	16.24%	15.97%

Actuarial Cost, Margin and Funding Period
(continued)

	January 1, 2004	January 1, 2003
10. 40-year funding cost*		
a. City normal cost rate	16.24%	15.97%
b. Amortization rate	11.01%	13.36%
c. Total	27.25%	29.33%
11. Margin over/(under) 40-year cost* (3a - 10c)	0.25%	-1.83%
12. Funding period to amortize UAAL	38	69

* 40-year funding cost is necessary for accounting purposes only. The actual funding period is calculated each year based on level contributions and is currently 38 years.

Analysis of Change in UAAL

1. UAAL as of January 1, 2003	$ 745,776,422
2. Changes due to:	
a. Expected increase (negative amortization)	$ 27,900,448
b. Actual contributions less than expected	2,133,535
c. Liability experience	(46,164,368)
d. Asset experience	(126,465,079)
e. Assumption change	0
f. Plan amendments	0
g. Total changes	$ (142,595,464)
3. UAAL as of January 1, 2004	$ 603,180,958

Analysis of Change in Funding Cost

1. 40-year funding cost* as of January 1, 2003	29.33%
2. Changes due to:	
a. Actual contributions less than expected	0.03
b. Liability experience	0.23
c. Asset experience	(2.34)
d. Assumption change	0.00
e. Plan amendments	0.00
f. Total	(2.08)
3. 40-year funding cost* as of January 1, 2004	27.25%

* 40-year funding cost is necessary for accounting purposes only. The actual funding period is calculated each year based on level contributions and is currently 38 years.

Analysis of Change in Funding Period

1. Funding period as of January 1, 2003	69
2. Changes due to:	
a. Passage of time	(1)
b. Actual contributions less than expected	1
c. Liability experience	11
d. Assumption change	0
e. Plan amendments	0
f. Asset experience	(42)
g. Total	(31)
3. Funding period as of January 1, 2004	38

Historical Trend Information

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

	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 1999	1,503	1,958	455	76.8%	205	222.0%
January 1, 2000	1,772	2,094	322	84.6%	213	151.2%
January 1, 2001	2,005	2,328	323	86.1%	224	144.2%
January 1, 2002	2,158	2,554	396	84.5%	251	157.8%
January 1, 2003	1,992	2,738	746	72.8%	270	276.3%
January 1, 2004	2,286	2,889	603	79.1%	265	227.5%

GASB #25 Schedule of Employer Contributions for Year Ending December 31, 2003

Annual Required Contribution	Percentage Contributed
27.50% of Pay	100.0%

Summary of Accumulated Benefits
(FASB #35)

Accumulated Benefits at January 1,2004

Vested benefits of participants and beneficiaries currently receiving payments	$1,232,920,098
Other vested benefits	1,396,819,156
Nonvested benefits	143,899,253
Total benefits	$2,773,638,507

FASB #35 Reconciliation

Accumulated benefits at January 1, 2003		$2,570,742,493
Benefits accumulated and actuarial gains/losses	$ 85,243,991	
Interest	214,481,767	
Benefits paid	(96,829,744)	
Total Change		202,896,014
Accumulated benefits at January 1,2004		$2,773,638,507

Reconciliation of Fund Assets

	Year Ending December 31, 2003
1. Value of fund at beginning of year*	$ 1,660,244,532
2. Contributions	
a. City	78,323,358
b. Member	16,286,746
c. Total	$ 94,610,104
3. Benefit payments	(96,246,040)
4. Refunds	(583,704)
5. Earnings	538,768,498
6. Expenses	(13,734,522)
7. Value of assets at end of year	$ 2,183,058,868
8. Estimated rate of return	31.65%

* The actual market value of assets as of December 31, 2002 are $34,251 higher than those reported to us at the time last year's valuation was completed.

Determination of Excess Earnings To Be Deferred

		Year Ending December 31, 2003
1. Market value at beginning of year*	$	1,660,244,532
2. Net new investments		
a. Contributions	$	94,610,104
b. Benefit payments		(96,246,040)
c. Refunds		(583,704)
d. Total	$	(2,219,640)
3. Market value at end of year	$	2,183,058,868
4. Yield (3 - 1 - 2d)	$	525,033,976
5. Average balance [1 + 1/2(2d)]		1,659,134,712
6. Assumed investment return rate		8.50%
7. Expected net return (5 x 6)	$	141,026,451
8. Gains/(losses) subject to deferral (4 - 7)	$	384,007,525

* The actual market value of assets as of December 31, 2002 are $34,251 higher than those reported to us at the time last year's valuation was completed.

Calculation of Actuarial Value of Assets

1. Market value of assets as of January 1, 2004 — $2,183,058,868

2. Deferral amounts

	Year	Total Gain/(Loss)	Percent Deferred	Deferral Amount
a.	2003	$ 384,007,525	80%	$ 307,206,020
b.	2002	(392,459,397)	60%	(235,475,638)
c.	2001	(332,351,653)	40%	(132,940,661)
d.	2000	(207,378,713)	20%	(41,475,743)
e.	Total			$ (102,686,022)

3. Preliminary actuarial value of assets (1 - 2e) — 2,285,744,890

4. 80% of Market value — 1,746,447,094

5. 120% of Market value — 2,619,670,642

6. Actuarial value of assets (3, not less than 4 or more than 5) — 2,285,744,890

7. Rate of return on actuarial value of assets — 14.85%

Membership Data

	January 1, 2004	January 1, 2003
1. Active members (excluding DROP)		
a. Police and Fire		
1. Number	3,612	3,714
2. Covered payroll	$ 193,154,969	$ 201,770,834
3. Average annual pay	$ 53,476	$ 54,327
4. Average age	38.18	37.90
5. Average service (years)	12.11	11.86
b. Police		
1. Number	2,410	2,472
2. Covered payroll	$ 128,741,808	$ 133,115,880
3. Average annual pay	$ 53,420	$ 53,849
4. Average age	37.91	37.50
5. Average service (years)	11.78	11.39
c. Fire		
1. Number	1,202	1,242
2. Covered payroll	$ 64,413,161	$ 68,654,954
3. Average annual pay	$ 53,588	$ 55,278
4. Average age	38.72	38.70
5. Average service (years)	12.76	12.81

Membership Data
(continued)

	January 1, 2004	January 1, 2003
2. Active members (DROP only)		
a. Police and Fire		
1. Number	994	951
2. Covered payroll	$ 72,071,707	$ 68,428,450
3. Average annual pay	$ 72,507	$ 71,954
4. Average age	53.91	53.75
5. Average service (years)	28.05	27.85
6. DROP account balance	$ 175,552,289	$ 150,992,598
b. Police		
1. Number	523	508
2. Covered payroll	$ 37,992,443	$ 36,605,926
3. Average annual pay	$ 72,643	$ 72,059
4. Average age	53.92	53.73
5. Average service (years)	27.61	27.34
6. DROP account balance	$ 88,322,408	$ 75,962,979
c. Fire		
1. Number	471	443
2. Covered payroll	$ 34,079,264	$ 31,822,524
3. Average annual pay	$ 72,355	$ 71,834
4. Average age	53.90	53.78
5. Average service (years)	28.54	28.44
6. DROP account balance	$ 87,229,881	$ 75,029,619

Membership Data
(continued)

	January 1, 2004	January 1, 2003
3. Active members (including DROP)		
a. Police and Fire		
1. Number	4,606	4,665
2. Covered payroll	$ 265,226,676	$ 270,199,284
3. Average annual pay	$ 57,583	$ 57,921
4. Average age	41.57	41.13
5. Average service (years)	15.55	15.12
6. DROP account balance	$ 175,552,289	$ 150,992,598
b. Police		
1. Number	2,933	2,980
2. Covered payroll	$ 166,734,251	$ 169,721,806
3. Average annual pay	$ 56,848	$ 56,954
4. Average age	40.76	40.27
5. Average service (years)	14.60	14.11
6. DROP account balance	$ 88,322,408	$ 75,962,979
c. Fire		
1. Number	1,673	1,685
2. Covered payroll	$ 98,492,425	$ 100,477,478
3. Average annual pay	$ 58,872	$ 59,631
4. Average age	42.99	42.66
5. Average service (years)	17.20	16.92
6. DROP account balance	$ 87,229,881	$ 75,029,619

Membership Data
(continued)

	January 1, 2004	January 1, 2003
4. Inactive members		
a. Retired members	2,236	2,176
b. Beneficiaries	711	694
c. Number entitled to deferred benefits	152	139
d. Total number of inactive members	3,099	3,009
e. Total annual benefit	$ 95,376,901	$ 89,037,805
f. Average annual benefit	$ 30,777	$ 29,590

Summary of Benefit Provisions
As of January 1, 2004
For Actuarial Calculations

Group A

Definitions

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

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

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

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

Pension System: The Dallas Police and Fire Pension System

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

Qualified Surviving Children: All surviving unmarried children under 19 years of age (23 for a disabled child) provided they were born or adopted before Member terminated his employment.

Contribution Rates

The Member contribution rate is 6.5%. Members contribute for a maximum of 32 years.

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

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

Service Retirement Benefits

Annual Normal Retirement Pension

Greater of I or II:

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

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

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

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

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

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

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

Disability Retirement Benefits

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

Annual Amount of Pension

Greater of I or II:

I. Same as Normal Retirement Pension (I).

II. Depending on Source of Disability

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

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

Survivor Benefits

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

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

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

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

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

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

Minimum Benefits

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

Benefit Supplement

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

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

Group B

Definitions

Computation Pay: The annualized monthly rate of pay for the highest civil service rank held by a Member plus Educational Incentive Pay plus Longevity Pay plus City Service Incentive Pay.

Average Computation Pay: Computation Pay averaged over 36 months.

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

Longevity Pay: Additional annualized salary granted to Members under a provision of Section 141.032, Local Government Code, for each year of service completed by such Member.

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

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

Pension System: The Dallas Police and Fire Pension System.

Qualified Surviving Children: All surviving unmarried children under 19 years of age (23 for a disabled child) provided they were born or adopted before the Member terminated his employment.

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

Contribution Rates

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

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

The Member contribution rate is currently 8.50%. Members contribute for a maximum of 32 years.

Service Retirement Benefits

Annual Normal Retirement Pension

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

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

Early Retirement Pension

Condition for Retirement:

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

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

b. 20 years of Pension Service

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

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

Special Rule for Members of former Old Plan or Plan A

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

Disability Retirement Benefits

Service-Related Disability

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

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

Non-Service Related Disability

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

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

Survivor Benefits

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

Survivor benefits for Qualified Surviving Spouse: Death in Active Service: 50% of Service Retirement Pension calculated with a minimum of 20 years of Pension Service. The benefit will be paid as a lump sum equal to the value of the lesser of a 10-year benefit or the remainder of the 10-year period if Qualifying Surviving Children receive benefit.

