2006 ANNUAL REPORT

DALLAS
POLICE & FIRE
PENSION SYSTEM

SERVING THOSE WHO PROTECT
THE DALLAS COMMUNITY

2006 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, including DROP = 4,739

Benefit Recipients = 3,198

Terminated Vested = 158

Total Participants = 8,095

Service Retirements Added

Police = 74

Fire = 51

Total = 125

Disability Retirements Added

Police = 3

Fire = 1

Total = 4

System Assets at Market Value = $3,131,265,222

Benefits Paid = $122,120,302

Member Contributions (Net of Refunds) = $17,214,469

City Contributions = $91,652,586

Comprehensive Annual Financial Report

of the

Dallas Police and Fire Pension System -

for the Year Ending December 31, 2006

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 -

Richard L. Tettamant,
Administrator

Brian F. Blake,
Assistant Administrator

Donald C. Rohan,
Assistant Administrator

DALLAS POLICE & FIRE PENSION SYSTEM

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,* to include the Financial Statements of the Supplemental Police and Fire Pension Plan of the City of Dallas (Supplemental Plan), for the fiscal year ended December 31, 2006 (the annual report). Though the System began a program at the start of 2006 to co-invest the assets of the Supplemental Plan with the assets of the System in order to maximize investment return of both plans, information regarding the two plans is presented separately in this annual report.

This annual 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.

This annual report is divided into six sections:

- The **Introducion** includes this transmittal letter and an overview of the System, highlighting the System's history, administrative structure, operations and programs, and provides a list of professional service providers.

- The **Financials** section presents the independent auditor's report on the System's financial statements. The audit includes Management's Discussion and Analysis (MD&A) and the System's basic financial statements and notes to the basic financial statements, with required supplemental information.

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

- The **Actuarial Report** contains the consulting actuary's Certification Letter and the full actuarial valuation report.

- The **Statistics** section presents membership, benefit payment and additional financial information in graphic form. Both current and historical data are presented.

- The **Supplemental Pension Plan** section contains the *2006 Actuarial Valuation* and the financial statements for the *Supplemental Police and Fire Pension Plan of the City of Dallas.*

Mir · Fox & Rodriguez, the System's independent auditor, issued an unqualified opinion on the System's financial statements. This type of report indicates that the financial statements are in accordance with

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Governmental Accounting Standards Board rulings and that the System's financial condition and operations are fairly presented. It is the best type of report an independent auditor may issue.

The actuarial valuation was performed by Buck Consultants. The Actuarial Valuation Report states that the overall funding of the System remains sound. The System achieved a funding ratio of 87.9% funded and a funding period of 15 years to fully fund. The Actuarial Valuation for the Supplemental Plan is included in the last section of this annual report.

Except where noted, New England Pension Consultants and The Townsend Group provided the investment performance data included in this report.

As of December 31, 2006, through the unitization of assets, the System and the Supplemental Plan remained broadly diversified with investments in equities, fixed income, and real estate. For the fourth straight year, the System experienced a double digit investment return. The total rate of return on investments for the year was 16.8%. The System's investment performance ranked in the top 6% for the one year period, top 11% over three years, and top 4% over five years, for public funds using the Independent Consultants Cooperative Universe (ICC) data base. As of December 31, 2006, the ICC public fund data base consisted of 189 public funds.

The System's management staff is responsible for maintaining a system of adequate 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.

At a time when the defined benefit form of public pension plan remain under attack in many jurisdictions around the country, the System's outstanding investment return and the diligence of the Board in monitoring the System's funding status help assure its continued financial health.

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

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

"Serve those who protect the Dallas community."

Respectfully submitted,

Gerald Brown
Chairman of the Board of Trustees

Richard L. Tettamant
Administrator

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Overview -

HISTORY OF THE SYSTEM -

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 employer each contributed 1% of pay. The "Old Plan," as we now know it, was created in response to funding pressures in 1935 under Section 6243a, Vernons' Texas Revised Civil Statutes, 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 contributing Members of the Old Plan or Plan A in the System.

The Legislature created Plan B, the current plan for most Members, in March 1, 1973. Together, the three plans are referred to as the Combined Pension Plan. In 2006, the System celebrated its 90th anniversary of ensuring the financial future of City of Dallas Police Officers and Firefighters and their families.

SYSTEM ADMINISTRATION

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 (two council trustee positions were vacant as of December 31,2006).

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 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

AllianceBernstein Inst. Inv. Management
Ashmore Investment Management Limited
Bank of Ireland Asset Management
Brandywine Investment Management
Capmark Investments LP
CDK Realty Advisors
Clay Finlay, Inc
Criswell Radovan
Crow Holdings Realty Partners
Eagle Asset Management
Forest Investment Associates
Frank Russell Company
Hancock Agricultural Investment Group
Hearthstone Advisors
Heitman Capital Management
Highland Capital Management
W. R. Huff Asset Management
INTECH
INVESCO Real Estate
Kennedy Associates Real Estate Counsel
Knudson Luxury Housing
LandBaron Investments
L&B Realty Advisors , LLP
Levine Leichtman Capital Partners
Lone Star Advisors
Lone Star Investment Advisors LLC
Loomis, Sayles & Company
Merit Energy
The Mitchell Group
Mondrian Investment Partners
N. Texas Opportunity Fund Capital Partners LP
Oak Associates
Oaktree Capital Management
Olympus Real Estate Partners
Pharos Capital Group
Pyramis Global Advisors
RMK Timberland Group
RREEF
State Street Global Advisors
TCW
T. Rowe Price Associates

Actuary

Buck Consultants Inc.

Auditor

Mir · Fox & Rodriguez, P.C.

Custodian Bank

JP Morgan Chase Bank

Investment Consultants

The Townsend Group
NEPC

Performance Measurement Consultants

Financial Control Systems Inc.

Legal Advisors

Godwin Pappas Langley Ronquillo

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

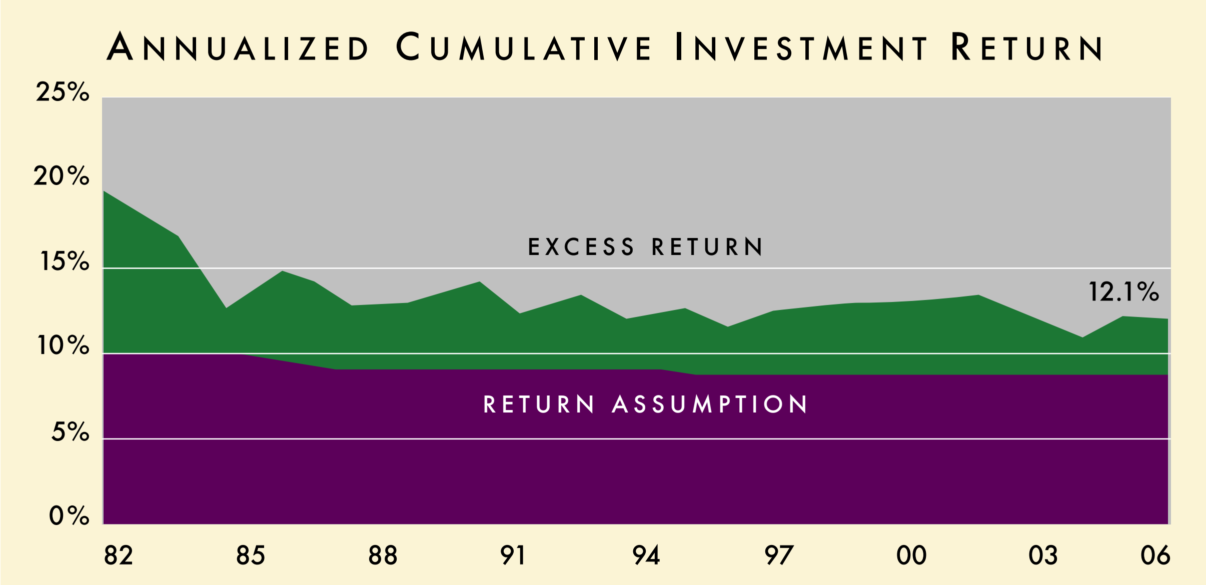
The administrative staff performs the day-to-day operations of the System. At year end, the staff consisted of 24 positions and included the Administrative, Benefits, Accounting, Investment, and Information Systems teams. The staff's main functions are (1) payment of benefits, (2) audit and control, (3) retirement counseling, (4) investment of assets (5) review and monitoring of investments, (6) Member communications, (7) coordination with professional service providers, (8) legal, and (9) staff support to the Board.

The costs of administering the System, consisting of operating administrative expenses and capitalized items, are paid by the System from current earnings pursuant to an annual fiscal budget adopted by the Board.

INVESTMENT HIGHLIGHTS

The System had a very successful year in 2006. For the fourth straight year, the System earned a double digit investment return, returning 16.8% on investments, and continues to perform among the top public pension funds in the country. Through diversification and prudent investment management, System assets, at market value, increased by $395.5 million, reaching $3.13 billion.

New England Pension Consultants (NEPC), the System's investment consultant, ranked the fund in the top 6% for the one year period, top 11% over three years, and top 4% over five years, for public funds using the Independent Consultants Cooperative Universe (ICC) data base. As of December 31, 2006, the ICC public fund data base consisted of 189 public funds.



The chart above demonstrates that the System's long-term investment performance—12.1% since 1982—has exceeded the expected rate of return.

MAJOR INITIATIVES

In 2006, the System initiated a program to co-invest the assets of the Supplemental Plan with System assets. This program, called "unitization", was designed to simplify investment of all the assets under the control of the System and maximize the investment return of the Supplemental Plan by opening this Plan to the economies of scale enjoyed by the larger fund. The two plans are still maintained separately. Benefits and contributions are applied directly to each of the plans respectively and all general costs and investment income are allocated to each plan prorated to the amount of assets in each plan.

The System continued to maintain a comprehensive business continuity plan (BCP) for the continuation of services in event of a business disruptive that prevents the System from carrying out normal activities at the System Office. The plan at this level was focused on maintaining the ability to pay pension benefits even though denied access to our business premises and equipment because of a fire or other disruption. The System began steps in 2006 to enhance our capabilities during a business disruptive event. When completed, all System data will be backed up daily at a remote site which will permit the System to carry out all essential operations in the event of business disruption. In addition, the System has entered into an agreement with the System's pension administration software vendor for a more secure means to ensure pension payments in a business disruption prevents us from issuing pension payments.

The System hired NEPC (New England Pension Consultants) as the new general investment consultant effective January 1, 2006, and also hired two internal investment analysts during the year.

The new consultant and analysts assisted the System in initiating several new investment ventures in 2006. The System expanded its real estate portfolio by approximately $200 million with various investments, entering into agreements with RMK Timberland Group (timber in Uruguay), Knudson Luxury Housing (residential housing focused primarily in Hawaii), Capmark Investments, L.P. (the largest apartment complex in Austin, TX), and Criswell Radovan (consultant to assist the System in developing a high rise residential tower in downtown Dallas). Additional, the System purchased a building at 4100 Harry Hines (Nov. 2006) for use as the future pension headquarters building. Move in date for the System is scheduled for sometime in 2008.

The System also expanded its private equity portfolio with a $100 million capital commitment to energy investments in The Huff Energy Fund, L.P., a $50 million capital commitment to the Levine Leichtman Capital Partners Deep Value fund and a $16 million capital commitment to a local fund knows as Lone Star Growth Capital LP.

In 2006, the System implemented changes approved by the Membership in the December 2005 Plan Amendment election. Most notable of the changes was the enhanced flexibility of DROP deferral and distribution rules.

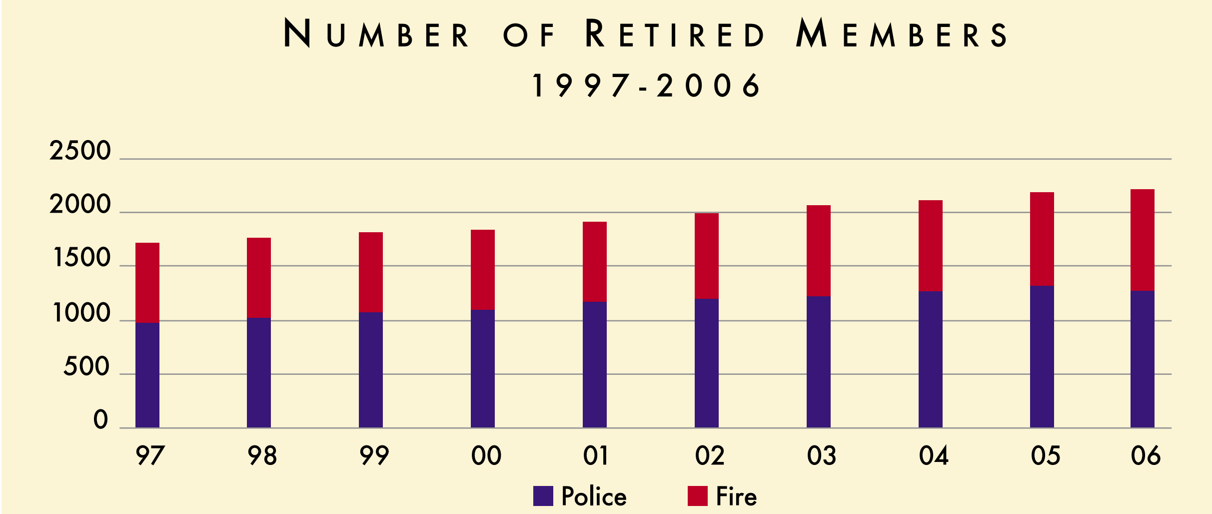
PLAN MEMBERSHIP

The System provides comprehensive retirement, disability and survivor benefits for the City's 7,937 Police Officers, Firefighters, Pensioners, and their beneficiaries. As of December 31, 2006, 3,056 Police Officers and 1,683 Firefighters were Members of the Pension System. The total of 4,739 Active Members reflects an increase of 91 from last year's total of 4,648 (2,972 Police Officers and 1,676 Firefighters). The average Police Officer is 41.03 years of age with 14.75 years of pension service. The average Firefighter is 43.69 years of age and has 17.66 years of pension service with the City of Dallas.