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

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

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

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

Post-Retirement Cost of Living Adjustments

Annually, on the first day of October, benefits in pay status will be increased by an amount equal to 4% of the original pension amount.

Minimum Benefits

The minimum benefit for normal retirement is $2,200 monthly (prorated if less than 20 years at retirement) and $1,200 monthly for Qualified Surviving Spouses, if there are no Qualified Surviving Children receiving benefits. The minimum benefit is $1,100 monthly for Qualified Surviving Children and Qualified Surviving Spouses if Qualified Surviving Children are

receiving benefits. This benefit does not affect the base benefit. The benefit will not increase until the base retirement benefit with annual increases exceeds the minimum.

Benefit Supplement

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

Deferred Retirement Option Plan

As of January 1, 1993, at normal retirement age, a member may elect to enter the Deferred Retirement Option Plan (DROP). As of January 1, 1999, a member may also elect to enter DROP after 20 years of Pension Service. Retirement benefits will be calculated as if the Member retired on that date. Employee contributions made under the Combined Pension Plan will cease as will accruals under the Combined Pension Plan. Each month, the retirement benefit will be accumulated in an account earning interest based on a ten-year weighted average of the System's actual market return. Upon termination of employment, the Member will have the balance in account in addition to the monthly benefit payable as though the Member retired at the date the Member entered DROP.

Statement of Actuarial Methods and Assumptions
(Effective as of January 1, 2004)

Investment Return: 8.50% per annum, compounded annually, net all expenses including administrative expenses. This rate reflects an underlying inflation rate of 4.00% and a real rate of return of 4.50%.

DROP balances are assumed to earn 9.00% per annum.

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

Annual Rate per 1,000 Members

	Withdrawal		Mortality - Disableds		Mortality - Other		Disability	
Age	Police	Fire	Male	Female	Male	Female	Police	Fire
20	43.0	21.0	48.30	26.30	.51	.28	.35	.70
25	43.0	21.0	48.30	26.30	.66	.29	.37	.75
30	32.0	16.0	36.20	23.70	.80	.35	.42	.84
35	23.0	16.0	27.80	21.40	.85	.48	.48	.96
40	23.0	16.0	28.20	20.90	1.07	.71	.57	1.15
45	23.0	16.0	32.20	22.40	1.58	.97	.79	1.58
50	NA	NA	38.30	25.70	2.58	1.43	NA	NA
60	NA	NA	60.30	33.10	7.98	4.44	NA	NA
70	NA	NA	73.90	41.10	23.73	13.73	NA	NA
75	NA	NA	84.20	49.20	37.21	22.69	NA	NA

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

Age	Annual Rate of Salary Increase
20	10.00%
30	5.23
40	4.57
50	4.37
60	4.33

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

Overtime is assumed to be 7% of base pay. The city contributes on total pay including overtime. This assumption is consistent with past experience and the city's budget.

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

Age	Rate	Age	Rate	Age	Rate
38	5%	48	5%	58	10%
39	5	49	5	59	15
40	5	50	10	60	20
41	5	51	7.5	61	25
42	5	52	7.5	62	60
43	5	53	7.5	63	70
44	5	54	7.5	64	80
45	5	55	10	65	100
46	5	56	10		
47	5	57	10		

Rates are only applied when member is eligible to retire. That is, age 50 with five years or 20 years for Plan B, age 55 with 20 years for Plan A, and age 50 with 20 years for Old Plan.

Postretirement Mortality: According to the 1994 Group Annuity Mortality Table for males and females.

DROP Election Members are assumed to elect DROP at age 50 with five years for Plan B, age 55 with 20 years for Plan A, and age 50 with 20 years for Old Plan.

Spouses 80% of active members are assumed to be married with the male three years older than the female. The age of the youngest child is assumed to be one year.

Assumption as to Choice of Plan Provisions Those Members eligible to elect between Plan B and the Old Plan are assumed to elect in a manner which maximizes the benefit they receive.

Assumed Post Retirement Cost of Living

Plan A and Plan B:	4% of original pension annually
Old Plan:	4% compounded annually

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

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

The Normal Cost and Accrued Actuarial Liability are derived by making certain assumptions as to the rates of interest, mortality, turnover, etc., which are assumed to reflect experience for

many years into the future. Since actual experience will differ from the assumptions, the costs determined must be regarded as estimates of the true costs of the Plan. The effects of any actuarial gains or losses are immediately reflected in the Unfunded Actuarial Accrued Liability and the Normal Cost.

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

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

where:

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

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

This method was phased in beginning January 1, 1995. Asset gains or losses prior to January 1, 1994, are fully reflected in the calculation of the Actuarial Value of Assets. In no event is the actuarial value of assets less than 80% nor more than 120% of the market value of assets.

Comparison of Actual Experience and Actuarial Expectations

Demographic Assumptions

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

Terminations Prior to Retirement

This assumption was last changed as of January 1, 1999 to better reflect the actual experience of the System and to better anticipate future expectations. The ratio of actual terminations prior to retirement to the expected terminations prior to retirement for the period January 1, 1999 through December 31, 2003 shows that during this period there have been about 21% more terminations than expected. Since the difference in assumed terminations and actual terminations is small, we do not feel that any change in this assumption is necessary at this time.

January 1, 1999 through December 31, 2003

	Actual	Expected	Actual/Expected
Termination Prior to Retirement	440	363	121%

Disability

This assumption was last changed as of January 1, 1999 to better reflect the actual experience of the System and to better anticipate future expectations. The ratio of actual disability retirements to the expected disability retirements for the period January 1, 1999 through December 31, 2003 shows that during this period there have been about 43% less disability retirements than expected. Since the difference in assumed disability retirements and actual disability retirements is small, we do not feel that any change in this assumption is necessary at this time.

January 1, 1999 through December 31, 2003

	Actual	Expected	Actual/Expected
Disability Retirements	8	14	57%

Retirement (Leaving Active Service)

This assumption was changed as of January 1, 2003 to better reflect the actual experience of the System and to better anticipate future expectations. The ratio of actual retirements to the expected retirements using the new retirement rates for the period January 1, 2002 through December 31, 2003 shows that during this period there have been about 30% less retirements than expected. We do not feel that any change in this assumption is necessary at this time, since the period over which this assumption has been measured is short.

January 1, 2002 through December 31, 2003

	Actual	Expected	Actual/Expected
Retirement	189	269	70%

Death

This assumption was last changed as of January 1, 2001 to better reflect the actual experience of the System and to better anticipate future expectations. The ratio of actual deaths to the expected deaths for the period January 1, 2000 through December 31, 2003 shows that during this period the number of deaths has matched those expected. Since the difference in assumed deaths and actual deaths is small, we do not feel that any change in this assumption is necessary at this time.

January 1, 2000 through December 31, 2003

	Actual	Expected	Actual/Expected
Death	325	326	100%

Age at DROP

This assumption has not changed since the implementation of DROP in 1993. The actual age at DROP is only slightly higher than the assumed age of 50. We do not feel that any change of assumption is necessary at this time since the difference in the assumed age at DROP and the actual age at DROP is very small.

January 1, 1996 through December 31, 2003	Actual	Expected	Actual/Expected
Age at DROP	50.2	50.0	100%

Economic Assumptions

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

Inflation

The inflation assumption used to value the liabilities of the System is 4%. This assumption was last changed as of January 1, 1999 to better anticipate future expectations. The average annual inflation rate (as measured by CPI-U) over the 60 years ending December 31, 2003 has been 4.02%. We feel that given the history of inflation rates and reasonable expectations of the future that the 4% inflation rate assumption is reasonable.

January 1, 1944 through December 31, 2003	Actual	Expected	Actual/Expected
Inflation	4.02%	4.00%	101%

Salary Increases

The salary increase assumption used to value the liabilities of the System varies by the age of the Member. This assumption was last changed as of January 1, 1999 to reflect the change in the inflation rate. Based on our expectations of future promotional and merit salary increases and the assumed rate of inflation, we feel that the current salary increase rates are reasonable. A summary of the actual valuation earnings to the expected valuation earnings over the period January 1, 1999 through December 31, 2003 follows.

January 1, 1999 through December 31, 2003	Actual	Expected	Actual/Expected
Valuation Compensation	$1,186,720,213	$1,169,836,010	101%

Long-Term Rate of Return on Plan Assets

The long-term rate of return on plan assets used to value the liabilities of the System is 8.5%. This assumption was last changed as of January 1, 1999 to better anticipate future expectations and to reflect the change in the inflation rate. Based on the asset allocation policy, expectations of future real rates of return and the expected administrative expenses of the System, we feel that an 8.5% long-term rate of return is reasonable. A summary of the nominal rates of return over the period October 1, 1988 through December 31, 2003 follows.

Period			Annualized Rate of Return
10/1/1988	through	9/30/1989	25.40%
10/1/1989	through	9/30/1990	(6.53)
10/1/1990	through	12/31/1991	20.73
1/1/1992	through	12/31/1992	2.94
1/1/1993	through	12/31/1993	14.06
1/1/1994	through	12/31/1994	2.78
1/1/1995	through	12/31/1995	24.33
1/1/1996	through	12/31/1996	16.69
1/1/1997	through	12/31/1997	13.84
1/1/1998	through	12/31/1998	13.68
1/1/1999	through	12/31/1999	24.39
1/1/2000	through	12/31/2000	(1.52)
1/1/2001	through	12/31/2001	(7.76)
1/1/2002	through	12/31/2002	(12.26)
1/1/2003	through	12/31/2003	31.65%
10/1/1988	through	12/31/2003	10.13%

Effective for years beginning on October 1, 2002 and each October 1 thereafter, the DROP interest rate will be determined at a daily rate based on the arithmetic average of the annual market return on the System's investments for the preceding ten calendar years. However, the rate shall not be more than 25 basis points different from the prior year and shall not be less than 8% nor more than 10%. The ten-year arithmetic average of the annual market return on the System's investments for the preceding ten calendar years is 10.58%. Last year's DROP interest rate was 9%. Therefore, the annual DROP interest rate for October 1, 2004 is 9.25%.

TABLE 1

THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(excluding DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2004

POLICE

ATTAINED AGE	Under 1 #	Under 1 Avg Comp	1 to 4 #	1 to 4 Avg Comp	5 to 9 #	5 to 9 Avg Comp	10 to 14 #	10 to 14 Avg Comp	15 to 19 #	15 to 19 Avg Comp	20 to 24 #	20 to 24 Avg Comp	25 to 29 #	25 to 29 Avg Comp	30 to 34 #	30 to 34 Avg Comp	35 to 39 #	35 to 39 Avg Comp	40 & up #	40 & up Avg Comp
Under 25	30	37,788	49	38,437	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	37	37,755	212	40,728	60	45,317	1	37,726	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	18	37,775	161	40,767	198	47,543	71	53,724	0	0	0	0	0	0	0	0	0	0	0	0
35 to 39	4	37,797	51	40,679	101	48,186	311	55,099	100	61,172	0	0	0	0	0	0	0	0	0	0
40 to 44	2	37,726	23	41,130	41	50,692	147	55,282	237	62,992	126	67,277	0	0	0	0	0	0	0	0
45 to 49	2	37,743	5	40,330	5	47,873	39	56,538	92	63,508	159	67,641	78	68,047	0	0	0	0	0	0
50 to 54	2	37,726	2	40,129	4	52,673	13	56,253	12	64,476	2	62,283	5	55,996	1	57,250	0	0	0	0
55 to 59	0	0	1	37,726	0	0	1	56,491	3	69,007	1	59,079	0	0	0	0	0	0	0	0
60 to 64	0	0	0	0	0	0	0	0	2	64,698	0	0	0	0	0	0	0	0	0	0
65 to 69	0	0	0	0	0	0	0	0	1	37,726	0	0	0	0	0	0	0	0	0	0
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

TABLE 1

THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(excluding DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2004

FIRE

ATTAINED AGE	YEARS OF SERVICE Under 1 #	Under 1 Avg Comp	1 to 4 #	1 to 4 Avg Comp	5 to 9 #	5 to 9 Avg Comp	10 to 14 #	10 to 14 Avg Comp	15 to 19 #	15 to 19 Avg Comp	20 to 24 #	20 to 24 Avg Comp	25 to 29 #	25 to 29 Avg Comp	30 to 34 #	30 to 34 Avg Comp	35 to 39 #	35 to 39 Avg Comp	40 & up #	40 & up Avg Comp
Under 25	6	37,726	12	40,607	1	38,133	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	14	37,726	118	39,607	30	44,293	1	37,726	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	13	37,726	88	40,249	97	47,039	32	52,424	0	0	0	0	0	0	0	0	0	0	0	0
35 to 39	3	37,726	27	39,412	46	47,160	69	53,389	52	61,452	1	64,123	0	0	0	0	0	0	0	0
40 to 44	1	37,726	6	38,725	16	47,918	51	52,953	172	61,624	59	65,681	0	0	0	0	0	0	0	0
45 to 49	0	0	2	90,767	1	50,274	18	55,289	78	60,729	111	65,787	58	67,351	1	77,436	0	0	0	0
50 to 54	0	0	1	44,220	1	59,831	5	54,880	1	56,462	3	67,477	2	66,540	3	61,239	0	0	0	0
55 to 59	0	0	0	0	0	0	0	0	2	57,021	0	0	0	0	0	0	0	0	0	0
60 to 64	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
65 to 69	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

TABLE 1

THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(excluding DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2004

POLICE AND FIRE

ATTAINED AGE	YEARS OF SERVICE Under 1 #	Under 1 Avg Comp	1 to 4 #	1 to 4 Avg Comp	5 to 9 #	5 to 9 Avg Comp	10 to 14 #	10 to 14 Avg Comp	15 to 19 #	15 to 19 Avg Comp	20 to 24 #	20 to 24 Avg Comp	25 to 29 #	25 to 29 Avg Comp	30 to 34 #	30 to 34 Avg Comp	35 to 39 #	35 to 39 Avg Comp	40 & up #	40 & up Avg Comp
Under 25	36	37,778	61	38,863	1	38,133	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	51	37,747	330	40,327	90	44,975	2	37,726	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	31	37,755	249	40,584	295	47,378	103	53,320	0	0	0	0	0	0	0	0	0	0	0	0
35 to 39	7	37,767	78	40,240	147	47,865	380	54,788	152	61,268	1	64,123	0	0	0	0	0	0	0	0
40 to 44	3	37,726	29	40,633	57	49,913	198	54,682	409	62,417	185	66,768	0	0	0	0	0	0	0	0
45 to 49	2	37,743	7	54,741	6	48,273	57	56,143	170	62,233	270	66,879	136	67,750	1	77,436	0	0	0	0
50 to 54	2	37,726	3	41,493	5	54,104	18	55,871	13	63,860	5	65,399	7	59,008	4	60,242	0	0	0	0
55 to 59	0	0	1	37,726	0	0	1	56,491	5	64,212	1	59,079	0	0	0	0	0	0	0	0
60 to 64	0	0	0	0	0	0	0	0	2	64,698	0	0	0	0	0	0	0	0	0	0
65 to 69	0	0	0	0	0	0	0	0	1	37,726	0	0	0	0	0	0	0	0	0	0
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

TABLE 2

THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(including DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2004

POLICE

ATTAINED AGE	Under 1 #	Under 1 Avg Comp	1 to 4 #	1 to 4 Avg Comp	5 to 9 #	5 to 9 Avg Comp	10 to 14 #	10 to 14 Avg Comp	15 to 19 #	15 to 19 Avg Comp	20 to 24 #	20 to 24 Avg Comp	25 to 29 #	25 to 29 Avg Comp	30 to 34 #	30 to 34 Avg Comp	35 to 39 #	35 to 39 Avg Comp	40 & up #	40 & up Avg Comp
Under 25	30	37,788	49	38,437	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	37	37,755	212	40,728	60	45,317	1	37,726	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	18	37,775	161	40,767	198	47,543	71	53,724	0	0	0	0	0	0	0	0	0	0	0	0
35 to 39	4	37,797	51	40,679	101	48,186	311	55,099	100	61,172	0	0	0	0	0	0	0	0	0	0
40 to 44	2	37,726	23	41,130	41	50,692	147	55,282	237	62,992	129	67,383	0	0	0	0	0	0	0	0
45 to 49	2	37,743	5	40,330	5	47,873	40	56,547	93	63,665	170	67,845	90	68,798	0	0	0	0	0	0
50 to 54	2	37,726	2	40,129	4	52,673	19	58,923	41	69,352	61	74,238	124	73,369	106	72,575	1	60,479	0	0
55 to 59	0	0	1	37,726	0	0	3	65,796	12	66,327	22	71,226	42	73,149	57	71,655	21	72,644	0	0
60 to 64	0	0	0	0	0	0	1	59,134	3	64,970	2	72,681	6	71,469	7	68,350	4	71,503	1	75,972
65 to 69	0	0	0	0	0	0	0	0	2	54,757	0	0	0	0	0	0	0	0	1	72,377
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

TABLE 2

THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(including DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2004

FIRE

ATTAINED AGE	Under 1 #	Under 1 Avg Comp	1 to 4 #	1 to 4 Avg Comp	5 to 9 #	5 to 9 Avg Comp	10 to 14 #	10 to 14 Avg Comp	15 to 19 #	15 to 19 Avg Comp	20 to 24 #	20 to 24 Avg Comp	25 to 29 #	25 to 29 Avg Comp	30 to 34 #	30 to 34 Avg Comp	35 to 39 #	35 to 39 Avg Comp	40 & up #	40 & up Avg Comp
Under 25	6	37,726	12	40,607	1	38,133	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	14	37,726	118	39,607	30	44,293	1	37,726	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	13	37,726	88	40,249	97	47,039	32	52,424	0	0	0	0	0	0	0	0	0	0	0	0
35 to 39	3	37,726	27	39,412	46	47,160	69	53,389	52	61,452	1	64,123	0	0	0	0	0	0	0	0
40 to 44	1	37,726	6	38,725	16	47,918	51	52,953	172	61,624	59	65,681	0	0	0	0	0	0	0	0
45 to 49	0	0	2	90,767	1	50,274	18	55,289	78	60,729	123	66,484	68	68,261	1	77,436	0	0	0	0
50 to 54	0	0	1	44,220	1	59,831	8	59,553	18	71,655	49	70,644	130	70,487	103	73,066	0	0	0	0
55 to 59	0	0	0	0	0	0	0	0	5	62,062	7	72,789	36	72,247	73	72,438	11	76,559	2	89,574
60 to 64	0	0	0	0	0	0	0	0	0	0	0	0	3	71,320	8	75,829	6	78,719	3	78,556
65 to 69	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2	75,197	1	107,108
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

TABLE 2

THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(including DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2004

POLICE AND FIRE

	YEARS OF SERVICE																			
	Under 1		1 to 4		5 to 9		10 to 14		15 to 19		20 to 24		25 to 29		30 to 34		35 to 39		40 & up	
ATTAINED AGE	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp
Under 25	36	37,778	61	38,863	1	38,133	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	51	37,747	330	40,327	90	44,975	2	37,726	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	31	37,755	249	40,584	295	47,378	103	53,320	0	0	0	0	0	0	0	0	0	0	0	0
35 to 39	7	37,767	78	40,240	147	47,865	380	54,788	152	61,268	1	64,123	0	0	0	0	0	0	0	0
40 to 44	3	37,726	29	40,633	57	49,913	198	54,682	409	62,417	188	66,849	0	0	0	0	0	0	0	0
45 to 49	2	37,743	7	54,741	6	48,273	58	56,157	171	62,325	293	67,274	158	68,567	1	77,436	0	0	0	0
50 to 54	2	37,726	3	41,493	5	54,104	27	59,110	59	70,055	110	72,637	254	71,894	209	72,817	1	60,479	0	0
55 to 59	0	0	1	37,726	0	0	3	65,796	17	65,072	29	71,603	78	72,733	130	72,095	32	73,990	2	89,574
60 to 64	0	0	0	0	0	0	1	59,134	3	64,970	2	72,681	9	71,419	15	72,339	10	75,832	4	77,910
65 to 69	0	0	0	0	0	0	0	0	2	54,757	0	0	0	0	0	0	2	75,197	2	89,743
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

TABLE 3

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS
BY AGE AS OF JANUARY 1, 2004

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
43	1	$ 4,746	$ 4,746
44	2	51,636	25,818
45	1	33,100	33,100
46	3	77,891	25,964
47	2	39,793	19,897
48	6	136,032	22,672
49	8	216,319	27,040
50	10	259,812	25,981
51	13	436,615	33,586
52	24	928,591	38,691
53	26	866,812	33,339
54	33	1,120,901	33,967
55	45	1,515,532	33,678
56	88	3,336,696	37,917
57	103	4,062,332	39,440
58	85	3,183,739	37,456
59	71	2,651,262	37,342
60	88	3,563,581	40,495
61	102	4,054,680	39,752
62	74	3,026,770	40,902
63	102	3,959,774	38,821
64	87	3,540,226	40,692
65	91	3,868,850	42,515
66	76	3,200,912	42,117
67	64	2,478,913	38,733
68	71	2,648,098	37,297
69	70	2,501,931	35,742
70	72	2,462,282	34,198
71	68	2,534,643	37,274
72	69	2,202,053	31,914
73	68	2,277,361	33,491
74	63	1,992,962	31,634
75	56	1,798,139	32,110
76	48	1,633,803	34,038