The Deferred Retirement Option Plan continues to be a very attractive option for Active Members. The number of Active DROP participants in active service reached 1,081 during 2006, an increase of 25 from the prior year. The average DROP participant in Active Service is 54.48 years of age with 28.95 years of pension service. The average age at which members enter DROP is 50.0 years of age.

The System paid $122.1 million in pension benefit payments recipients in 2006. At the end of the year benefit payments were being made to 2,182 service Pensioners, 198 disability Pensioners, and 818 beneficiaries.

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



THE TOTAL NUMBER OF MEMBERS ON SERVICE RETIREMENT INCREASED STEADILY OVER THE LAST TEN YEARS FROM 1,679 IN 1966 TO 2,182 AS OF DECEMBER 31, 2006

PLAN AMENDMENTS

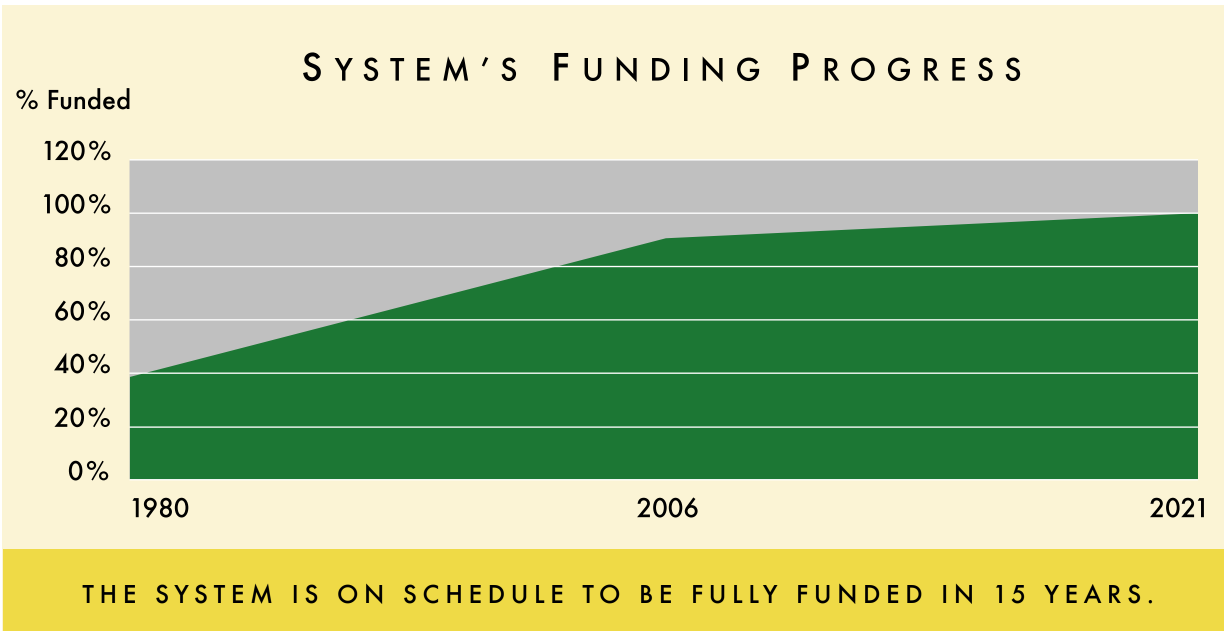
There were no changes to the Combined Pension Plan in 2006.

LEGISLATION

The System continuously monitors both State and federal legislative bodies to identify legislation that might have impact, positive or negative, on the System and our membership and take the appropriate action to support or oppose the legislation.

During 2006, long awaited legislation supported by the System was passed in Congress to eliminate the 10% early distribution tax on DROP distributions for some Members and to provide a $3,000 tax credit toward health care expenses for retirees. Though both of these two new provisions offer valuable tax relief to Members, both require additional effort to finish the job and restore features intended to be in the law. The System is working with other pension plans through national organizations to get the provisions fixed.

The System continued to oppose federal legislation that would require mandatory or universal Social Security coverage and state and federal legislation that we feel would be harmful to the public defined benefit form of retirement plan such as the System.



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%.

ACKNOWLEDGEMENTS

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

BOARD OF TRUSTEES

Gerald Brown
Fire-Rescue Department
Chairman

Steve Shaw
Police Department
Vice Chairman

Gary Edge
Fire-Rescue Department
Deputy Vice Chairman

Rector McCollum
Police Department

George Tomasovic
Fire-Rescue Department

Steve Umlor
Police Department

John Mays
Police Pensioner Trustee

Richard Wachsman
Fire Pensioner Trustee

Donald Hill
Mayor Pro Tem
City Councilmember

Maxine Thornton-Reese
City Councilmember

2006 Administrative Staff

Richard Tettamant
Administrator

Brian Blake
Asst. Administrator
Investments

Don Rohan
Asst. Administrator
Operations

Everard Davenport
General Counsel

Mike Taylor
Internal Control
Manager

Jack Liewehr
Accounting
Manager

Pat McGennis
Benefits
Manager

John Holt
Information Technology
Manager

Linda Rickley
Board Coordination
Manager

Kathy Bannon
Assistant Benefits
Counselor

Gail Borneman
Educations Programs
Coordinator

Jerry Chandler
Systems Analyst

Susan Cluse
Sr. Accountant

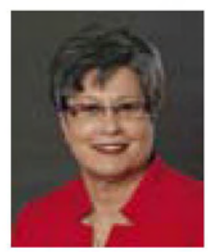
Talal Elass
Investment Analyst

Amy Gray
Admin. Assistant

Vickie Johnson
Accounting
Specialist

Kevin Killingsworth
Communications
Specialist

Barbara McCann
Pensioner Liaison



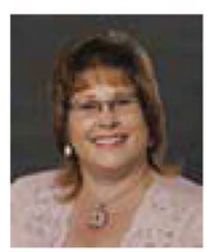
Gale Paul
Pensioner Advocate

Rosa Perez
Receptionist

Erica Ramsey
Benefits Counselor

David Richardson
Accountant

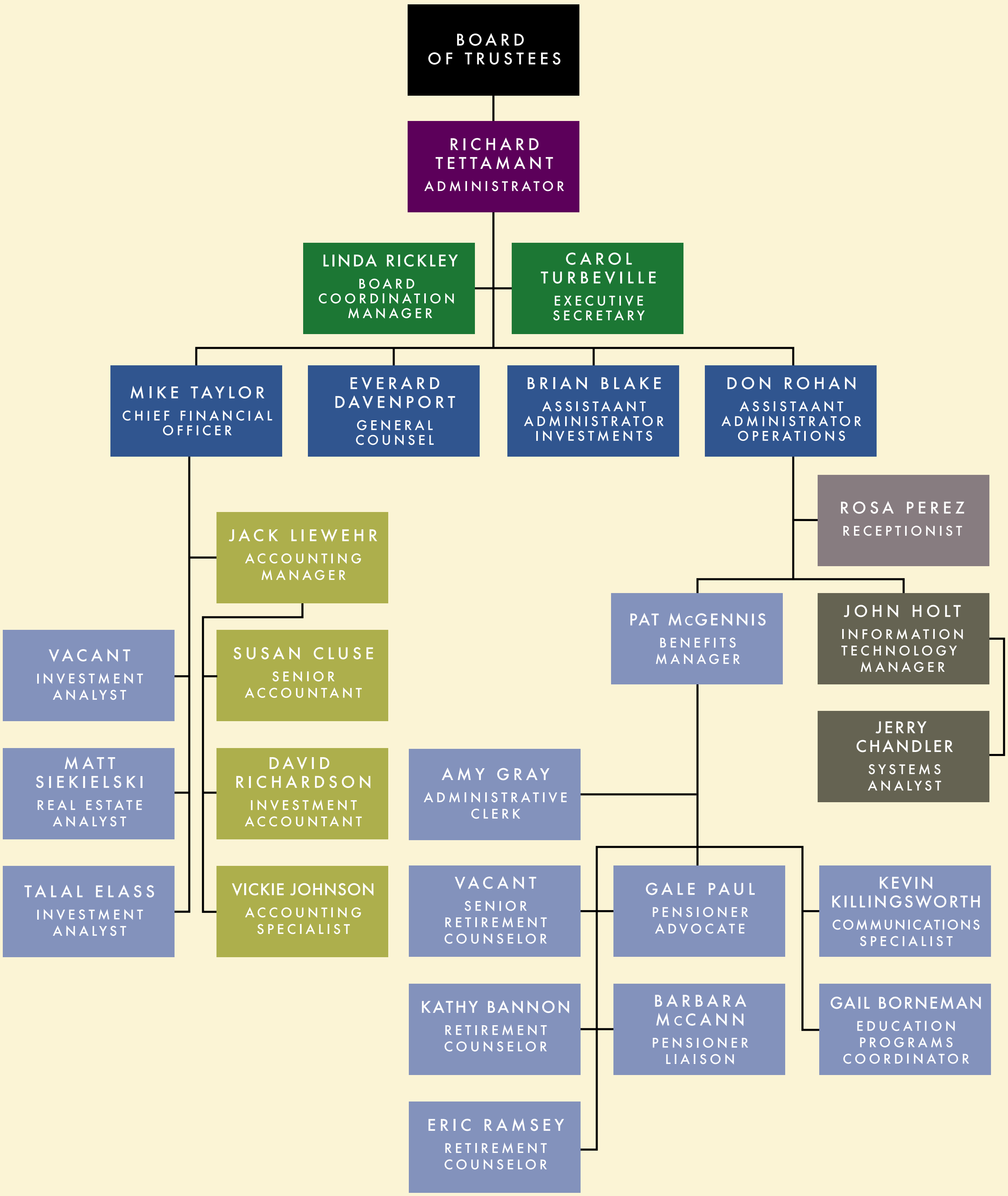
Matt Siekielski
Investment Analyst



Carol Turbeville
Executive Secretary

Organizational Chart

(as of 12.31.2006)



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 credit was increased from 2.75% to 3%
- Changes in asset allocation included global fixed income (9%) and international small capitalization (5%)
- System's assets decreased to $529.7 million (9-30-90)

1991

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

1992

- Plan Amendment election held October 1992:
  - Created Deferred Retirement Option Plan (DROP),
  - Increased the minimum benefit to $1,500 per month,
  - Allowed active Members to buy back service time they lost or to repay contributions withdrawn by a Qualified Domestic Relations Order (QDRO), 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 Member contributions being paid on pre-tax basis
- Completion of DROP five-year actuarial review
- System's assets exceeded $1.452 billion (12-31-97)

1998

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

1999

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

2000

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

2001

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

2002

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

2003

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

2004

- Established loan program to enhance real estate investment return
- Moved Pensioner Financial Planning education program to offsite
- Established a Business Continuity cold site
- System assets totaled $2.49 billion (12-31-04)

2005

- Re-election of four Trustees
- Plan amendment election held November 2005
  - Permitted Members to contribute to a health savings account to pay medical expenses after retirement
  - Permitted Pensioners to elect a 100% joint and survivor pension
  - Permitted designation of beneficiary to receive any lump sum payment payable due to death
  - Permitted Pensioner to elect a survivor benefit for a child born or adopted after the Pensioner left Active Service
  - Enabled the Board to adopt a policy to enhance flexibility in deferral to and distributions from DROP
  - Eliminated the annual adjustment for new members hired after December 31, 2006 and authorized the Board to grant ad hoc increases to affected Members
  - Extended to Police Officer Members the same presumptions regarding disabilities caused by job-related heart and lung diseases, as mandated by state law for firefighters
- System assets totaled $2.74 billion (12-31-05)

2006

- Initiated unitization of investment of pension fund assets co-investing the assets of the System and the Supplemental Plan
- System assets totaled $3.13 billion (12-31-06)

DALLAS POLICE AND FIRE PENSION SYSTEM

Financial Statements
and
Required Supplemental Information

December 31, 2006 and 2005
(With Independent Auditors' Report Thereon)

DALLAS POLICE AND FIRE PENSION SYSTEM

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Miro Fox & Rodriguez, P.C.
Certified Public Accountants

Member of the American Institute of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of plan net assets of the Dallas Police and Fire Pension System (the System) as of December 31, 2006 and 2005, and the related statements of changes in plan net assets for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial status of the System as of December 31, 2006 and 2005, and the changes in its financial status for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis (MD&A) and the required supplemental information (schedules 1 and 2), are not a required part of the basic financial statements but is 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.