TABLE 3

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS
BY AGE AS OF JANUARY 1, 2004
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
77	35	$ 1,178,198	$ 33,663
78	37	1,158,618	31,314
79	39	1,256,681	32,223
80	24	787,281	32,803
81	14	420,395	30,028
82	15	455,346	30,356
83	22	696,783	31,672
84	19	581,938	30,628
85	6	194,231	32,372
86	10	304,527	30,453
87	5	160,987	32,197
88	2	61,566	30,783
89	1	30,819	30,819
90	1	28,341	28,341
91	1	30,603	30,603
92	1	30,819	30,819
93	2	58,071	29,036
96	1	30,771	30,771
TOTAL	2,025	$ 74,132,762	$ 36,609
POLICE	1,173	$ 40,715,050	$ 34,710
FIRE	852	$ 33,417,712	$ 39,223

-47-

TABLE 4

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF DISABLED MEMBERS
BY AGE AS OF JANUARY 1, 2004

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
36	1	$ 26,400	$ 26,400
39	1	26,400	26,400
40	3	82,513	27,504
41	2	52,800	26,400
42	2	44,649	22,325
43	3	80,413	26,804
44	1	27,616	27,616
46	3	82,344	27,448
47	4	112,606	28,152
48	2	42,222	21,111
49	5	143,656	28,731
50	2	57,350	28,675
51	1	29,529	29,529
52	6	196,485	32,748
53	6	188,518	31,420
54	6	234,439	39,073
55	6	175,409	29,235
56	7	235,930	33,704
57	4	97,066	24,267
58	2	40,393	20,197
59	6	183,621	30,604
60	2	68,638	34,319
61	4	170,567	42,642
62	3	87,412	29,137
63	7	258,420	36,917
64	13	529,904	40,762
65	7	274,732	39,247
66	8	287,514	35,939
67	7	211,302	30,186
68	5	192,167	38,433
69	7	271,668	38,810
70	4	123,446	30,862
71	4	135,410	33,853
72	6	197,112	32,852

-48-

TABLE 4

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF DISABLED MEMBERS
BY AGE AS OF JANUARY 1, 2004
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
73	7	$ 280,520	$ 40,074
74	7	221,808	31,687
75	4	131,967	32,992
76	4	122,796	30,699
77	6	183,882	30,647
78	6	183,534	30,589
79	5	162,869	32,574
80	4	119,589	29,897
81	7	205,295	29,328
82	4	116,070	29,018
83	2	61,398	30,699
84	1	30,579	30,579
86	2	59,994	29,997
91	1	30,723	30,723
100	1	30,819	30,819
TOTAL	211	$ 6,910,494	$ 32,751
POLICE	76	$ 2,232,171	$ 29,371
FIRE	135	$ 4,678,323	$ 34,654

TABLE 5

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF BENEFICIARIES
BY AGE AS OF JANUARY 1, 2004

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
3	2	$ 12,136	$ 6,068
4	2	17,708	8,854
5	1	4,848	4,848
6	1	4,508	4,508
7	3	13,851	4,617
9	2	18,698	9,349
10	2	21,161	10,581
11	2	11,941	5,970
12	3	24,224	8,075
13	2	29,071	14,535
14	6	92,849	15,475
15	3	38,588	12,863
16	6	49,351	8,225
17	2	10,024	5,012
18	7	60,746	8,678
19	2	32,829	16,414
20	1	3,300	3,300
30	2	28,027	14,014
32	2	32,906	16,453
33	1	13,524	13,524
34	2	28,932	14,466
35	1	13,391	13,391
36	1	13,200	13,200
37	2	27,600	13,800
38	1	14,400	14,400
39	1	14,400	14,400
41	1	32,389	32,389
42	2	34,930	17,465
43	3	42,297	14,099
44	3	53,474	17,825
45	3	45,222	15,074
46	4	66,228	16,557
47	3	44,685	14,895
48	4	63,204	15,801
49	6	100,411	16,735
50	7	119,396	17,057

TABLE 5

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF BENEFICIARIES
BY AGE AS OF JANUARY 1, 2004
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
51	3	$ 49,280	$ 16,427
52	6	118,496	19,749
53	6	104,017	17,336
54	6	111,662	18,610
55	14	245,505	17,536
56	10	222,343	22,234
57	15	268,378	17,892
58	12	244,448	20,371
59	5	83,201	16,640
60	14	282,822	20,202
61	8	177,414	22,177
62	12	201,007	16,751
63	8	133,264	16,658
64	20	443,085	22,154
65	18	345,371	19,187
66	16	407,973	25,498
67	14	303,632	21,688
68	17	308,248	18,132
69	16	303,274	18,955
70	16	256,435	16,027
71	20	344,909	17,245
72	15	257,932	17,195
73	26	418,854	16,110
74	19	299,131	15,744
75	25	490,476	19,619
76	23	370,775	16,121
77	25	423,824	16,953
78	14	244,115	17,437
79	29	458,220	15,801
80	27	455,532	16,872
81	19	333,759	17,566
82	24	419,174	17,466
83	11	171,735	15,612
84	17	266,943	15,703
85	17	267,885	15,758
86	8	123,522	15,440

TABLE 5

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF BENEFICIARIES
BY AGE AS OF JANUARY 1, 2004
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
87	12	$ 186,826	$ 15,569
88	10	195,493	19,549
89	12	188,799	15,733
90	5	79,163	15,833
91	3	46,958	15,653
92	4	63,364	15,841
93	5	78,628	15,726
94	2	31,610	15,805
95	4	62,853	15,713
96	1	15,300	15,300
102	1	15,823	15,823
103	1	15,859	15,859
TOTAL	711	$ 12,171,765	$ 17,119
POLICE	385	$ 6,385,124	$ 16,585
FIRE	326	$ 5,786,641	$ 17,750

TABLE 6

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS,
DISABLED MEMBERS AND BENEFICIARIES
BY AGE AS OF JANUARY 1, 2004

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
3	2	$ 12,136	$ 6,068
4	2	17,708	8,854
5	1	4,848	4,848
6	1	4,508	4,508
7	3	13,851	4,617
9	2	18,698	9,349
10	2	21,161	10,581
11	2	11,941	5,970
12	3	24,224	8,075
13	2	29,071	14,535
14	6	92,849	15,475
15	3	38,588	12,863
16	6	49,351	8,225
17	2	10,024	5,012
18	7	60,746	8,678
19	2	32,829	16,414
20	1	3,300	3,300
30	2	28,027	14,014
32	2	32,906	16,453
33	1	13,524	13,524
34	2	28,932	14,466
35	1	13,391	13,391
36	2	39,600	19,800
37	2	27,600	13,800
38	1	14,400	14,400
39	2	40,800	20,400
40	3	82,513	27,504
41	3	85,189	28,396
42	4	79,579	19,895
43	7	127,456	18,208
44	6	132,726	22,121
45	4	78,322	19,581
46	10	226,463	22,646
47	9	197,084	21,898
48	12	241,458	20,122

TABLE 6

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS,
DISABLED MEMBERS AND BENEFICIARIES
BY AGE AS OF JANUARY 1, 2004
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
49	19	$ 460,386	$ 24,231
50	19	436,558	22,977
51	17	515,424	30,319
52	36	1,243,572	34,544
53	38	1,159,347	30,509
54	45	1,467,002	32,600
55	65	1,936,446	29,791
56	105	3,794,969	36,143
57	122	4,427,776	36,293
58	99	3,468,580	35,036
59	82	2,918,084	35,586
60	104	3,915,041	37,645
61	114	4,402,661	38,620
62	89	3,315,189	37,249
63	117	4,351,458	37,192
64	120	4,513,215	37,610
65	116	4,488,953	38,698
66	100	3,896,399	38,964
67	85	2,993,847	35,222
68	93	3,148,513	33,855
69	93	3,076,873	33,085
70	92	2,842,163	30,893
71	92	3,014,962	32,771
72	90	2,657,097	29,523
73	101	2,976,735	29,473
74	89	2,513,901	28,246
75	85	2,420,582	28,477
76	75	2,127,374	28,365
77	66	1,785,904	27,059
78	57	1,586,267	27,829
79	73	1,877,770	25,723
80	55	1,362,402	24,771
81	40	959,449	23,986
82	43	990,590	23,037
83	35	929,916	26,569

TABLE 6

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS,
DISABLED MEMBERS AND BENEFICIARIES
BY AGE AS OF JANUARY 1, 2004
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
84	37	$ 879,460	$ 23,769
85	23	462,116	20,092
86	20	488,043	24,402
87	17	347,813	20,460
88	12	257,059	21,422
89	13	219,618	16,894
90	6	107,504	17,917
91	5	108,284	21,657
92	5	94,183	18,837
93	7	136,699	19,528
94	2	31,610	15,805
95	4	62,853	15,713
96	2	46,071	23,036
100	1	30,819	30,819
102	1	15,823	15,823
103	1	15,859	15,859
TOTAL	2,947	$ 93,215,022	$ 31,630
POLICE	1,634	$ 49,332,345	$ 30,191
FIRE	1,313	$ 43,882,676	$ 33,422

TABLE 7

THE NUMBER AND FUTURE ANNUAL
ALLOWANCE OF TERMINATED MEMBERS
ENTITLED TO A FUTURE BENEFIT
BY AGE AS OF JANUARY 1, 2004

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
29	1	$ 6,190	$ 6,190
31	1	7,173	7,173
32	5	43,773	8,755
33	6	45,877	7,646
34	11	91,147	8,286
35	5	48,036	9,607
36	5	62,188	12,438
37	9	83,860	9,318
38	11	114,612	10,419
39	7	112,601	16,086
40	12	190,264	15,855
41	12	205,063	17,089
42	10	147,199	14,720
43	12	203,646	16,971
44	6	99,148	16,525
45	7	114,881	16,412
46	8	138,736	17,342
47	9	95,989	10,665
48	4	106,933	26,733
49	8	211,887	26,486
50	3	32,677	10,892
TOTAL	152	$ 2,161,880	$ 14,223
POLICE	121	$ 1,713,613	$ 14,162
FIRE	31	$ 448,267	$ 14,460

TABLE 8

THE NUMBER, ANNUAL RETIREMENT
ALLOWANCE AND ACCOUNT BALANCE
OF DROP MEMBERS
BY AGE AS OF JANUARY 1, 2004

POLICE AND FIRE
DROP

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT	ACCOUNT BALANCE	AVERAGE ACCOUNT BALANCE
43	1	$ 24,779	$ 24,779	$ 76,747	$ 76,747
44	2	48,198	24,099	119,506	59,753
46	1	34,575	34,575	2,881	2,881
47	2	52,075	26,038	134,168	67,084
48	22	851,692	38,713	613,567	27,889
49	22	939,745	42,716	929,697	42,259
50	99	4,828,581	48,774	3,189,246	32,215
51	137	6,643,843	48,495	9,989,722	72,918
52	132	5,916,883	44,825	15,295,763	115,877
53	125	5,500,970	44,008	19,580,089	156,641
54	120	5,298,580	44,155	24,042,096	200,351
55	102	4,285,727	42,017	23,855,244	233,875
56	84	3,370,635	40,127	22,941,076	273,108
57	53	2,195,419	41,423	16,251,320	306,629
58	22	921,856	41,903	7,777,697	353,532
59	23	940,942	40,911	9,190,570	399,590
60	22	873,110	39,687	10,193,114	463,323
61	9	366,429	40,714	4,435,355	492,817
62	2	97,421	48,711	1,116,292	558,146
63	6	190,396	31,733	1,909,908	318,318
64	3	105,723	35,241	1,194,370	398,123
65	1	18,180	18,180	162,183	162,183
66	2	109,085	54,543	1,608,155	804,078
67	2	126,194	63,097	943,522	471,761
TOTAL	994	$ 43,741,038	$ 44,005	$ 175,552,288	$ 176,612
POLICE	523	$ 22,728,496	$ 43,458	$ 88,322,407	$ 168,876
FIRE	471	$ 21,012,542	$ 44,613	$ 87,229,881	$ 185,201

Statistical Section

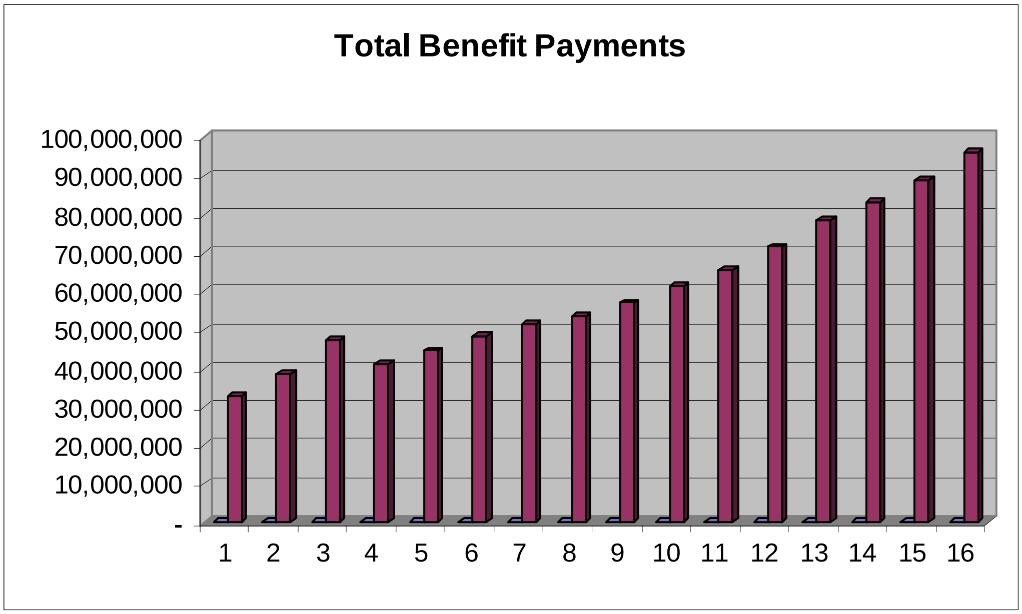
Active Membership of the System by Years of Service and Department			
Years of Service	**Fire**	**Police**	**Total**
Fewer than 5	291	599	890
5–9	192	409	601
10–14	176	583	759
15–19	305	447	752
20–24	174	288	462
25–29	60	83	143
30 and over	4	1	5
DROP Members	471	523	994
TOTAL	**1,673**	**2,933**	**4,606**

The “Membership of the System” chart lists Active Members by Department according to years of service. The average service for all Active Members is 15.55 years, 17.20 years of service for Firefighters, and 14.60 for Police Officers. There were 4,606 Active Members as of December31, 2003.

2003 Benefit Recipients

	Police	Fire	Total
Service Pensions Granted	71	46	117
Disability Pensions Granted	0	1	1
Pensions Discontinued due to Death	35	27	62
Survivor Pensions Granted	28	22	50
Survivor Pensions Discontinued	9	10	19

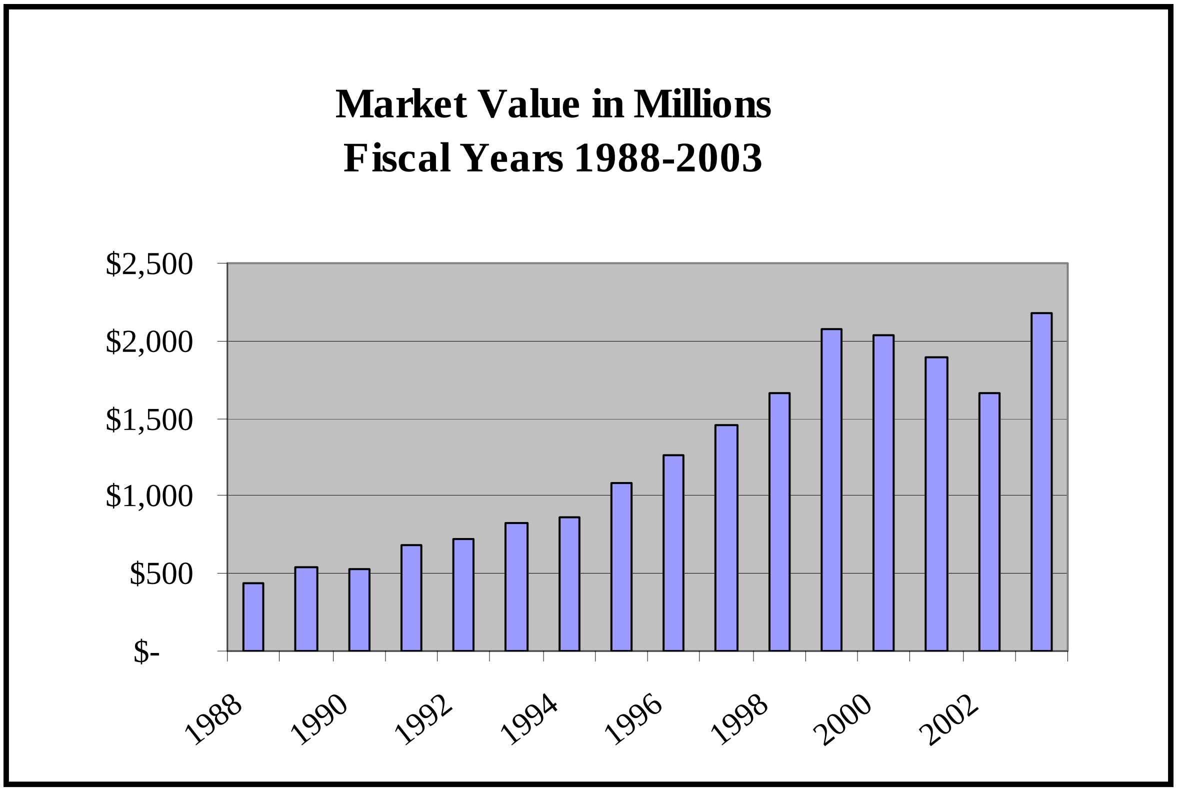
During 2003, the System experienced a normal number of service and survivor pensions.



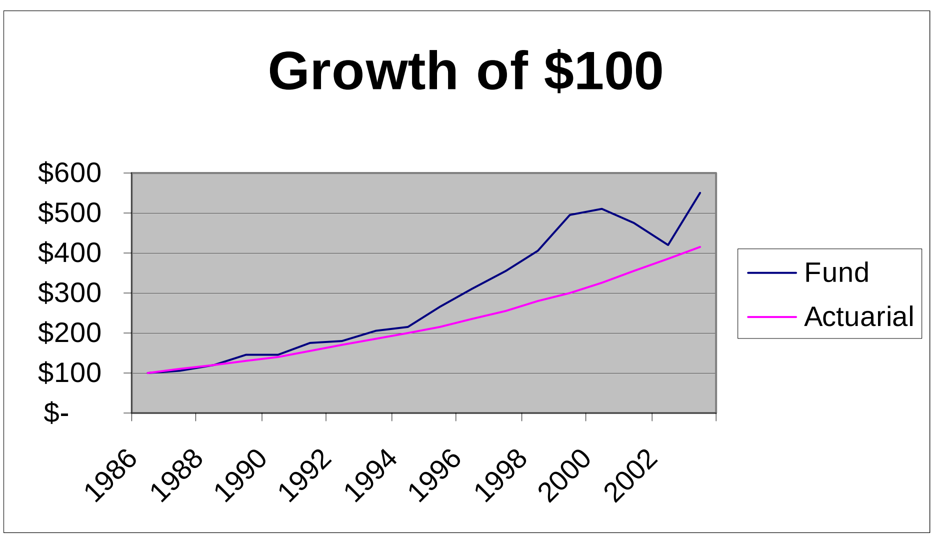
The amount of benefits paid to pensioners and survivors has steadily increased over the years. In 2003, benefit payments totaled more than $96.2 million.