Miro Fox & Rodriguez

April 29, 2008

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www.mfrpc.com

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

The Management's Discussion and Analysis (MD&A) of the Dallas Police and Fire Pension System's (the System) financial position and performance provides an overview of the System's financial activities for the fiscal years ended December 31, 2006 and 2005. The System is a defined benefit pension plan under Section 401(a) of the Internal Revenue Code. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. The analysis should be read in conjunction with the Introductory Section of the annual report, the basic financial statements, notes to the financial statements and required supplementary 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 and (2) Notes to Basic Financial Statements, including supplemental information.

The *Statement of Plan Net Assets* reflects the System's assets and liabilities and plan net assets held in trust as of the end of the year 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 required supplemental information consists of schedules of funding progress and employer contributions and notes to required supplemental information.

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.

CONDENSED FINANCIAL INFORMATION
(in thousands)

	2006	2005	2004
Assets	$ 3,131,495	3,281,804	2,712,238
Liabilities	230	546,070	218,435
Net Assets Available for Benefits	3,131,265	2,735,734	2,493,804
Contributions	109,595	105,122	100,646
Investment and Other Income	431,041	252,204	317,192
Benefit Payments	122,120	111,331	103,394
Withdrawals and Refunds of Contributions	728	1,070	801
Administrative Expenses and Professional Fees	4,265	2,995	2,898

FINANCIAL HIGHLIGHTS

- In 2006, the System initiated a program to co-invest the assets of the Supplemental Police and Fire Pension Plan of the City of Dallas (Supplemental Plan) with System assets. This program, called "unitization", was designed to simplify investment of all the assets under the control of the System and maximize the investment return of the Supplemental Plan by opening the Supplemental Plan to the economies of scale enjoyed by the System. The two plans are still maintained separately. Benefits and contributions are applied directly to each of the plans respectively and all general costs and investment income are allocated to each plan prorated to the amount of assets in each plan.

- The System's plan net assets increased 395.5 million in 2006 and by $241.9 million in 2005. Plan net assets totaled $3.13 billion in 2006 and $2.74 billion in 2005. The increase reflects a continued strong financial market and that income from employee and employer contributions and earnings on investments exceeded benefit payments and administrative expenses.

- The rate of return on System investments during 2006 was 16.8%, net of fees, compared to a rate of return of 10.3% for 2005. The increase in investment return reflects a positive financial market and the success of the System's asset allocation. The actuarial expected rate of return for both years was 8.5%.

- Liabilities totaled $229.4 thousand as of December 31, 2006. Liabilities in 2005 totaled $546.1 million. The great difference in liabilities between the two years primarily is a result of a change in the methodology of recording assets under unitization. In the current method, investment liabilities are incorporated into the Group Trust and are reflected in total investment.

- The System received employee contributions of $17.9 million in 2006 and $17.7 million in 2005 and received employer contributions from the City of Dallas in the amounts of $91.6 million and $87.4 million in 2006 and 2005, respectively. The employee contributions are 8.5% of computation pay (base pay rate plus education and longevity pays). The employer contributions represent 27.5% of total salary and wages of covered employees.

- The System paid $122.1 million in service retirement, disability retirement, survivor benefits and DROP disbursements during 2006, compared to payments of $111.3 million benefits in 2005. The System refunded approximately $728.3 thousand and $1.07 million in contributions to former members in 2006 and 2005, respectively. No changes to benefit provisions were implemented in 2006 and 2005. The increase in-benefit payments resulted both from an increase in the number of benefit recipients and annual adjustment increases to base benefits in 2006 and 2005.

- The cost of administering the benefit programs of the System, including administrative costs and professional fees, was $4.3 million in 2006 compared to $3.0 million in 2005.

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FUNDING PROGRESS

The System contracted with Buck Consultants to conduct an actuarial valuation to determine the actuarial position of the System as of January 1, 2007. 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 the market value of assets increased $385 million during 2006 to $3.131 billion as of January 1, 2007. The market value of assets as of January 1, 2006 was $2.745 billion. During the same period, the actuarial value of the assets (AVA) increased $262 million to a total of $2.962 billion as of January 1, 2007.

- As of January 1, 2007, the actuarial accrued liability (AAL), or actuarial value of liabilities, increased during 2006 by $89 million to $3.371 billion.

- The ratio of a plan's AVA to AAL, expressed as a percentage, is an indicator of the plan's funding status. Generally, the larger the percentage, the stronger the financial health of the plan. The System's AAL ratio improved to 87.9% during 2006. The ratio as of January 1, 2006 was 82.3%.

- When a plan's total liabilities exceed the assets available to pay benefits on an actuarial basis, the plan is said to have an unfunded actuarial accrued liability (UAAL). As of January 1, 2007, the System's UAAL was $409 million, an improvement of $173 million from a UAAL of $582.1 million as of January 1, 2006.

- Another measure of funding status is funding period. This is the length of time in years needed to amortize the current unfunded actuarial accrued liability (UAAL) based on the current contribution rate. As of January 1, 2007, the employer contribution rate of 27.5% covers the normal cost and the amortization of the UAAL over 15 years, compared to 20 years to fund as of the January 1, 2006 valuation. This decrease of 5 years in the number of years to fully fund the System further demonstrates the improvement in the System's funding status due primarily to improved investment return.

CONTACTING THE SYSTEM'S FINANCIAL MANAGEMENT

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

DALLAS POLICE AND FIRE PENSION SYSTEM

Statements of Plan Net Assets
December 31, 2006 and 2005

Assets	2006	2005
Investments, at fair value (notes 2, 3 and 4):		
Cash and cash equivalents	$	272,737,505
United States government securities		21,086,315
United States government sponsored enterprises		34,239,013
Foreign government securities		247,540,762
Commingled funds		89,005,318
Domestic equities		831,471,786
International equities		660,850,977
Corporate securities		373,824,612
Investments, at appraised value - real estate equity funds (note 3)		546,201,086
Plan interest in Group Master Trust, at fair value (notes 2, 3 and 4)	3,129,921,814	
Total investments	3,129,921,814	3,076,957,374
Receivables:		
Accrued interest and dividends		12,335,285
Employer contributions (note 5)	1,330,581	1,025,927
Member contributions	242,187	203,027
Forward currency contracts (note 6)		77,540,182
Securities sold		113,742,075
Total recievables	1,572,768	204,846,496
Total assets	3,131,494,582	3,281,803,870
Liabilities and Net Assets		
Repurchase loan agreement (note 7)		51,778,137
Payable for securities purchased		106,224,192
Administrative and professional fees payable	229,360	14,606,635
Forward currency contracts (note 6)		79,254,983
Securities lending collateral (note 4)		207,815,275
Line of credit (note 8)		86,390,791
Total liabilities	229,360	546,070,013
Net assets held in trust for pension benefits (a schedule of funding progress is included on page 27)	$ 3,131,265,222	2,735,733,857

See accompanying notes to basic financial statements.

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DALLAS POLICE AND FIRE PENSION SYSTEM

Statements of Changes in Plan Net Assets
Years Ended December 31, 2006 and 2005

	2006	2005
Additions to plan net assets:		
Investment Income:		
Net investment gain from the Group Master Trust	$ 413,041,327	
Interest		32,011,489
Dividends		30,282,985
Real estate income		23,745,204
Net appreciation in fair value of investments		185,660,666
Securities lending income		2,601,233
Less investment expenses:		
Securities lending borrower rebates		(1,544,051)
Custody fees		(479,286)
Investment services		(20,418,398)
Net investment income	413,041,327	251,859,842
Contributions:		
Employer	91,652,586	87,373,312
Employee	17,942,807	17,748,241
Total contributions	109,595,393	105,121,553
Other income		344,399
Total net additions to plan net assets	522,636,720	357,325,794
Deductions from plan net assets:		
Benefit payments	122,120,302	111,330,798
Withdrawal payments and refunds of contributions	728,338	1,069,858
Administrative expenses and professional fees	4,256,715	2,995,209
Total deductions from plan net assets	127,105,355	115,395,865
Net increase in plan net assets	395,531,365	241,929,929
Plan net assets held in trust for pension benefits:		
Beginning of year	2,735,733,857	2,493,803,928
End of year	$ 3,131,265,222	2,735,733,857

See accompanying notes to basic financial statements.

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DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements
December 31, 2006 and 2005

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, 2006 and 2005, the System's membership consisted of:

	2006	2005
Nonactive member:		
Pensioners and qualified survivors currently receiving benefits and terminated employees entitled to benefits but not yet receiving them:		
Firefighters	1,384	1,369
Police officers	1,814	1,752
Terminated vested members not yet receiving benefits	158	141
Total nonactive members	3,356	3,262
Current employees:		
Vested:		
Firefighters	1,420	1,405
Police officers	2,390	2,346
Total vested current employees	3,810	3,751
Nonvested:		
Firefighters	263	271
Police officers	666	626
Total nonvested current employees	929	897
Total current employees	4,739	4,648

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

Pension benefits

Members hired by the City before March 1, 1973 were eligible to be Group A members, all other members hired on or after March 1, 1973 became Group B members.

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

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

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

Group B 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.

Additional benefits available under the System:

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

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

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

- 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 $507,453,306 and $428,990,153 for December 31, 2006 and 2005, 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 System's plan document. The minimum benefit is prorated for members who retire with less than 20 years of service credit and $1,200 monthly for Qualified Surviving Spouse, if there are no Qualified Surviving Children receiving benefits. The minimum benefit is $1,100 monthly for Qualified Surviving Children and Qualified Surviving Spouse, if qualified surviving children are receiving benefits.

Contributions

As a condition of participation, Group A members contribute to the System 6.5% of their base pay, as defined in the System's plan document. However during 2006 and 2005 no member elected contribution under Group A. Group B members are required to contribute to the System 8.5% of their Computation Pay, as defined in the System's plan document. Article 6243a-1 of the Revised Civil Statutes of Texas requires the City to make contributions of 27.5% of total wages and salaries as defined in the System's plan document, in accordance with schedules contained in the plan document.

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

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

Termination

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

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

System administration

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

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

Basis of presentation

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

Basis of accounting

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

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.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

Use of estimates

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

Cash and cash equivalents

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

Plan interest in Group Master Trust

Beginning January 1, 2006, the System's investments are held in the Group Master Trust (Group Trust). JP Morgan Chase served as custodian for the year ended December 31, 2006. The fair value of the System interests in the Group Trust is based on the unitized interests that it has in the Group Trust. The System's interest in the Group Trust was approximately 99.3691% at December 31, 2006. The allocation of investment income between the System and the Supplemental Plan is based on the number of units owned of the Group Trust. Benefits, contributions and administrative expenses are allocated to each plan directly.

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, real estate trusts, and real estate loans is based on independent appraisals and recent financial results. Investments that do not have an established market are reported at their estimated fair values. The System's interest in the Group Master Trust is based on the fair value of the unitized interest held by the System. The underlying investments included in the Group Master Trust are reported at fair value based on quoted market prices, when quoted market prices are not available, investments are based on independent appraisals and recent financial results, or if no established market then they are reported at their estimated fair values.

Unrealized gains and losses are presented as net appreciation 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 trade date. Gains or losses on forward foreign exchange contracts are recognized when the contract is complete.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

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

Benefits

Benefits and refunds of contributions are recorded in these basic financial statements when they are paid to participants.

Foreign currency transactions

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

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

Investments and broker accounts denominated in foreign currencies outstanding at December 31, 2006 and 2005 were converted to the Group Trust's and the System's functional currency (United States dollars) at the foreign exchange rates quoted at December 31, 2006 and 2005, respectively. These foreign exchange gains and losses are included in net appreciation in fair value of investments in the accompanying statements of changes in plan net assets.

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 Cash Equivalents**

For cash deposits and cash equivalents, custodial credit risk is the risk that in the event of a bank failure, the Group Trust's and the System's deposits may not be returned to it. The Group Trust's and the System's deposits are held by the Custodian, JP Morgan Chase. As of December 31, 2006 and 2005, the Group Trust and the System had bank balances of $1,082,459 and $1,046,554, respectively, that are in demand deposit accounts subject to coverage by Federal deposit insurance, but not collateralized. The Group Trust and the System does not have a deposit policy for custodial credit risk; however, the Group Trust's and the System's credit risk exposure is mitigated by the financial strength of the banking institution in which the deposits are held.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

3. Investments and Plan Interest in Group Master Trust

The following disclosures on investments and plan interest in Group Master Trust are made for both the Group Master Trust as of and for the year ended December 31, 2006 and for the System as of and for the year ended December 31, 2005. The underlying investments are primarily the same in both 2006 and 2005 for the Group Master Trust and the System.