ASSETS BY CLASS

	12/31/03 Market Value
DOMESTIC EQUITIES	
Holding	95,657
SSgA S & P Flagship	324,311,752
Alliance R&T Value Index Fund	123,273,968
Oak Associates Growth Equity	123,491,125
W.R. Huff High Yield	13,407,102
Deutsche Asset Micro Cap	99,466,187
Mitchell Group	20,569,951
Subtotal	704,615,742
INTERNATIONAL EQUITIES	
Loomis Sayles	15,704,807
Bank of Ireland	241,502,551
Fidelity Equities	155,023,045
Clay Finlay	129,143,678
Subtotal	541,374,081
DOMESTIC FIXED INCOME	
W.R. Huff High Yield	84,715,875
Loomis Sayles	165,297,180
W.R. Huff Alternative Income Funds	41,591,588
North Texas Opportunity Fund	3,778,845
Oaktree OCM Fund IV	45,542,683
TCW Special Credit Trust IIIb	329,827
Delaware International	33,879,886
Highland Capital Mnagement	24,331,684
Pareto Partners	32,255,793
Subtotal	431,723,360
GLOBAL FIXED INCOME	
Delaware Internalional	62,428,964
Pareto Partners	40,059,347
Loomis Sayles	2,927,884
Subtotal	105,416,195
REAL ESTATE	
Hudson Advisors	35,641,733
Hancock Agricultural	40,720,893
Hearthstone MSH Home Bld.	4,201,394
Oaktree (OCM Real Estate)	13,676,251
Olympus Real Estate	20,406,143
Prudential (Strategic Value)	6,528,713
RREEF REITS	34,451,328
JMB	18,633
INVESCO	15,256,927
Kennedy Associates	27,325,045
Forest Investment Associates	40,746,404
L & B Real Estate Counsel	25,261,793
CDK	43,115,348
Crow Holdings	16,358,340
	323,708,945
Cash & Short Term Securities	64,078,179
Security Sold and Receivables	39,605,969
Securities Purchase and other Payables	(27,463,604)
	76,220,544
Total Investments	2,183,058,868



The Market Value of Systems assets have increased from $435 million in 1988 to $2.18 billion as of December 31, 2003



One hundred dollars invested in the System's portfolio 22 years ago would be worth $1,056.08 as of December 31, 2003. If the $100 had earned the actuarial assumed interest rate, it would be worth $622.67

Changes in Net Assets Available for Benefits Years 2000-2003

(In Thousands)

	December 2000	December 2001	December 2002	December 2003
Assets at Cost—Beginning	$ 1,655,216	$ 1,884,622	$ 1,905,785	$ 1,791,389
Contributions:				
City	66,690	75,592	77,085	78,323
Employee (Less Refunds)	13,371	15,159	15,422	15,703
Interest, Dividends, and Realized Gains (Losses)	241,912	28,859	(103,479)	112,783
Benefit Payments and Administrative Fees	(92,567)	(98,447)	(103,424)	(109,980)
Assets at Cost—Ending	$ 1,884,622	$ 1,905,785	$ 1,791,389	$ 1,888,218
Assets at Market	$ 2,039,741	$ 1,888,387	$ 1,660,244	$ 2,183,058

This chart shows the growth in plan assets since 2000.

Actuarial Summary Information

Actuarial Valuation Results	January 1, 2002 Valuation	January 1, 2003 Valuation	January 1, 2004 Valuation
UAAL[1]	$395,501,252	$745,776,422	$603,180,958
Actuarial Value[2]	$2,158,395,018	$1,992,252,337	$2,285,744,890
Market Value [3]	$1,888,386,893	$1,660,210,281	$2,183,058,868
Funding Cost Rate [4]	23.85%	29.33%	27.25%
Margin over/under[5]	3.60%	-1.83%	0.25%
AAL Ratio [6]	84.50%	72.80%	79.10%
Years To Fund [7]	19	69	38

[1]Unfunded Actuarial Accrued Liability
[2]Actuarial Value of Assets
[3]Market Value of Assets
[4]Employer contribution rate needed to pay normal cost and fund UAAL over 40 years
[5]City contribution Rate of 27.5% Minus Funding Cost Rate
[6]Actuarial Accrued Liability (GASB 25)
[7]Projected Years to Fund Level Funding

Supplemental Police and Fire Pension Plan of the City of Dallas

DALLAS POLICE AND FIRE PENSION SYSTEM
SUPPLEMENTAL PLAN

ACTUARIAL VALUATION

AS OF JANUARY 1, 2004

July 14, 2004

Mr. Richard L. Tettamant
Administrator
Dallas Police and Fire Pension System
2301 N. Akard Street, Suite 200
Dallas, TX 75201

Re: Dallas Police and Fire Pension System Actuarial Valuation as of January 1, 2004

Dear Mr. Tettamant:

We certify that the information contained in this report is accurate and fairly presents the actuarial position of the Dallas Police and Fire Pension System (the System) as of January 1, 2004.

Actuarial Valuation

The primary purpose of the valuation report is to determine the adequacy of the current City's contribution rate, to describe the current financial condition of the System, and to analyze changes in the System's condition. In addition, the report provides information required by the City of Dallas in connection with Governmental Accounting Standards Board Statements Number 25 and Number 27.

Basis for Funding

The member and City contribution rates are established by statute. The City's and the members' contributions are intended to be sufficient to pay the normal cost and to amortize the System's unfunded actuarial accrued liability.

Funding Progress

As of January 1, 2004, the employer contribution rate needed in order to pay the normal cost and fund the Unfunded Actuarial Accrued Liability over 40 years is 27.25%. This amount is less than the 29.33% employer contribution calculated as of January 1, 2003. The current contribution rate covers the normal cost and the amortization of the Unfunded Actuarial Accrued Liability (UAAL) over 38 years.

Benefit Provisions

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

Assumptions and Methods

The actuarial assumptions and methods used in the valuation are presented in Schedule C. The valuation is based on the same actuarial assumptions as the previous valuation. The assumptions used are individually reasonable and reasonable in the aggregate.

Data

Asset information and member data for retired, active, and inactive members was supplied as of January 1, 2004 by the Administrator. We have not subjected this data to any auditing procedures, but have examined the data for reasonableness and consistency with the prior year's data.

Very truly yours,

Signed (RICHARD A. MACKESEY)

Richard A. Mackesey, F.S.A. Principal and
Consulting Actuary

RAM:km
\DPF\VAL\2004PLAN.DOC

Enclosures

Summary of Principal Results

	January 1, 2004	January 1, 2003
Membership		
Active	31	34
Retired and terminated members and beneficiaries	104	98
Compensation		
Total	$ 729,873	$ 857,857
Average	$ 23,544	$ 25,231
Assets		
Market value	$ 16,950,004	$ 14,081,156
Valuation Results		
Unfunded actuarial accrued liability (UAAL)	$ 6,374,960	$ 8,316,779
City's normal cost contribution	$ 137,643	$ 141,755
Funding Policy contribution	$ 1,100,000	$ 1,000,000
GASB No. 25		
Actuarial accrued liability (AAL)	$ 23,324,964	$ 22,397,935
Assets	$ 16,950,004	$ 14,081,156
GASB ratio	72.7%	62.9%
Unfunded AAL	$ 6,374,960	$ 8,316,779

Comments on the Valuation

Overview

The current valuation indicates that a total contribution of $1,100,000 should be contributed during 2004.

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

GASB Statements

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

Benefit Provisions

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

Actuarial Assumptions and Methods

The actuarial assumptions and methods used in the valuation are presented in Schedule C. The valuation is based on the same actuarial assumptions as the previous valuation. The assumptions used are individually reasonable and reasonable in the aggregate.

GASB Statement No. 27

Under GASB Statement No. 27, which became effective for fiscal years beginning after June 15, 1997, employers must determine a pension expense based on a 40-year amortization of the UAAL. The amortization can assume payroll growth due to inflation, but no membership growth. After a 10-year transition period, the required amortization period will drop to 30 years. If the actual contribution rate is less than the rate required by GASB No. 27, the excess must be expensed. This will result in the employer showing an accrued but unpaid liability for pension benefits on its financial statements.

A City Contribution rate of 63.24% will be required for the City to avoid showing an accrued pension liability on its financial statements for the fiscal year beginning in 2004, assuming no other changes are made. Under the current funding arrangement, the City would not be required to show an accrued but unpaid pension liability for the Supplemental Plan.

Financial Data

The financial data used in this report was supplied by the Administrator.

Section 5 reconciles the Plan's assets between 2003 and 2004. The estimated rate of return for 2003 was 19.82%.

Membership Statistics

Data on active members and on retired members was supplied by the Administrator. The number of active members decreased over the last year. The active membership decreased from 34 members as of January 1, 2003, to 31 members as of January 1, 2004. The payroll decreased from January 1, 2003 to January 1, 2004 ($857,857 for 2003 and $729,873 for 2004). Schedule A shows a summary of the membership data.

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Statements of Plan Net Assets
December 31, 2003 and 2002

Assets	2003	2002
Investments, at fair value (note 2 and 4):		
Short-term investments	$ 77,471	99,035
Bank commingled trust funds	16,887,981	14,040,900
Total investments	16,965,452	14,139,935
Accrued interest, dividends and employee contributions receivable	1,208	3,116
Total assets	16,966,660	14,143,051
Liabilities and net assets		
Administrative and benefit expenses payable	16,656	61,895
Net assets held in trust for pension benefits (a schedule of funding progress is presented on page 12)	$ 16,950,004	14,081,156

See accompanying notes to basic financial statements.

Analysis of Change in UAAL

1. UAAL as of January 1, 2003	$	8,316,779
2. Changes due to:		
a. Expected decrease	$	(224,270)
b. Actual contributions greater than expected		0
c. Liability experience		(119,900)
d. Asset experience		(1,597,649)
e. Assumption changes		0
f. Plan amendment		0
g. Total Changes	$	(1,941,819)
3. UAAL as of January 1, 2004	$	6,374,960

Historical Trend Information

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

Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 1999	15.506	17.106	1.600	90.6%	0.851	188.0%
January 1, 2000	17.628	18.146	0.518	97.1%	0.934	55.5%
January 1, 2001	16.626	19.566	2.940	85.0%	0.655	448.9%
January 1, 2002	15.496	21.214	5.718	73.0%	0.737	775.8%
January 1, 2003	14.081	22.398	8.317	62.9%	0.858	969.3%
January 1, 2004	16.950	23.325	6.375	72.7%	0.730	873.3%

GASB #25 Schedule of Employer Contributions for Year Ending December 31, 2003

Annual Required Contribution	Percentage Contributed
$1,100,000	100%

Summary of Accumulated Benefits
(FASB #35)

Accumulated Benefits at January 1, 2004

Vested benefits of participants and beneficiaries currently receiving payments	$ 17,478,291
Other vested benefits	5,908,873
Nonvested benefits	318,928
Total benefits	$ 23,706,092

FASB #35 Reconciliation

Accumulated benefits at January 1, 2003		$ 22,003,781
Benefits accumulated and actuarial gains/losses	$ 836,102	
Interest	1,830,188	
Benefits paid	(963,979)	
Total change		1,702,311
Accumulated benefits at January 1, 2004		$ 23,706,092

Reconciliation of Fund Assets

	Year Ending December 31, 2003
1. Value of fund at beginning of year	$ 14,081,156
2. Contributions	
a. City	1,000,000
b. Member	35,251
c. Total	$ 1,035,251
3. Benefit payments	(963,979)
4. Refunds	0
5. Earnings	2,847,720
6. Expenses	(50,144)
7. Value of assets at end of year	16,950,004
8. Estimated rate of return	19.82%

Membership Data

	January 1, 2004	January 1, 2003
1. Active members (excluding DROP)		
a. Number	12	19
b. Compensation	$ 329,862	$ 575,849
c. Average compensation	$ 27,489	$ 30,308
d. Average age	46.09	46.68
e. Average service (years)	20.66	21.84
2. Active members (DROP only)		
a. Number	19	15
b. Compensation	$ 400,011	$ 282,008
c. Average Compensation	$ 21,053	$ 18,801
d. Average age	53.15	53.47
e. Average service	30.21	30.47
f. DROP account balance	$ 685,779	$ 627,568
3. Inactive members		
a. Number	104	98
b. Total current annual benefit	$ 1,287,001	$ 1,174,286
c. Average current annual benefit	$ 12,375	$ 11,983

Summary of Benefit Provisions
As of January 1, 2004
For Actuarial Calculations

The Supplemental Plan was adopted and effective on March 1, 1973. Contributing Group B members who hold a permanent rank higher than the highest Civil Service rank held as a result of competitive examination are allowed to join the Supplemental Plan within 60 days of attaining such higher rank, or within 60 days of the effective date, if later.

Definitions

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

Average Computation Pay: Computation Pay averaged over 36 months.

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

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

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

Qualified Surviving Children: All surviving unmarried children under 19 years of age (23 for a disabled child) provided they were born or adopted before the Member terminated his employment.

Contribution Rates

The City's contributions are made in accordance with actuarial requirements.

The Member contribution rate is currently 8.50%. Members contribute for a maximum of 32 years.

Service Retirement Benefits

Annual Normal Retirement Pension

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

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

Early Retirement Pension

Condition for Retirement:

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

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

b. 20 years of Pension Service

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

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

Special Rule for Members of former Old Plan or Plan A

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

Disability Retirement Benefits

Service-Related Disability

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

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

Non-Service Related Disability

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

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

Survivor Benefits

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

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

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

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

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

Post-Retirement Cost of Living Adjustments

Annually, on the first day of October, benefits in pay status will be increased by an amount equal to 4% of the original pension amount.

Benefit Supplement

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

Deferred Retirement Option Plan

As of January 1, 1993, at normal retirement age, a member may elect to enter the Deferred Retirement Option Plan (DROP). As of January 1, 1999, a member may also elect to enter DROP after 20 years of Pension Service. Retirement benefits will be calculated as if the Member retired on that date. Employee contributions made under the Combined Pension Plan will cease, as will accruals under the Combined Pension Plan. Each month, the retirement benefit will be accumulated in an account earning interest based on a ten-year average of the

System's actual market return. Upon termination of employment, the Member will have the balance in account in addition to the monthly benefit payable as though the Member retired at the date the Member entered DROP.

Statement of Actuarial Methods and Assumptions
(Effective as of January 1, 2004)

Investment Return: 8.50% per annum, compounded annually, net all expenses including administrative expenses. This rate reflects an underlying inflation rate of 4.00% and a real rate of return of 4.50%.

DROP balances are assumed to earn 9.00% per annum.

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

Annual Rate per 1,000 Members

	Withdrawal		Mortality - Disableds		Mortality - Other		Disability	
Age	Police	Fire	Male	Female	Male	Female	Police	Fire
20	43.0	21.0	48.30	26.30	.51	.28	.35	.70
25	43.0	21.0	48.30	26.30	.66	.29	.37	.75
30	32.0	16.0	36.20	23.70	.80	.35	.42	.84
35	23.0	16.0	27.80	21.40	.85	.48	.48	.96
40	23.0	16.0	28.20	20.90	1.07	.71	.57	1.15
45	23.0	16.0	32.20	22.40	1.58	.97	.79	1.58
50	NA	NA	38.30	25.70	2.58	1.43	NA	NA
60	NA	NA	60.30	33.10	7.98	4.44	NA	NA
70	NA	NA	73.90	41.10	23.73	13.73	NA	NA
75	NA	NA	84.20	49.20	37.21	22.69	NA	NA

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

Age	Annual Rate of Salary Increase
20	10.00%
30	5.23
40	4.57
50	4.37
60	4.33

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

Overtime is assumed to be 7% of base pay. The city contributes on total pay including overtime. This assumption is consistent with past experience and the city's budget.

Retirement Rates: To determine the value of future normal cost, the percentage of population assumed to retire at various ages is as follows:

Age	Rate	Age	Rate	Age	Rate
38	5%	48	5%	58	10%
39	5	49	5	59	15
40	5	50	10	60	20
41	5	51	7.5	61	25
42	5	52	7.5	62	60
43	5	53	7.5	63	70
44	5	54	7.5	64	80
45	5	55	10	65	100
46	5	56	10		
47	5	57	10		

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

Postretirement Mortality: According to the 1994 Group Annuity Mortality Table for males and females.

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Financial Statements
and
Required Supplemental Information

December 31, 2003 and 2002
(With Independent Auditors' Report Thereon)

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

TABLE OF CONTENTS

Mir•Fox
&
Rodriguez, P.C.
Certified Public Accountants

Member of the American Institute of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Supplemental Police and Fire Pension
Plan of the City of Dallas:

We have audited the accompanying statement of plan net assets of the Supplemental Police and Fire Pension Plan of the City of Dallas (the Supplemental Plan) as of December 31, 2003, and the related statement of changes in plan net assets for the year then ended. These basic financial statements are the responsibility of the Supplemental Plan's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The financial statements of the Supplemental Plan as of and for the year ended December 31, 2002, were audited by other auditors whose report dated December 5, 2003, expressed an unqualified opinion on those statements.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial status of the Supplemental Plan as of December 31, 2003, and the changes in its financial status for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis (MD&A), the schedule of contributions in note 1, and the schedule of funding progress in note 3, are not a required part of the basic financial statements but is required supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A and required supplemental information. However, we did not audit such information and do not express an opinion it.

Mir Fox & Rodriguez

November 19, 2004

One Riverway, Suite 1900
Houston, TX 77056
Off. (713) 622-1120
Fax (713) 961-0625

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

The Management's Discussion and Analysis (MD&A) of the Supplemental Police and Fire Pension Plan of the City of Dallas (the Supplemental Plan) financial position and performance provides an overview of the Supplemental Plan's financial activities for the fiscal year ended December 31, 2003. The Supplemental Plan is a defined benefit pension plan.

The MD&A is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* issued in June 1999.

Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, because the Supplemental Plan did not present such information in the 2002 reporting year, certain necessary comparative information of the previous year was not presented. Considering the financial resources necessary to prepare this information for the prior year, the Supplemental Plan has elected to exclude the information in this report. Subsequent reports will include the comparative information.

FINANCIAL STATEMENTS

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

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

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

The *Supplementary Information* consists of schedules of funding progress and required contributions and other required information.

CONDENSED FINANCIAL INFORMATION

	2003
Assets	$ 16,966,660
Liabilities	16,656
Net Assets Available for Benefits	16,950,004
Contributions	1,035,251
Investment & Other Income (loss)	2,847,718
Benefit Payments	963,978
Administrative Expenses & Professional Fees	50,143

FINANCIAL HIGHLIGHTS

- The Supplemental Plan's net assets increased by $2.9 million in 2003.
- The rate of return on Supplemental Plan investments was 20.45% for the year, compared to an expected return (actuarial assumed investment rate of return) of 8.5%. The return reflects the recovery of the U.S. and world economic markets and the Board's decision to maintain its policy of investment diversification and the asset allocation model adopted by the Board.
- Liabilities totaled $16,700 as of December 31, 2003.
- The Supplemental Plan received $1.0 million in employer contributions and $35,300 thousand in employee contributions in 2003.
- The Supplemental Plan paid $964,000 in service retirement, disability retirement and survivor benefits during the year. No refunds of contributions to former Members were made in 2003. No changes to benefit provisions were implemented during the year.
- The cost of administering the benefit programs of the Supplemental Plan, including administrative costs and investment fees, was $50,143.

CONTACTING THE SUPPLEMENTAL PLAN'S FINANCIAL MANAGEMENT

This financial section is designed to provide our members and other users with a general overview of the Supplemental Plan's financial activities. If you have questions about this report or need additional financial information, contact the Administrator of the Dallas Police and Fire Pension System at 2301 North Akard Road, Suite 200, Dallas, TX 75201.

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Statements of Plan Net Assets
December 31, 2003 and 2002

Assets	2003	2002
Investments, at fair value (note 2 and 4):		
Short-term investments	$ 77,471	99,035
Bank commingled trust funds	16,887,981	14,040,900
Total investments	16,965,452	14,139,935
Accrued interest, dividends and employee contributions receivable	1,208	3,116
Total assets	16,966,660	14,143,051
Liabilities and net assets		
Administrative and benefit expenses payable	16,656	61,895
Net assets held in trust for pension benefits (a schedule of funding progress is presented on page 12)	$ 16,950,004	14,081,156

See accompanying notes to basic financial statements.

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Statements of Changes in Plan Net Assets
Years Ended December 31, 2003 and 2002

	2003	2002
Additions to plan net assets:		
Net investment income:		
Interest and dividends	$ 6,623	3,512
Security lending (Index Fund)		2,777
Net appreciation (depreciation) in fair value of investments	2,841,095	(1,249,984)
Total net investment income	2,847,718	(1,243,695)
Contributions:		
Employer	1,000,000	900,000
Member	35,251	47,974
Total contributions	1,035,251	947,974
Total net additions to plan net assets	3,882,969	(295,721)
Deductions from plan net assets:		
Benefit payments	963,978	1,075,880
Administrative and professional fees	50,143	42,791
Total deductions from plan net assets	1,014,121	1,118,671
Net increase (decrease) in plan net assets	2,868,848	(1,414,392)
Plan net assets held in trust for pension benefits:		
Beginning of year	14,081,156	15,495,548
End of year	$ 16,950,004	14,081,156

See accompanying notes to basic financial statements.

1. **Description of the Plan and Summary of Significant Accounting Policies**

General

The Police and Fire Supplemental Pension Plan of the City of Dallas (the Supplemental Plan) is a single-employer, defined benefit pension plan for police officers and firefighters employed by the City of Dallas, Texas (the City or Employer) and was created in 1973 to supplement the Dallas Police and Fire Pension System's (the System) Plan B Defined Benefit Pension Plan (Plan B). The Plan B benefit structure was consolidated into the System's Combined Pension Plan in 1992. Former Plan B members are now denominated as "Group B" members of the Combined Pension Plan. The intent of the Supplemental Plan is to provide additional retirement benefits (as discussed below) to those members of the Supplemental Plan (Members) holding a rank higher than the highest corresponding civil service rank as provided in the Combined Pension Plan. Members receive a supplemental pension based upon the difference between compensation for the Civil Service position held before entrance in the Supplemental Plan and Compensation while in the Supplemental Plan. The Supplemental Plan was established and derives its authority from a non-codified City ordinance. As of December 31, 2003 and 2002, the Supplemental Plan membership consisted of:

	2003	2002
Non-active members		
Pensioners and qualified survivors currently receiving benefits:		
Firefighters	44	41
Police officers	60	57
Total non-active members	104	98
Current employees - vested:		
Firefighters	15	17
Police officers	16	17
Total members	31	34

In 1992, an amendment to Article 6243a-1 was approved by the Members of the Combined Plan allowing for a Deferred Retirement Option Plan (DROP). The amendment automatically modified the Supplemental Plan so members that enter the DROP program in the Combined Plan also enter the DROP program in the Supplemental Plan. DROP Members have their contribution discontinued but the City's portion of the total contribution continues. The Member's monthly benefit remains in the Plan and accumulates interest. Upon retirement from the City, the Member is able to withdraw from their DROP Account along with the Member's normal benefits. Amounts included in these basic financial statements related to DROP members are $ 2,231,609 and $1,634,703 for December 31, 2003 and 2002, respectively.