The following summarizes the fair value of investments for the Group Trust as of December 31, 2006:

Investments, at fair value (notes 2, 3 and 4):	
Cash and cash equivalents	$ 270,728,342
United States government securities	58,045,060
United States government sponsored enterprises	8,960,840
Foreign government securities	194,261,708
Commingled funds	86,465,708
Domestic equities	1,103,204,010
International equities	741,591,982
Corporate securities	374,426,266
Investments, at appraised value - real estate equity funds	767,991,320
Total investments	3,605,695,236
Receivables:	
Accrued interest and dividends	13,467,610
Forward currency contracts (note 6)	79,787,702
Securities sold	51,559,052
Total recievables	144,814,364
Total assets	3,750,509,600
Liabilities and Net Assets	
Repurchase loan agreement (note 7)	35,710,000
Payable for securities purchased	56,554,065
Professional fees payable	2,920,525
Forward currency contracts (note 6)	79,787,702
Securities lending collateral (note 4)	221,286,049
Line of credit (note 8)	204,460,000
Total liabilities	600,718,341
Net assets in the Group Trust	$ 3,149,791,259

Continued

DALLAS POLICE AND FIRE PENSION GROUP TRUST

Notes to Basic Financial Statements, Continued

The following summarizes the net change in the Group Trust for the year ended December 31, 2006:

Investment income:		
Interest	$	28,451,894
Dividends		30,426,918
Real estate income		19,095,242
Net appreciation in fair value of investments		353,315,991
Securities lending income		937,538
Less investment expenses:		
Custody fees		(420,106)
Investment services		(17,363,973)
Total investment income in Group Trust		414,443,504
Plan net assets held in trust for pension benefits:		
Beginning of year		-
Transfer of investments by the System and the Supplemental Plan		2,735,347,755
End of year	$	3,149,791,259

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

Group Trust interest held by the System	$ 3,129,921,814
Group Trust interest held by the Supplement Plan	21,169,910
Total nets assets of Group Trust	$ 3,149,791,259

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

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DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

The fair values of the Group Trust's investments at December 31, 2006 and the System's investments at December 31, 2005 are presented by type, as follows:

	Group Trust 2006	System 2005
Cash and cash equivalents	$ 270,728,342	272,737,505
United States government securities	58,045,060	21,086,315
U.S. government sponsored enterprises	8,980,840	34,239,013
Foreign government securities	194,261,708	247,540,762
Commingled funds	86,465,708	89,005,318
Domestic equities	1,103,204,010	831,471,786
International equities	741,591,982	660,850,977
Corporate securities	374,426,266	373,824,612
Investments, at appraised value - real estate equity funds	767,991,320	546,201,086
Total investments	$ 3,605,695,236	3,076,957,374

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

Investments that individually represent 5% or more of the net assets available for benefits and the total of investments that individually represent less than 5% of the net assets available for benefits at December 31 are as follows:

	Group Trust 2006 Fair value	System 2005 Fair value
Investments greater than 5% of net assets, at quoted market value:		
Securities lending -		
Global Securities Lending JP Morgan	$ 221,286,049	207,815,275
Total investments greater than 5% of net assets	221,286,049	207,815,275
Investments less than 5% of net assets:		
At quoted market value	2,616,417,867	2,322,941,014
At appraised value	767,991,320	546,201,085
Total investments	$ 3,605,695,236	3,076,957,374

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

Custodial credit risk

For an investment, custodial credit is the risk that, in the event of the failure of the counterparty, the Group Trust and the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Group Trust and the System, and are held by either the counterparty or the counterparty's trust department or agent but not in the Group Trust's or the System's name. At December 31, 2006 and 2005, the Group Trust's and the System's security investments that were not subject to custodial credit risk were the investments in fixed income and equity investments.

Concentration of credit risk

The allocations of assets among various asset classes are set by the Board with the objective of optimizing the investment return of the Group Trust and the System within framework of acceptable risk and diversification. For major asset classes (e.g., domestic equities, international equities, fixed income, alternative investments, and real estate), the Group Trust and the System will further diversify by employing investment managers who implement the strategies selected by the Board.

Significant guidelines are as follows:

Public market investments

1. Specific guidelines are developed cooperatively by the System investment staff, legal counsel, and investment manager and shall be incorporated into the Investment Management Services Contract executed by the Chair of the Board, System Administrator, General Counsel, and the investment manager.
2. In case of conflict between the specific manager guidelines and the general guidelines, the specific guidelines, as approved by the Board, shall supersede. The general guidelines are as follows:

   a. Manager investment philosophy, style, and strategy shall remain consistent and shall not change without the Board's approval. The manager shall have discretion to manage the portfolio consistent with the style presented to the Board at the time of selection and further subject to the restrictions established by the policy herein.
   b. The following transactions are prohibited: short sales, selling on margin, put and call options, and the use of derivatives for speculation unless authorized by the Board.
   c. Transactions that involve a broker acting as a principal, where such broker is also affiliated with the manager who is making the transaction are prohibited, unless specifically approved by the Board.
   d. Transactions shall be executed at competitive costs, or within the parameters established for directed brokerage transactions by the Board.
   e. Managers shall maintain cash levels consistent with their style as presented to the Board at the time of selection. Any deviation shall be allowed only after notifying the System Administrator and Assistant Administrator of Investments and should be related to unusual market conditions. The cash level held by each manager will be addressed in the Investment Management Services Contract.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

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

Alternative and real estate investments

1. The investment specific guidelines for each manager will be incorporated in a Limited Partnership Agreement, Limited Liability Company Agreement, or other binding agreement as is appropriate for the investment. The Board, System Administrator, General Counsel, and the investment manager execute this document.

2. In case of conflict between the specific manager guidelines and the general guidelines, the specific guidelines, as approved by the Board, shall supersede. The general guidelines are as follows:

   a. Manager investment philosophy, style, and strategy shall remain consistent and shall not change without the Board's approval. The manager shall have discretion to manage the portfolio consistent with the style presented to the Board at the time of selection and further subject to the restrictions established by the policy herein.
   b. The Chair of the Board may execute amendments and consents if the resulting changes or allowances are provided for in the governing documents as previously accepted by the Board. Otherwise, such changes are to be approved by the Board. The Board will be notified on a quarterly basis of all executed amendments.

3. The Board with assistance from the System staff shall monitor each Alternative and Real Estate manager's performance and adherence to strategy and manager specific guidelines. It is the Board's discretion to take corrective action by replacing an investment manager if they deem it feasible and appropriate at any time. Alternative and Real Estate investment manager retention is governed in most cases by Limited Partnership Agreements, Limited Liability Company Agreements, or other binding agreements. In these cases, the Board with assistance from the System staff shall identify available options as allowed by the governing documents and determine the impact and consequences of these options.

Interest rate risk and foreign currency risk

The Group Trust and the System invests in fixed income securities including, but not limited to, investments representing instruments with an obligated fixed rate of interest including public and private debentures, mortgages, investments in life insurance general accounts and guaranteed investment contracts, with maturities greater than one year, and options/futures. Instruments may have an investment grade or non-investment grade rating. Purchases and sales, investment selection and implementation of investment strategies are delegated to the discretion of the investment manager, subject to compliance with its management agreement and the System's Investment Policy.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. Interest rate risk is the greatest risk faced by an investor in the fixed income market. The price of a fixed income security typically moves in the opposite direction of the change in interest rates. The weighted average maturity expresses investment time horizons (when the investment come due and payable) in years, weighted to reflect the dollar size of individual investments within the investment type. The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates, but rather mandates such limits within the Investment Management Services Contract.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. International securities investment managers are expected to maintain diversified portfolios by sector and by issuer using the System Investment Policy.

At December 31, 2006, the following tables show the Group Trust's investments by type, time-to-maturity, fair value, and foreign currency fluctuation:

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

The following tables provide information as of December 31, 2006, concerning the fair value of investments, interest rate risk, and foreign currency risk:

Type of investment	Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years	Total Fair Value
Fixed maturity domestic:					
U.S. Treasury securities	$ 9,668,599	8,526,780	3,312,690	36,536,991	58,045,060
U.S. Government Agency Securities				8,980,840	8,980,840
Corporate Securities:					
Asset backed securities			4,120,107	1,217,354	5,337,461
Collateralized mortgage obligation			3,069,824		3,069,824
Corporate bonds	5,331,009	43,796,474	96,068,901	84,576,598	229,792,982
Commingled funds				86,465,708	86,465,708
Convertible bonds	1,911,000	25,770,975	2,090,737	2,076,962	31,849,674
Investment interests				68,155,759	68,155,759
Total fixed maturity domestic	16,910,608	78,094,229	108,662,259	288,010,212	491,697,308
International government bonds:					
Australian Dollar AUD		3,739,340	7,840,577		11,579,917
Argentina		1,363,229			1,363,229
British Pound Sterling		5,738,851	11,737,218		17,476,069
Canadian dollar		8,617,075	2,240,399		10,857,474
EURO Currency	2,250,611	34,689,933	5,031,530	10,191,794	52,163,868
Japanese Yen	14,090,758	8,704,649	13,226,971		36,022,378
Mexican New Peso		9,397,369	218,065	1,203,035	10,818,469
New Zealand Dollar			3,245,872		3,245,872
Poland		3,844,168	8,086,824	6,071,669	18,002,681
Peru			1,432,512		1,432,512
Singapore Dollar	8,020,427	5,634,599			13,655,026
South African Rand		3,750,625	3,455,376		7,206,001
Swedish Krona		10,438,212			10,438,212
Total international government bonds	24,361,796	95,918,070	56,515,344	17,466,498	194,261,708
International corporate bonds:					
Australian Dollar			1,356,499		1,356,499
British Pound Sterling		6,144,216	4,932,936		11,077,152
EURO Currency	5,060,182	5,365,982	5,048,916	1,187,073	16,662,153
Indonesian Rupiah		2,001,362			2,001,362
Thai Bat		5,123,400			5,123,400
Total international corporate bonds	5,060,182	18,634,960	11,338,351	1,187,073	36,220,566
Pooled international fixed maturity	-	4,832,149	1,247,205	68,155,759	74,235,113
Total international fixed maturity	29,421,978	119,385,179	69,100,900	86,809,330	304,717,387
Total fixed maturity	$ 46,332,586	192,647,259	176,535,954	306,663,783	722,179,582

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Group Trust does not have a formal policy limiting investment credit risk, but rather mandates such limits within the Investment Management Services Contract. The Group Trust's exposure to investment credit risk in fixed income securities as of December 31, 2006 is as follows:

Type	Moody Rating	Amount	Percentage of Holdings
Corporate securities:			
Asset backed securities			
	B2	$ 247,977	0.03%
	Ba1	54,403	0.01%
	Ba2	858,654	0.12%
	Ba2	587,364	0.08%
	WR	3,578,982	0.50%
Total asset backed securities		5,327,461	0.74%
Convertible bonds			
	B2	429,463	0.06%
	B3	1,427,283	0.20%
	Ba2	913,800	0.13%
	Caa2	2,821,138	0.39%
	Caa3	1,728,350	0.24%
	NR	24,291,810	3.36%
	WR	238,250	0.03%
Total convertible bonds		31,849,674	4.41%
Corporate bonds			
	A1	1,762,561	0.24%
	A2	4,575,498	0.63%
	A3	2,484,853	0.34%
	Aa1	6,023,899	0.83%
	Aa3	2,370,728	0.33%
	Aaa	9,350,937	1.29%
	B1	54,728,837	7.58%
	B1e	1,218,000	0.17%
	B2	38,797,013	5.37%
	B3	29,375,498	4.07%
	B3e	715,850	0.10%
	Ba1	8,418,019	1.17%
	Ba2	20,483,300	2.84%
	Ba3	18,644,791	2.58%
	Baa1	6,204,504	0.86%
	Baa2	2,910,887	0.40%
	Baa3	9,013,981	1.25%
	Caa1	25,019,321	3.46%
	Caa2	1,517,000	0.21%
	P1	150,628	0.02%
	NR	3,902,296	0.54%
	WR	18,347,149	2.54%
Total corporate bonds		266,013,548	36.83%
Mortgage bonds			
	B3	$ 1,247,205	0.17%
	WR	1,822,619	0.25%
Total mortgage bonds		3,069,824	0.42%
Investment fund			
	NR	68,155,759	9.44%
Total investment fund		68,155,759	9.44%
Total corporate securities		374,426,267	51.85%
Government sponsored enterprises -			
	Aaa	8,980,840	1.24%
Foreign government securities-			
Government bonds			
	A2	57,386,872	7.95%
	A3	2,730,854	0.38%
	Aa1	2,240,399	0.31%
	Aa2	2,368,339	0.33%
	Aaa	106,414,386	14.74%
	Ba3	1,432,512	0.20%
	Baa1	10,818,469	1.50%
	NR	10,882,878	1.51%
Total foreign government securities		194,281,708	26.90%
United States government securities:			
Treasury bill	P-1	4,990,250	0.69%
Treasury bond	Aaa	36,536,991	5.06%
Treasury note	Aaa	16,517,818	2.29%
Total U.S. government securities		58,045,059	8.04%
Commingled	NR	86,465,708	11.97%
Total credit risk debt securities		722,179,592	100.00%

4. **Securities Lending**

The Board has authorized the Group Trust and the System to enter into an agreement with JP Morgan Chase (JP Morgan) for the lending of certain of the Group Trust's and the System's securities (the Securities Lending Program or program) including, but not limited to, stocks and bonds to counterparty brokers and banks (borrowers), for a predetermined period of time and fee. Such transactions are allowed by State statute.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

During 2006 and 2005, JP Morgan lent, on behalf of the Group Trust and the System, securities held by JP Morgan as the Group Trust's and the System's custodians, and received United States dollar cash and United States Government securities as collateral. 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 2006 and 2005 on the amount of the loans that 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 years 2006 and 2005. Moreover, there were no losses during the 2006 and 2005 fiscal years resulting from a default of the borrower, JP Morgan indemnifies the Group Trust and System in respect of any loan related to any non-cash distribution and return of securities.

During 2006 and 2005, 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 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, 2006 and 2005, the Group Trust and the System had no credit risk exposure to borrowers. The market value of securities on loan and collateral held for the Group Trust were $221,286,049 at December 31, 2006 and $207,815,275 for the System at December 31, 2005.

Disclosure of securities lending revenue is shown gross with the associated reductions for investment expenses on the face of the statements of changes in plan net assets, and the cash collateral and associated securities lending payable is shown on the face of the statements of plan net assets for the System as of December 31, 2005 and included in the Group Trust information as of December 31, 2006.

5. Contributions Required and Contributions Made

Funding policy

Contribution rates are established to remain level over time as a percentage of members' salaries. The contribution rate has been determined to provide for normal cost plus the level percentage of members' salaries required to amortize the unfunded actuarial accrued liability (or surplus) over 15 years as of January 1, 2007 compared to 20 years as of January 1, 2006.

The required contribution rate of the City, pursuant to an actuarial study effective January 1, 2007, consists of 18.78% of covered members' salaries to pay normal costs, increased by 7.07% of covered members' salaries to amortize its funding deficit over 15 years, increased by 1.65% of covered members' salaries for an additional amortization requirement resulting in a net contribution rate of 27.5%. The City is required to contribute at a rate that has been actuarially determined and adopted by the Board.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

In 2006 and 2005, combined police officers, firefighters and City contributions represent approximately 8.5 % and 27.5%, respectively of each year's covered payroll. State law requires that the System fund the plan benefits based on an approved actuarial study. The actuary must certify that the contribution commitment by police officers, firefighters and the City provides an adequate financing arrangement. During 2006 and 2005, contributions were made in accordance with the adopted plans of benefits approved by the System's actuary.

Historical trend information

Historical trend information is provided as supplemental information on pages 26 through 28. This information is intended to demonstrate progress the System has made in accumulating sufficient assets to pay benefits when due and the related actuarial assumptions used in determining the actuarially determined amounts.

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

6. Forward Contracts

During fiscal years 2006 and 2005, the Group Trust and 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 Group Trust and the System records the unrealized currency translation gain or loss based on the applicable forward exchange rates. Such matching existed at December 31, 2006 and 2005.

During 2006 and 2005, the Group Trust and the System recognized net realized losses on foreign currency forward contracts of $1,964,102 and $305,327, respectively. At December 31, 2006 and 2005, the Group Trust and the System had net unrealized loss on forward currency contracts reflected in the accompanying Group Trust summary information and the basic financial statements of approximately $2,068,373 and $1,714,801, respectively.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

7. Obligation Under Reverse Repurchase Agreements

State statutes permit the System to enter into reverse repurchase agreements. The credit exposure at year end 2006 and 2005 related to these agreements was $35,710,000 and $2,369,792 in the Group Trust and the System, respectively. All sales of investments under reverse repurchase agreements are for fixed terms. In investing the proceeds of reverse repurchase agreements, the System policy is for the term to maturity of the investment to be the same as the term of the reverse repurchase agreements. Such matching existed at December 31, 2006 and 2005.

8. Line of Credit

The Group Trust has a credit agreement with a commercial bank which provides for a revolving line of credit bearing interest of 5.75% at December 31, 2006, payable quarterly and 4.7% at December 31, 2006, payable monthly. At December 31, 2006, the Group Trust had borrowed approximately $204,460,000 related to the revolving credit line which provides for a maximum borrowing of $234,000,000. The revolving credit line was opened in November 1, 2006, and expires on September 13, 2008. The interest rate is based on LIBOR plus 40 basis points. The Group Trust and the System also pays a quarterly fee on the unused portion of the line of credit.

The System has a credit agreement with a commercial bank which provides for a revolving line of credit bearing interest of 4.7% at December 31, 2005, payable monthly. At December 31, 2005, the System had borrowed approximately $86,391,000 related to the revolving credit line which provides for a maximum borrowing of $100,000,000. The revolving credit line was opened in July 2005, and expires on July 6, 2006. Interest rate is based on LIBOR plus 40 basis points. The System also pays a quarterly fee on the unused portion of the line of credit.

9. 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 System is designed and continues to operate in compliance with the applicable requirements of the Internal Revenue Code.

10. 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. The System reimbursed the City for $336,027 and $418,863 related to the System's overall administrative costs during the years ended December 31, 2006 and 2005, respectively.

Investment related expenses for the years ended December 31, 2006 and 2005 also include $12,622,475 and $13,552,627, respectively, in asset management fees for the Group Trust and the System, respectively.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

11. **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, 2006 and 2005, aggregate contributions from active members of the System with less than five years of service were $7,445,067 and $7,636,685, respectively.

The Group Trust had outstanding investment commitments to various limited partnerships and international investment advisors of $501,151,919 at December 31, 2006.

The System had outstanding investment commitments to various limited partnerships and international investment advisors of approximately $288 million at December 31, 2005.

12. **Deferred Compensation Plans**

The System offers its employees a deferred compensation plan (the DCP) created in accordance with Internal Revenue Code Section 457. The DCP, available to all employees of the System, permits employees to defer a portion of their salary until future years. Distributions from the DCP are not available to employees until termination, retirement, death or unforeseeable emergency. The DCP has a third party administrator, ING Retirement Services (ING) and the cost of administration and funding are borne by the DCP participants. Amounts deferred are held in trust by ING and since the System had no fiduciary responsibility for the DCP, these amounts are not reflected in the accompanying basic financial statements in accordance with GASB Statement No. 32.

The System also offers its employees a money purchase pension plan (MPP) created in accordance with Internal Revenue code Section 401. The plan is available to employees of the System that are not considered an employee of the City. Participation in the plan is with the performance of one hour of service and termination from the plan is upon employment termination. Employees are allowed to make after tax contributions, not to exceed IRS Code limitations. System contributions equal a percentage of the employee's compensation that is equal to the contributed amount the City makes on behalf of a System participant. During 2006 and 2005, the System contributed $225,638 and $139,680, respectively. The MPP has a third party administrator, ING, Inc., and the cost of administration and funding are borne by the MPP participants. Amounts deferred are held in trust by ING and since the System had no fiduciary responsibility for the MPP, these amounts are not reflected in the accompanying financial statements in accordance with GASB Statement No. 32.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

13. Risks and Uncertainties

The Group Trust and 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 28, and schedule of funding progress, page 27, 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 System's basic financial statements as of December 31, 2006 and 2005.

Schedule 1

DALLAS POLICE AND FIRE PENSION SYSTEM

Schedule of Funding Progress (Unaudited)
(dollars in millions)

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

Schedule of Funding Progress

Actuarial valuation date	Actuarial value of assets (AVA) (a)	Actuarial accrued liability (AAL) (b)	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
1/1/2005	2,485	3,074	589	80.8	282	208.9
1/1/2006	2,700	3,282	582	82.3	295	197.3
1/1/2007	2,962	3,371	409	87.9	306	133.7

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

Analysis of the dollar amounts of actuarial value of assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the plan is becoming financially stronger or weaker, generally, the greater this percentage, the stronger the plan. Trends in unfunded actuarial accrued liability and covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of covered payroll approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

See accompanying note to required supplemental schedules.
See accompanying independent auditors' report.

Schedule 2

DALLAS POLICE AND FIRE PENSION SYSTEM

Schedule of Employer Contributions (Unaudited)
(dollars in thousands)

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

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%
2004	83,291	100%
2005	87,373	100%
2006	91,653	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.

Contributions were made in accordance with actuarially determined contribution requirements as adopted by the Board.

See accompanying note to required supplemental schedules.
See accompanying independent auditors' report.

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DALLAS POLICE AND FIRE PENSION SYSTEM

Note to Required Supplemental Schedules (Unaudited)

The information presented in the required supplemental schedules was determined as part of the actuarial valuations at the dates indicated. The significant assumptions underlying the actuarial calculations at January 1, 2007 and 2006 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% to 9.64% in 2007 actuary report and range 4.3% to 10% in 2006 actuary report
Actuarial cost method	Entry age normal cost method

* Includes inflation rate of 4% and net of all expenses
** Includes inflation 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	15 years in 2007 actuary report and 20 years in 2006 actuary report
DROP account returns	9% per annum
Post retirement mortality	1994 Group Annuity Mortality Table

The actuarial information presented was determined by the actuarial firm Buck Consultants, Inc. for 2006 and 2005 and results from applying various assumptions with regard to termination, disability, retirement, mortality and the time value of money to the accumulated plan benefits.

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

Actuarial calculations were made by the consulting actuary Buck Consultants, Inc. as of January 1, 2007 and 2006, and are not materially different from what they would have been had they been calculated on December 31, 2006 and 2005, respectively. The above assumptions are used by the System's actuaries to determine the System's obligations only, and are not used to calculate the actual System benefits. Plan benefits are fully described in the System's document.

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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.

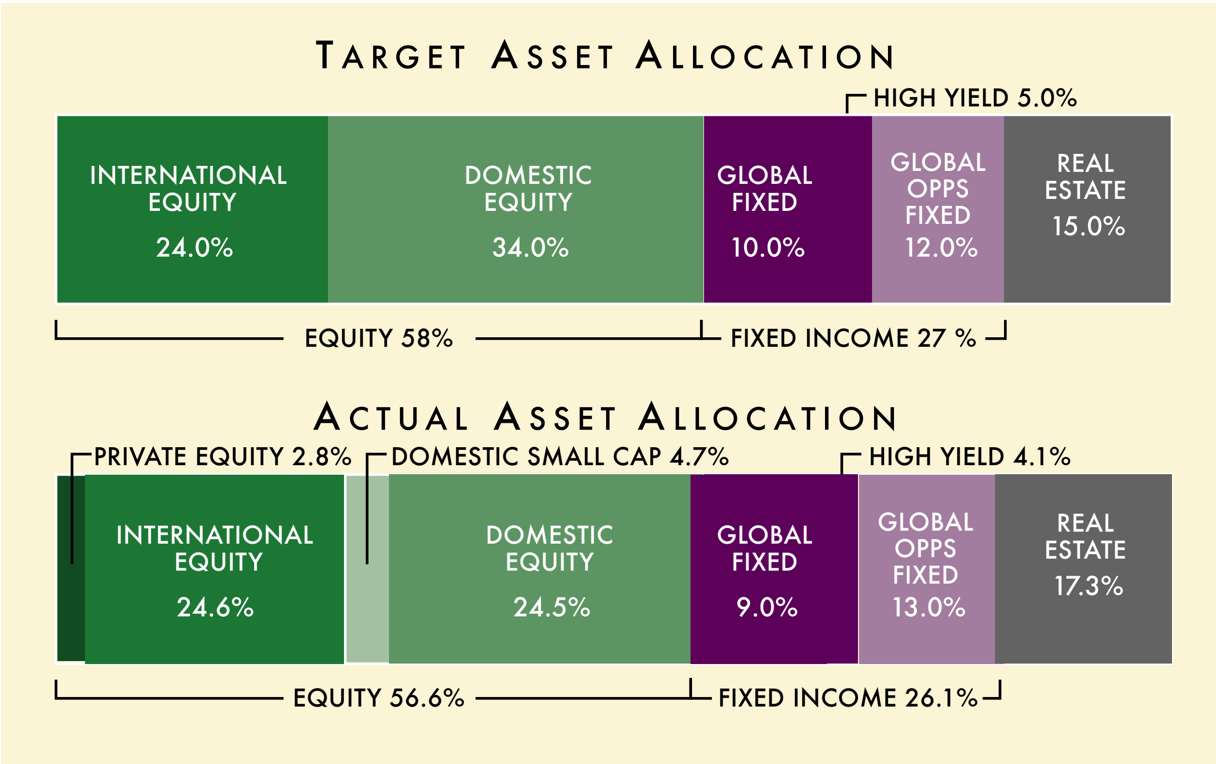
2. The System seeks to produce the highest return on investment that is consistent with levels of liquidity and investment risk that are prudent and reasonable, given prevailing capital market conditions. While the importance of the preservation of capital is recognized, the theory of capital market 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, as shown in the chart below:



An asset allocation review is conducted monthly. This comparison is developed from the month end asset valuation obtained from the System's custodian. If this comparison reveals that an account is outside the designated range, as specified in the Investment Implementation Policy, the Board may direct the Administrator to effect a reallocation of assets by month end to achieve target

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 HIGHLIGHT

The asset
valuation This re-
turn exceeded period.
For a more detailed comparison, see “Rates of Return by Asset Class” below.