Continued

Pension benefits

The Supplemental Plan's benefits are designed to supplement Group B benefits for those Members holding a rank higher than the highest corresponding civil service rank because their Combined Plan benefits are capped by the Combined Plan's definition of considered compensation. Accordingly, when Group B benefits are amended, the Supplemental Plan's benefit calculation is also affected. The basis for a Member's benefits shall be the difference between the monthly rate of pay a Member is due as the base pay for the rank the Member currently holds and the monthly rate of pay the Member is due for the highest Civil Service rank the Member has held as a result of competitive examinations. The formula used to determine the Member's Group B benefit shall also be used to determine the Member's benefit under the Supplemental Plan so that the same length of time shall be used to determine "average computation pay" for both plans. Application for benefits under the provisions of the Combined Plan shall be deemed to be application for benefits under the Supplemental Plan and no additional application need be filed.

Contributions

The City is required by ordinance to contribute amounts, as determined by an actuary, necessary to maintain the Supplemental Plan.

Members electing to participate in the Supplemental Plan must contribute 8.5% of the excess of their compensation for the rank held over the compensation of the Civil Service rank held as a result of competitive examinations.

Members are immediately vested in their contributions and with five years of service in the Supplemental Plan or the Combined Plan may, at termination of employment, leave their contributions or deposit with the System and receive a monthly benefit at normal retirement age. If a Member's employment is terminated and the Member elects not to retire or not to have vested rights, the Member's contributions are returned, without interest, upon written application. If application for refund is not made within three years, the Member forfeits the right to a refund of his or her contributions; however, a procedure does exist whereby the Member's right to the contributions can be reinstated.

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

Schedule of Contributions

Year Ended December 31,	Annual required contribution	Percentage contributed
1998	$ 1,030,687	100 %
1999	800,000	100 %
2000	700,000	100 %
2001	800,000	100 %
2002	900,000	100 %
2003	1,000,000	100 %

The percent contributed may vary from the legally required rate as the term Annual Required Contribution is based upon covered payroll as of the actuarial valuation date, January 1, whereas actual contributions are calculated and paid based upon actual payrolls throughout the year.

Continued

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

Termination

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

System administration

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

Basis of presentation

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

Recent accounting pronouncement

The GASB has issued Statement No. 40, *Deposit and Investment Risk Disclosures,* which amends GASB Statement No. 3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements*. GASB Statement No. 40 requires disclosure information related to common risks inherent in deposit and investment transactions. The statement is effective for financial statements for periods beginning after June 15, 2004 and accordingly, will be implemented by the Supplemental Plan in fiscal year 2004.

Continued

Basis of accounting

The basis of accounting is the method by which revenues and expenses are recognized in the accounts and reported in the basic financial statements. The accrual basis of accounting is used by the Supplemental Plan. Under the accrual basis of accounting, revenues, which include contributions and investment income, are recognized when they are earned and collection is reasonably assured, and expenses are recognized when the liability is incurred. Member and Employer contributions are recognized as revenue in the period in which the compensation is earned. In addition, the Supplemental Plan records contributions according to Supplemental Plan requirements and State statute. Benefits paid to members and contribution refunds are recognized when due and payable in accordance with the terms of the Supplemental Plan. Accrued income, when deemed uncollectible, is charged to operations.

Accordingly, interest earned but not received and dividends declared but not received as of the Supplemental Plan's fiscal year-end are recorded as accrued interest and dividends receivable, respectively. In addition, unsettled investment purchases and sales are accrued.

As part of an emphasis to conform financial statement disclosures for employee benefit plans, the GASB issued Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, which was implemented by the Plan in fiscal year 1997. This statement requires greater consistency among all governmental employee benefit plans for the measurement and display of information in the basic financial statements.

Reporting entity

The Supplemental Plan is a component unit of the City and its basic financial statements and required supplemental information are included in the City's Comprehensive Annual Financial Report.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

The Supplemental Plan considers only demand deposits as cash. Cash equivalent securities, which are composed of all highly liquid investments with a maturity of three months or less when purchased, are considered to be cash equivalents.

Continued

Investments valuation and income recognition

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

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Short-term investments are government and corporate bonds with a maturity of less than one year valued at quoted market rates. The fair value of limited partnerships and real estate is based on independent appraisals and recent financial results. Investments that do not have an established market are reported at their estimated fair values.

Unrealized gains and losses are presented as net appreciation (depreciation) in fair value of investments on the statement of changes in plan net assets along with gains and losses realized on sales of investments. Purchases and sales of investments and forward foreign exchange contracts are recorded on the settlement date. Gains or losses on forward foreign exchange contracts are recognized when the contract is complete.

Dividend income is recorded on the ex-dividend date. Interest and income from other investments are recorded as earned.

Benefits

Benefits and refunds are recorded in these basic financial statements when they are due and payable to members.

Administrative expenses

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

2. **Cash and Investments**

The following shows investments reported at fair value at December 31:

	2003	2002
Short-term investment fund	$ 77,471	99,035
Commingled index funds	16,887,981	14,040,900
Total	16,965,452	14,139,935

Continued

Amounts invested in the above funds are categorized in accordance with GASB No. 3, as category 1 for custodial credit risk, which are insured or registered or for which the investments are held by the Supplemental Plan or its agent in the Supplemental Plan's name.

. **Funding Progress**

The actuarial information presented is determined by the actuarial firm of Mellon Consultants, Inc. (formerly known as Buck Consultants) for 2003 and 2002 and results from applying various assumptions with regard to termination, disability, retirement, mortality and the time value of money to the accumulated plan benefits.

The actuarial assumptions are based on the presumption that the Supplemental Plan will continue. Were the Supplemental Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

Actuarial calculations were made by the consulting actuary as of January 1, 2004 and 2003 and are not materially different from what they would have been had they been calculated on December 31, 2003 and 2002, respectively. The following assumptions are used by the Supplemental Plan's actuaries to determine the Supplemental Plan's obligations only, and are not used to calculate the actual Supplemental Plan benefits. The Supplemental Plan benefits are fully described in the Supplemental Plan's document. The significant assumptions underlying the actuarial liability calculations at January 1, 2004 and 2003 are as follows:

Actuarially assumed investment rate of return *	8.5% per annum, compounded annually
Mortality, retirement, disability and separation rates	Graduated rates detailed in actuary's report
Projected salary increases *	Range 4.3 to 10%
Actuarial cost method	Entry age normal
Post retirement benefit increases	4% per annum of original pension amount
Asset valuation	Fair market value
Amortization method	Open level fixed %
Remaining amortization period	13 years

* Includes inflation rate of 4%

Continued

GASB required supplementary information (unaudited) related to the Supplemental Plan's funding progress is as follows (amounts are in thousands):

Schedule of Funding Progress

Actuarial valuation date	Actuarial value of assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
1/1/1997	$ 10,490	$ 14,414	$ 3,924	73 %	$ 795	494 %
1/1/1998	12,685	15,278	2,593	83	852	304
1/1/1999	15,506	17,106	1,600	91	851	188
1/1/2000	17,628	18,146	518	97	934	56
1/1/2001	16,626	19,566	2,940	85	655	449
1/1/2002	15,496	21,214	5,718	73	737	776
1/1/2003	14,081	22,398	8,317	63	858	970
1/1/2004	16,950	23,325	6,375	73	730	873

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

4. **Investments**

The Board has contracted with investment managers to manage the investment portfolio of the Supplemental Plan, subject to the policies and guidelines established by the Board. The Board has custody agreements with State Street Bank and Trust Company (State Street) and effective September 1, 2002 appointed a new Custodian, JP Morgan Chase Bank (JP Morgan). Under such agreements, State Street and, effective September 1, 2002, JP Morgan assume responsibility for the safekeeping of certain investments, handling of transactions based on the instructions of investment managers and accounting for the investment transactions.

Continued

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

The Supplemental Plan's investments at December 31, 2003 and 2002 consisted of the following:

	2003		2002	
	Number of shares/units	Fair value	Number of shares/units	Fair value
Investments greater than 5% of net assets, at quoted market value:				
S&P 500 Index Commingled Equity Trust Fund State Street Global Advisors	33,963	$ 6,766,600	36,470	$ 5,644,726
Commingled Bond Index Trust Fund State Street Global Advisors	293,410	6,609,064	254,600	5,492,248
Commingled EAFE Provisional Index Trust Fund State Street Global Advisors	84,801	3,512,317	97,339	2,903,926
State Street Short-term Investment Fund (not greater than 5%)	77,471	77,471	99,035	99,035
Total investments		$16,965,452		$14,139,935

For the years ended December 31, 2003 and 2002, the Supplemental Plan's investments, including investments bought, sold, as well as held during the year, appreciated (depreciated) in value as follows:

	2003	2002
Investments, at quoted market value:		
S&P 500 Index Commingled Equity Trust Fund	$ 1,551,587	(1,399,057)
Commingled Bond Index Trust Fund	236,817	594,052
Commingled EAFE Provisional Index Trust Fund	1,052,691	(444,979)
	$ 2,841,095	(1,249,984)

5. **Federal Income Tax Status**

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

6. **Administrative Expenses**

The Supplemental Plan's document authorizes the Board to pay administrative costs from the Supplemental Plan, provided that the Supplemental Plan's actuary has determined that the Supplemental Plan has sufficient income to pay such costs. Of the Supplemental Plan's total administrative costs, $50,143 was reimbursed to the System by the Supplemental Plan during the year ended December 31, 2003.

Continued

7. Commitments and Contingencies

As described in note 1, certain members of the Supplemental Plan are entitled to refunds of their accumulated contributions on termination of employment with the City, prior to being eligible for pension benefits. As of December 31, 2003, the aggregate contributions from participants of the Supplemental Plan with less than five years of service were approximately $38,855.

8. Risk and Uncertainties

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

The Supplemental Plan contribution rates and the actuarial information included in the schedule of contributions, page 7, and schedule of funding progress, page 12, are based on certain assumptions pertaining to interest rates, inflation rates and participant demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term could be material to the basic financial statements.

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

The Supplemental Plan has intervened in the above lawsuits to protect the Supplemental Plan's right to members and City contributions which the Supplemental Plan believes will be due if the police officers' and firefighters' claims are successful. The ultimate outcome of these lawsuits cannot be determined at this time and, accordingly, no amounts related to these claims have been accrued in the City's or the Supplemental Plan's basic financial statements as of December 31, 2003.