RATES OF RETURN BY ASSET CLASS
December 31, 2006

INVESTMENT CATEGORY	RATE OF RETURN	BENCHMARK COMPARISON	
DOMESTIC EQUITY	14.9%	15.8%	S&P 500 INDEX
INTERNATIONAL EQUITY	24.8%	26.3%	EAFE INDEX
GLOBAL FUNDS	7.3%	6.7%	LEHMAN GLOBAL AGGREGATE
DOMESTIC HIGH YIELD BONDS	7.6%	11.9%	CITIGROUP COMP. HIGH YIELD
GLOBAL OPPORTUNISTIC FIXED	23.9%	11.1%	CUSTOM BOND INDEX
REAL ESTATE	13.8%	16.6%	NCREIF PROPERTY INDEX
CASH EQUIVALENT	5.14%	4.85%	91 DAY TREASURY BILL
TOTAL PORTFOLIO	16.8%	8.5%	ACTUARIAL ASSUMPTION

Investments are diversified among various asset classes, and the performance of each category is compared to a benchmark index. Diversification helped the System achieve superior return.

The System’s use of multiple investment strategies, asset diversification, and asset rebalancing, has served the System well over many market cycles, resulting in a continued ranking among the best performing public pension plans in the nation. New England Pension Consultants (NEPC), the System’s new investment consultant, ranked the fund in the top 6% for the one year period, top 11% over three years, and top 4% over five years, for public funds using the Independent Consultants Cooperative Universe (ICC) data base.

Equity Portfolio

Large capitalization value stocks outperformed large capitalization growth stocks as measured by Russell. The Russell 1000 Value Index returned 22.2% versus the Russell 1000 Growth Index which retuned 9.1%. Over the last five years, large value stocks tracked by Russell outperformed growth stocks on an annualized basis by 8.2%. The difference between small capitalization value and small capitalization growth was large as evidenced by Russell 2000 Value that returned 23.5% versus the Russell 2000 Growth that returned 13.4%. The S&P 500 Index returned 15.8% for the year.

The System's domestic equity portfolio represents approximately 29.2% of the total investment portfolio. The domestic equity composite for the System returned 14.9% in 2006.

T. Rowe Price, a US large Cap advisor, returned an impressive 16.6% for the year, outperforming the S&P 500 by 0.8%.

AllianceBernstein Institutional Investment Management, managing a deep value strategy for the System, returned an impressive 23.0% for the year. AllianceBernstein produced a three year annualized performance of 16.70% in an environment where the S&P 500 Index returned 10.4% over the same period on an annualized basis.

Top Ten US Holdings

International E

International Stanley International Europe Australasia Far East (MSCI EAFE) Index. MSCI EAFE returned 26.3% for the year in comparison to the S&P 500 Index that returned 15.8% for the year.

Top Ten International Holdings

SECURITY DESCRIPTION	MARKET VALUE
NESTLE SA CHF1(REGD)	$13,393,697.78
BG GROUP ORD GBP0.10	$12,539,009.52
VODAFONE GROUP	$12,336,547.81
CREDITO ITALIANO	$12,281,929.52
ROCHE HOLDINGS AG	$12,110,613.25
STATOIL ASA NOK2.50	$11,107,057.24
ROYAL BK SCOT GRP	$10,931,111.34
NINTENDO CO	$10,481,153.08
AXA	$10,205,352.03
ING GROEP NV CVA EUR0.24	$10,141,868.06

The System's international equity portfolio represents approximately 24.6% of the total assets of the fund and returned 24.8% as a composite group in 2006. The System's international growth manager, Clay Finlay, returned 18.1% for the year. Pyramis Global Advisors Trust Company manages a risk controlled international equity portfolio and that portfolio returned 28.2% for the year. Pyramis' three year annualized performance of 21.4% outperformed the MSCI EAFE Index over the same period by 1.50%.

Fixed Income Portfolio

The System's fixed income investments represent approximately 26.1 % of the total portfolio. The System's fixed income portfolio is divided among three categories; Domestic High Yield, Global Quality, and Global Opportunistic.

The Domestic High Yield portfolio is approximately 4.1% of the total portfolio for the System. The System's high yield investment manager, W. R. Huff Asset Management, returned 7.6% for the year.

The Global Quality bond portfolio comprises approximately 9.0% of the total fund and retuned a 7.3% for the year. Brandywine Asset Management returned 6.2% for the year which is in line with benchmark Lehman Global Aggregate benchmark.

The Global Opportunistic represents approximately 13% of the portfolio. The portfolio seeks higher yields in both domestic and international fixed income markets by investing in investment grade and non-investment grade bonds. Loomis Sayles returned 17.3% for the year and exceeded their custom benchmark by 6.2% for the year. Loomis Sayles returned 13.0% annualized for the last three years and returned 16.30% annualized for the last five years. Loomis Sayles exceeded their custom benchmark for the three years annualized and five year annualized by 4.0% and 5.1% respectively. Highland Capital, one of the distressed debt mangers in the Global Opportunistic category, returned an impressive 44.9% for the year.

Top Ten Fixed Income Holdings

Security Description	Market Value
WRH GLOBAL SECURITIES POOLED	$12,994,966.76
VIRGIN MEDIA INC	$7,747,028.04
TIME WARNER CABLE INC	$3,551,073.86
OWENS ILL INC	$3,008,200.00
CHESAPEAKE ENERGY CORP	$1,948,964.25
LUCENT TECH CAP TR 7.75% CV PR	$1,879,750.00
SIX FLAGS INC 7.25% CNV PRF	$1,592,675.00
FORD MOTOR CO CAPITAL TRUST II	$1,504,387.50
AES TRUST III 6.75% PRF CNV	$1,316,640.25
ADELPHIA CONTINGENT VALUE	$1,009,162.72

Real Estate Portfolio

The real estate portfolio is approximately 17.3% of the entire market value of the investment portfolio. The gross return for the real estate portfolio in 2006 was 13.81%. The System's real estate portfolio returned 12.03%, 19.00%, 14.53%, and 12.14% annualized net of fees respectively for one year, three years, five years, and ten years periods.

The private real estate portfolio represents approximately 72.6% of the total real estate portfolio. The private real estate portfolio is diversified by the type and location of the real estate asset owned. The private portfolio consists of retail, industrial, multi-family, office, and undeveloped land. In addition, the location of the private assets cover the United States from Hawaii, Idaho, California, Arizona, Nebraska, Colorado, Georgia, Wisconsin, Washington, Nevada, Missouri, Florida, Massachusetts, and Texas.

The System had strong performance in the private real estate portfolio from L&B Realty Advisors returning 12.06% net of fees for 2006. In addition, CDK Realty Advisors returned 11.80% for the year. The private real estate portfolio performed well in the fourth quarter, boosting net annual returns to 7.50% for 2006. The performance history for the System's private real estate is impressive having returned net annualized numbers of 17.14%, 13.43%, and 13.57% respectively for three years, five years, and ten years ending 2006.

The public real estate portfolio consists of investments in Real Estate Investment Trusts (REITs) and totals approximately 9.9% of the System's real estate assets. The REIT portfolio managed by RREEF provided outstanding results with a return of 40.90% net of fees for the year 2006. Additionally, the three year annualized return was 28.44% and the five year annualized return was 25.53%.

The timber portfolio is managed by Forest Investment Associates and RMK Timberland Group. As of the year ending 2006, timber investments represented approximately 6.90% of the real estate assets and returned 9.25% net of fees. Further, Forest Investment Associates accounted for the majority of the timber returns because RMK Timberland Group acquired their first property during the fourth quarter, therefore had minimal impact on the portfolio. Longer term performance for the timber portfolio has provided 14.37%, 7.35%, and 8.69% for the three year, fives year, and ten year period ending 2006.

The agricultural portfolio represents approximately of 10.6% of the real estate portfolio and is managed by the Hancock Agricultural Group. At year end the agricultural investments were diversified by type and location with approximately 82% located in the United States and approximately 18% in Australia. The crops include apples, cranberries, almonds, pistachios, walnuts, macadamia nuts, and wine grapes.

The 2006 return for the agricultural investments was 25.45% net of fees. Hancock has produced annualized returns of 28.07% and 19.58% net of fees for the three year and five year period ending 2006.

INFLATION

Inflation as measured by the Consumer Price Index for all Urban Consumers (CPI-U) increased 2.50% for the year 2006 according to the U.S. Department of Labor.

DALLAS POLICE AND FIRE PENSION SYSTEM

ACTUARIAL VALUATION

AS OF JANUARY 1, 2007

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June 25, 2007

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, 2007

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, 2007.

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, 2007, the employer contribution rate for GASB 27 purposes needed in order to pay the normal cost and fund the Unfunded Actuarial Accrued Liability over 30 years is 25.85%. This amount is less than the 26.68% employer contribution rate calculated as of January 1, 2006. After reflecting the elimination of the Automatic Adjustment for Members hired after December 31, 2006, the current contribution rate covers the normal cost and the amortization of the Unfunded Actuarial Accrued Liability (UAAL) over 15 years.

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

Mr. Richard Tettamant
June 25, 2007
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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 salary increase assumption was changed to a service-based table that better reflects the revised compensation package adopted by the city council in 2006. All other assumptions are consistent with the last actuarial 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, 2007 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,

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

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Enclosures

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

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Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

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Actuarial Valuation - January 1, 2007

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Summary of Principal Results

	January 1, 2007	January 1, 2006
Membership		
Active	4,739	4,648
Terminated with deferred benefits	158	141
Retired members and beneficiaries	3,198	3,121
Compensation		
Total	$ 305,610,668	$ 294,986,390
Average	$ 64,488	$ 63,465
Assets		
Market value	$ 3,131,265,222	$ 2,745,954,071
Actuarial value	$ 2,962,488,333	$ 2,700,136,105
Valuation Results		
Unfunded actuarial accrued liability	$ 408,079,026	$ 582,084,793
Funding period	15	20
GASB No. 25		
Actuarial accrued liability (AAL)	$ 3,370,567,359	$ 3,282,220,898
Assets (actuarial)	$ 2,962,488,333	$ 2,700,136,105
GASB ratio	87.9%	82.3%
Unfunded AAL	$ 408,079,026	$ 582,084,793

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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 15 years from 20 years. This decrease was primarily due to a gain on the actuarial value of assets and the less than expected pay increases during 2006.

Section 3 shows in more detail the changes to the 30-year funding cost and the funding period based on the current contribution rates.

Funding status

There are two significant measures of the funding status of the System. The first is the 30-year funding cost. This is the City contribution rate required by GASB 27 to pay the normal cost and to amortize the UAAL over a 30-year period. This rate is currently 25.85% compared with the City's actual contribution rate of 27.50% and with the 30-year funding cost in 2006 of 26.68%. Section 3 shows a reconciliation of the changes between the 2006 and 2007 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. After reflecting the elimination of the Automatic Adjustment for Members hired after December 31, 2006, the current contribution rate is sufficient to pay the normal cost and amortize the UAAL over 15 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 2006 and 2007.

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 salary increase assumption was changed to a service-based table that better reflects the revised compensation package adopted by the city council in 2006. All other assumptions are consistent with the last actuarial 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

Initially, under GASB Statement No. 27, employers were required to determine a pension expense based on a 40-year amortization of the UAAL for fiscal years beginning after June 15, 1996. After the 10-year transition period, the required amortization period is now 30 years. The amortization can assume payroll growth due to inflation, but no membership growth. If the actual contribution rate is less than the rate required by GASB No. 27, the excess must be expensed. This will result in the employer showing an accrued but unpaid liability for pension benefits on its financial statements.

A City Contribution rate of 25.85% will be required for the City to avoid showing an accrued pension liability on its financial statements for the fiscal year beginning in 2007. 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 2006 and 2007 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. For the 2005 valuation, the actuarial value of

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Membership Statistics

Data on active members and on retired members was supplied by the Administrator. Active membership and total payroll for active members both grew during the last year. The active membership increased from 4,648 members as of January 1, 2006 to 4,739 members as of January 1, 2007. The total active payroll increased from $294,986,390 to $305,610,668 over the same period, a 3.6% increase. Schedule A shows a summary of the membership data.

Experience

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

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Experience

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

Actuarial Cost, Margin and Funding Period

		January 1, 2007	January 1, 2006
1.	Covered Payroll		
	a. Active members excluding DROP	213,880,363	212,052,320
	b. DROP members	91,730,305	82,934,070
	c. Total	305,610,668	294,986,390
2.	Actuarial value of future pay		
	a. Active members excluding DROP	1,635,073,500	1,490,851,870
	b. DROP members	1,194,116,000	1,134,387,500
	c. Total	2,829,189,500	2,625,239,370
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	4,128,898,566	3,887,670,934
5.	Actuarial present value of future normal costs		
	a. Total	758,331,207	605,450,036
	b. Member (3b x 2a)	138,981,250	126,722,409
	c. City (5a - 5b)	619,349,957	478,727,627
6.	Actuarial accrued liability (4 - 5a)	3,370,567,359	3,282,220,898
7.	Actuarial value of assets	2,962,488,333	2,700,136,105
8.	Unfunded actuarial accrued liability (UAAL) (6 - 7)	408,079,026	582,084,793
9.	Normal cost		
	a. Normal cost percentage (5a ÷ 2c)	26.80%	23.06%
	b. Total normal cost (1c x 9a)	81,903,659	68,023,862
	c. Member normal cost (1a x 3b)	18,179,831	18,024,447
	d. City normal cost (9b - 9c)	63,723,828	49,999,415
	e. City normal rate (9d ÷ [1c x (1.11 or 1.07)*])	18.78%	15.84%

* The non-computation pay is assumed to be 11% of total pay for 2007 and 7% for 2006.

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Actuarial Cost, Margin and Funding Period

	January 1, 2007	January 1, 2006
10. 30-year funding cost*		
a. City normal cost rate**	18.78%	15.84%
b. Amortization rate	7.07%	10.84%
c. Total	25.85%	26.68%
11. Margin over/(under) 30-year cost* (3a - 10c)	1.65%	0.82%
12. Funding period to amortize UAAL	15	20

* 30-year funding cost is necessary for accounting purposes only. The actual funding period is calculated each year based on level contributions and reflects the elimination of the Automatic Adjustment for Members hired after December 31, 2006. On this basis, the period is 15 years.

** The city normal cost rate shown is for current active employees only. This rate will decrease over time as more active members become subject to the plan amendment that eliminates the Automatic Adjustment.

Analysis of Change in UAAL

1.	UAAL as of January 1, 2006	$ 582,084,793
2.	Changes due to:	
	a. Expected increase (negative amortization)	$ 10,313,660
	b. Actual contributions greater than expected	(3,332,604)
	c. Liability experience	(53,883,152)
	d. Asset experience	(48,952,374)
	e. Assumption Change	(78,151,297)
	f. Total changes	$ (174,005,767)
3.	UAAL as of January 1, 2007	$ 408,079,026

Analysis of Change in Funding Cost

1.	30-year funding cost* as of January 1, 2006	26.68%
2.	Changes due to:	
	a. Resetting of amortization from prior year	(0.23)
	b. Actual contributions greater than expected	(0.06)
	c. Liability experience	(0.78)
	d. Asset experience	(0.87)
	e. Assumption Change	1.11
	f. Total	(0.83)
3.	30-year funding cost* as of January 1, 2007	25.85%

* 30-year funding cost is necessary for accounting purposes only. The actual funding period is calculated each year based on level contributions and reflects the elimination of the Automatic Adjustment for Members hired after December 31, 2006. On this basis, the period is 15 years.

Analysis of Change in Funding Period

1. Funding period as of January 1, 2006	20
2. Changes due to:	
a. Passage of time	(1)
b. Actual contributions greater than expected	0
c. Liability experience	(2)
d. Assumption Change	0
e. Asset experience	(2)
f. Total	(5)
3. Funding period as of January 1, 2007	15

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Section 4

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, 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%
January 1, 2005	2,485	3,074	589	80.8%	282	208.9%
January 1, 2006	2,700	3,282	582	82.3%	295	197.3%
January 1, 2007	2,962	3,371	409	87.9%	306	133.7%

GASB #25 Schedule of Employer Contributions for Year Ending December 31, 2006

Annual Required Contribution	Percentage Contributed
27.50% of Pay	100.0%

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Summary of Accumulated Benefits
(FASB #35)

Accumulated Benefits at January 1, 2007

Vested benefits of participants and beneficiaries currently receiving payments	$ 1,518,240,160
Other vested benefits	1,627,549,856
Nonvested benefits	139,319,175
Total benefits	$ 3,285,109,191

FASB #35 Reconciliation

Accumulated benefits at January 1, 2006		$ 3,091,236,305
Benefits accumulated	$ 59,734,327	
Interest	257,614,376	
Benefits paid	(123,475,817)	
Assumption change	0	
Plan amendments	0	
Total Change		193,872,886
Accumulated benefits at January 1, 2007		$ 3,285,109,191

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Reconciliation of Fund Assets

	Year Ending December 31, 2006
1. Value of fund at beginning of year	$ 2,745,954,071
2. Contributions	
a. City	90,319,320
b. Member	17,701,615
c. Total	$ 108,020,935
3. Benefit payments	(122,747,479)
4. Refunds	(728,338)
5. Earnings	405,385,619
6. Expenses	(4,619,586)
7. Value of assets at end of year	$ 3,131,265,222
8. Estimated rate of return	14.64%

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Determination of Excess Earnings To Be Deferred

	Year Ending December 31, 2006
1. Market value at beginning of year*	$ 2,745,954,071
2. Net new investments	
a. Contributions	$ 108,020,935
b. Benefit payments	(122,727,479)
c. Refunds	(728,338)
d. Total	$ (15,454,882)
3. Market value at end of year	$ 3,131,265,222
4. Yield (3 - 1 - 2d)	$ 400,766,033
5. Average balance [1 + ½ x (2d)]	2,738,226,630
6. Assumed investment return rate	8.50%
7. Expected net return (5 x 6)	$ 232,749,264
8. Gains/(losses) subject to deferral (4 - 7)	$ 168,016,769

* The actual market value of assets as of December 31, 2005 are $10,220,214 lower than those reported to us at the time last year's valuation was completed.

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Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Section 5
(continued)

Calculation of Actuarial Value of Assets

1. Market value of assets as of January 1, 2007 — $3,131,265,222

2. Deferral amounts*

	Year	Total Gain/(Loss)	Percent Deferred	Deferral Amount
a.	2006	$ 168,016,769	80%	$ 134,413,415
b.	2005	57,272,457	60%	34,363,474
c.	N/A	N/A	40%	N/A
d.	N/A	N/A	20%	N/A
e.	Total			$ 168,776,889

3. Preliminary actuarial value of assets (1 - 2e) — 2,962,488,333

4. 80% of Market value — 2,505,012,178

5. 120% of Market value — 3,757,518,266

6. Actuarial value of assets (3, not less than 4 or more than 5) — 2,962,488,333

7. Rate of return on actuarial value of assets — 10.32%

* This method is being phased in effective January 1, 2005.

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Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Schedule A

Membership Data

	January 1, 2007	January 1, 2006
1. Active members (excluding DROP)		
a. Police and Fire		
1. Number	3,658	3,592
2. Covered payroll	$ 213,880,363	$ 212,052,320
3. Average annual pay	$ 58,469	$ 59,035
4. Average age	38.28	38.42
5. Average service (years)	11.89	12.13
b. Police		
1. Number	2,499	2,416
2. Covered payroll	$ 145,442,908	$ 142,031,361
3. Average annual pay	$ 58,200	$ 58,788
4. Average age	38.06	38.23
5. Average service (years)	11.68	11.94
c. Fire		
1. Number	1,159	1,176
2. Covered payroll	$ 68,437,455	$ 70,020,959
3. Average annual pay	$ 59,049	$ 59,542
4. Average age	3,876	38.81
5. Average service (years)	12.35	12.52

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Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Schedule A
(continued)

Membership Data
(continued)

	January 1, 2007	January 1, 2006
2. Active members (DROP only)		
a. Police and Fire		
1. Number	1,081	1,056
2. Covered payroll	$ 91,730,305	$ 82,934,070
3. Average annual pay	$ 84,857	$ 78,536
4. Average age	54.48	54.34
5. Average total service (years)	28.95	28.80
6. Average time in DROP (years)	4.48	4.28
7. DROP account balance	$ 264,694,334	$ 235,952,968
b. Police		
1. Number	557	556
2. Covered payroll	$ 47,794,446	$ 43,549,770
3. Average annual pay	$ 85,807	$ 78,327
4. Average age	54.37	54.33
5. Average total service (years)	28.53	28.48
6. Average time in DROP (years)	4.26	4.15
7. DROP account balance	$ 124,668,697	$ 116,441,681
c. Fire		
1. Number	524	500
2. Covered payroll	$ 43,935,859	$ 39,384,300
3. Average annual pay	$ 83,847	$ 78,769
4. Average age	54.59	54.36
5. Average service (years)	29.40	29.16
6. Average time in DROP (years)	4.71	4.42
7. DROP account balance	$ 140,025,637	$ 119,511,287

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Membership Data
(continued)

	January 1, 2007	January 1, 2006
3. Active members (including DROP)		
a. Police and Fire		
1. Number	4,739	4,648
2. Covered payroll	$ 305,610,668	$ 294,986,390
3. Average annual pay	$ 64,488	$ 63,465
4. Average age	41.98	42.04
5. Average service (years)	15.78	15.92
6. DROP account balance	$ 264,694,334	$ 235,952,968
b. Police		
1. Number	3,056	2,972
2. Covered payroll	$ 193,237,354	$ 185,581,131
3. Average annual pay	$ 63,232	$ 62,443
4. Average age	41.03	41.24
5. Average service (years)	14.75	15.03
6. DROP account balance	$ 124,668,697	$ 116,441,681
c. Fire		
1. Number	1,683	1,676
2. Covered payroll	$ 112,373,314	$ 109,405,259
3. Average annual pay	$ 66,770	$ 65,278
4. Average age	43.69	43.45
5. Average service (years)	17.66	17.48
6. DROP account balance	$ 140,025,637	$ 119,511,287

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Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Schedule A
(continued)

Membership Data
(continued)

	January 1, 2007	January 1, 2006
4. Inactive members		
a. Retired members	2,380	2,380
b. Beneficiaries	818	741
c. Number entitled to deferred benefits	158	141
d. Total number of inactive members	3,356	3,262
e. Total annual benefit	$ 113,184,975	$ 107,482,545
f. Average annual benefit	$ 33,726	$ 32,950

 Schedule B

Summary of Benefit Provisions
As of January 1, 2007
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.

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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

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Schedule B
(continued)

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

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

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

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

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

Disability Retirement Benefits

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

Annual Amount of Pension

Greater of I or II:

I. Same as Normal Retirement Pension (I).

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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.

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Schedule B
(continued)

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.

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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.

Dallas Police and Fire Pension System | **Schedule B**
Actuarial Valuation - January 1, 2007 | **(continued)**

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

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

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

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

Post-Retirement Adjustments

Annually, on the first day of October, benefits in pay status will be increased by an amount equal to 4% of the original pension amount. New Members hired after December 31, 2006 will not be eligible for an automatic increase.

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.

 Schedule C

Statement of Actuarial Methods and Assumptions
(Effective as of January 1, 2007)

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	47.0	23.0	48.30	26.30	.51	.28	.35	.70
25	47.0	23.0	48.30	26.30	.66	.29	.37	.75
30	35.0	18.0	36.20	23.70	.80	.35	.42	.84
35	25.0	18.0	27.80	21.40	.85	.48	.48	.96
40	25.0	18.0	28.20	20.90	1.07	.71	.57	1.15
45	25.0	18.0	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:

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

* Due to the revised compensation package adopted by the City Council in 2006, the inflationary component of this increase has been ignored for salary increases expected in 2007.

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

Overtime and other non-computation pay are assumed to be 11% of base pay. The city contributes on total pay including non-computation pay. This assumption is based on the revised compensation package adopted by the city council in 2006.

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

Age	Rate	Age	Rate	Age	Rate
38	2%	48	2%	58	20%
39	2	49	2	59	20
40	2	50	4	60	20
41	2	51	3	61	20
42	2	52	3	62	20
43	2	53	3	63	20
44	2	54	3	64	20
45	2	55	25	65	100
46	2	56	20		
47	2	57	20		

Rates are applied when a member is eligible to retire. 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. Any active members who satisfy this criteria and have not entered DROP are assumed to never join DROP.

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

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

Assumed Post Retirement Cost of Living:

Plan A and Plan B:	4% of original pension annually for eligible Members
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.

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 is being phased in effective January 1, 2005. Asset gains or losses prior to January 1, 2005, 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.

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Dallas Police and Fire Pension System **Schedule D**
Actuarial Valuation - January 1, 2007

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, 2005 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, 2004 through December 31, 2006 shows that during this period there have been about 19% more terminations than expected.

January 1, 2004 through December 31, 2006

	Actual	Expected	Actual/Expected
Termination Prior to Retirement	268	226	119%

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, 2002 through December 31, 2006 shows that during this period there have been about 8% more of disability retirements as expected. Since there is little difference between the assumed disability retirements and actual disability retirements, we do not feel that any change in this assumption is necessary at this time.

January 1, 2002 through December 31, 2006

	Actual	Expected	Actual/Expected
Disability Retirements	13	12	108%

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Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Schedule D
(continued)

Retirement (Leaving Active Service)

This assumption was changed as of January 1, 2005 to better reflect the actual experience of the System and to better anticipate future expectations. The ratio of actual retirements to the expected retirements using the new retirement rates for the period January 1, 2004 through December 31, 2006 shows that during this period there have been about 15% less retirements than expected.

January 1, 2004 through December 31, 2006

	Actual	Expected	Actual/Expected
Retirement	339	401	85%

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, 2002 through December 31, 2006 shows that during this period there have been the same number of deaths as expected. It is generally desirable to have some margin in this assumption for mortality improvement. If the actual and expected deaths remain close, this assumption should be changed.

January 1, 2002 through December 31, 2006

	Actual	Expected	Actual/Expected
Death	441	441	100%

Age at DROP

This assumption has not changed since the implementation of DROP in 1993. The actual age at DROP is the same as the assumed age of 50. We do not feel any change in assumption is necessary at this time since there is no difference in the assumed age at DROP and the actual age at DROP.

January 1, 1996 through December 31, 2006

	Actual	Expected	Actual/Expected
Age at DROP	50.0	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, 2006 has been 3.81%. 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, 1947 through December 31, 2006

	Actual	Expected	Actual/Expected
Inflation	3.81%	4.00%	95%

Salary Increases

The salary increase assumption used to value the liabilities of the System varies by the service of the Member. This assumption was last changed as of January 1, 2007 to reflect the expected change in future pay increases. Based on our expectations of future promotional and merit salary increases and the assumed rate of inflation, we feel that the current salary increase rates are reasonable. A summary of the actual valuation earnings to the expected valuation earnings over the period January 1, 2006 through December 31, 2006 follows.

January 1, 2006 through December 31, 2006

	Actual	Expected	Actual/Expected
Valuation Compensation	$293,570,071	$298,419,783	98%

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Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2007

Schedule D
(continued)

Long-Term Rate of Return on Plan Assets

The long-term rate of return on plan assets used to value the liabilities of the System is 8.5%. This assumption was last changed as of January 1, 1999 to better anticipate future expectations and to reflect the change in the inflation rate. Based on the asset allocation policy, expectations of future real rates of return and the expected administrative expenses of the System, we feel that an 8.5% long-term rate of return is reasonable. A summary of the nominal rates of return over the period October 1, 1988 through December 31, 2006 follows.

Period			Annualized Rate of Return
10/1/1988	through	9/30/1989	25.40%
10/1/1989	through	9/30/1990	(6.53)
10/1/1990	through	12/31/1991	20.73
1/1/1992	through	12/31/1992	2.94
1/1/1993	through	12/31/1993	14.06
1/1/1994	through	12/31/1994	2.78
1/1/1995	through	12/31/1995	24.33
1/1/1996	through	12/31/1996	16.69
1/1/1997	through	12/31/1997	13.84
1/1/1998	through	12/31/1998	13.68
1/1/1999	through	12/31/1999	24.39
1/1/2000	through	12/31/2000	(1.52)
1/1/2001	through	12/31/2001	(7.76)
1/1/2002	through	12/31/2002	(12.26)
1/1/2003	through	12/31/2003	31.65
1/1/2004	through	12/31/2004	13.96
1/1/2005	through	12/31/2005	10.81
1/1/2006	through	12/31/2006	14.64
10/1/1988	through	12/31/2006	10.80%

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 10.14%. Last year's DROP interest rate was 9.75%. Therefore, the annual DROP interest rate for October 1, 2007 is 10.00%.

TABLE 1

THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(excluding DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2007

POLICE

	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	70	40,638	44	42,117	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	103	40,605	174	44,856	63	49,599	3	45,448	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	32	40,554	111	45,406	225	51,762	42	57,348	0	0	0	0	0	0	0	0	0	0	0	0
35 to 39	12	40,703	70	45,373	125	52,739	178	59,898	148	66,109	2	61,037	0	0	0	0	0	0	0	0
40 to 44	7	40,326	27	46,656	34	53,035	85	61,017	309	67,811	96	73,315	0	0	0	0	0	0	0	0
45 to 49	1	39,606	9	48,139	16	53,129	30	60,595	134	68,413	202	73,618	95	74,603	0	0	0	0	0	0
50 to 54	2	43,456	1	76,303	2	44,412	4	63,862	16	66,817	6	72,250	10	73,564	0	0	0	0	0	0
55 to 59	0	0	2	70,224	1	51,677	0	0	6	69,391	0	0	0	0	1	86,661	0	0	0	0
60 to 64	0	0	1	48,481	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, 2007

FIRE

YEARS OF SERVICE

ATTAINED AGE	Under 1		1 to 4		5 to 9		10 to 14		15 to 19		20 to 24		25 to 29		30 to 34		35 to 39		40 & up	
	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp
Under 25	13	39,966	2	40,099	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	23	40,341	72	43,338	31	50,575	0	0	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	12	39,942	90	44,173	129	52,338	21	58,767	1	50,193	0	0	0	0	0	0	0	0	0	0
35 to 39	4	39,606	29	44,595	72	52,391	99	61,230	20	67,687	1	84,411	0	0	0	0	0	0	0	0
40 to 44	0	0	12	43,913	18	51,480	55	62,502	81	69,731	83	72,149	0	0	0	0	0	0	0	0
45 to 49	1	39,606	5	41,180	0	0	24	59,831	48	69,785	136	72,791	54	73,816	1	71,130	0	0	0	0
50 to 54	0	0	0	0	1	50,957	2	62,568	9	70,681	2	68,115	4	68,021	0	0	0	0	0	0
55 to 59	0	0	0	0	0	0	2	66,631	0	0	1	65,502	0	0	1	72,016	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, 2007

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	83	40,532	46	42,029	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	126	40,556	246	44,412	94	49,921	3	45,448	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	44	40,387	201	44,854	354	51,972	63	57,821	1	50,193	0	0	0	0	0	0	0	0	0	0
35 to 39	16	40,429	99	45,145	197	52,612	277	60,374	168	66,297	3	68,828	0	0	0	0	0	0	0	0
40 to 44	7	40,326	39	45,812	52	52,497	140	61,600	390	68,209	179	72,774	0	0	0	0	0	0	0	0
45 to 49	2	39,606	14	45,654	16	53,129	54	60,255	182	68,775	338	73,285	149	74,318	1	71,130	0	0	0	0
50 to 54	2	43,456	1	76,303	3	46,594	6	63,431	25	68,208	8	71,216	14	71,980	0	0	0	0	0	0
55 to 59	0	0	2	70,224	1	51,677	2	66,631	6	69,391	1	65,502	0	0	2	79,339	0	0	0	0
60 to 64	0	0	1	48,481	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 2

THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(including DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2007

POLICE

	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	70	40,638	44	42,117	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	103	40,605	174	44,856	63	49,599	3	45,448	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	32	40,554	111	45,406	225	51,762	42	57,348	0	0	0	0	0	0	0	0	0	0	0	0
35 to 39	12	40,703	70	45,373	125	52,739	178	59,898	148	66,109	2	61,037	0	0	0	0	0	0	0	0
40 to 44	7	40,326	27	46,656	34	53,035	85	61,017	309	67,811	97	73,428	0	0	0	0	0	0	0	0
45 to 49	1	39,606	9	48,139	16	53,129	30	60,595	134	68,413	216	73,985	113	76,547	1	73,787	0	0	0	0
50 to 54	2	43,456	1	76,303	2	44,412	5	63,778	36	77,219	66	84,672	145	86,919	81	89,470	7	79,886	0	0
55 to 59	0	0	2	70,224	1	51,677	0	0	20	74,837	21	85,291	37	82,605	67	85,294	43	81,229	1	67,687
60 to 64	0	0	1	48,481	0	0	0	0	2	75,393	4	77,831	6	83,655	4	80,550	16	86,927	2	74,548
65 to 69	0	0	0	0	0	0	0	0	0	0	1	71,395	0	0	1	120,145	0	0	1	84,335
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, 2007

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	13	39,966	2	40,099	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	23	40,341	72	43,338	31	50,575	0	0	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	12	39,942	90	44,173	129	52,338	21	58,767	1	50,193	0	0	0	0	0	0	0	0	0	0
35 to 39	4	39,606	29	44,595	72	52,391	99	61,230	20	67,687	1	84,411	0	0	0	0	0	0	0	0
40 to 44	0	0	12	43,913	18	51,480	55	62,502	81	69,731	86	72,367	0	0	0	0	0	0	0	0
45 to 49	1	39,606	5	41,180	1	39,606	24	59,831	48	69,785	164	73,606	65	74,468	1	71,130	0	0	0	0
50 to 54	0	0	0	0	1	50,957	2	62,568	20	75,961	55	84,034	120	83,235	58	88,363	8	81,159	0	0
55 to 59	0	0	0	0	1	58,000	3	71,864	2	65,574	8	74,299	56	84,879	94	79,842	37	86,126	0	0
60 to 64	0	0	0	0	0	0	0	0	0	0	0	0	2	66,912	12	87,503	14	84,209	7	110,128
65 to 69	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2	79,823
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	106,009

TABLE 2

THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(including DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2007

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	83	40,532	46	42,029	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	126	40,556	246	44,412	94	49,921	3	45,448	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	44	40,387	201	44,854	354	51,972	63	57,821	1	50,193	0	0	0	0	0	0	0	0	0	0
35 to 39	16	40,429	99	45,145	197	52,612	277	60,374	168	66,297	3	68,828	0	0	0	0	0	0	0	0
40 to 44	7	40,326	39	45,812	52	52,497	140	61,600	390	68,209	183	72,929	0	0	0	0	0	0	0	0
45 to 49	2	39,606	14	45,654	17	52,333	54	60,255	182	68,775	380	73,821	178	75,788	2	72,459	0	0	0	0
50 to 54	2	43,456	1	76,303	3	46,594	7	63,432	56	76,770	121	84,382	265	85,251	139	89,008	15	80,565	0	0
55 to 59	0	0	2	70,224	2	54,839	3	71,864	22	73,995	29	82,259	93	83,974	161	82,111	80	83,494	1	67,687
60 to 64	0	0	1	48,481	0	0	0	0	2	75,393	4	77,831	8	79,470	16	85,765	30	85,659	9	102,221
65 to 69	0	0	0	0	0	0	0	0	0	0	1	71,395	0	0	1	120,145	0	0	3	81,327
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	106,009

TABLE 3

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS
BY AGE AS OF JANUARY 1, 2007

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
44	1	$ 31,178	$ 31,178
45	3	96,191	32,064
46	3	70,435	23,478
47	14	388,488	27,749
48	6	182,453	30,409
49	10	347,664	34,766
50	6	183,203	30,534
51	17	585,789	34,458
52	19	701,340	36,913
53	20	659,618	32,981
54	21	889,539	42,359
55	45	2,068,020	45,956
56	51	2,377,398	46,616
57	84	4,143,497	49,327
58	94	4,057,063	43,160
59	122	5,308,657	43,514
60	125	5,560,251	44,482
61	92	3,919,366	42,602
62	81	3,342,453	41,265
63	88	3,929,359	44,652
64	109	4,642,432	42,591
65	70	3,195,274	45,647
66	98	4,168,034	42,531
67	79	3,595,355	45,511
68	88	3,976,179	45,184
69	73	3,308,900	45,327
70	62	2,535,237	40,891
71	64	2,631,624	41,119
72	66	2,512,369	38,066
73	63	2,306,855	36,617
74	61	2,471,512	40,517
75	64	2,194,639	34,291
76	57	1,978,448	34,710
77	55	1,846,479	33,572

TABLE 3

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS
BY AGE AS OF JANUARY 1, 2007
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
78	48	$ 1,679,645	$ 34,993
79	38	1,386,289	36,481
80	27	947,911	35,108
81	27	879,427	32,571
82	34	1,180,735	34,728
83	23	794,808	34,557
84	11	370,581	33,689
85	12	378,634	31,553
86	17	585,920	34,466
87	15	480,062	32,004
88	3	107,595	35,865
89	8	253,447	31,681
90	4	137,081	34,270
91	1	32,254	32,254
93	1	29,971	29,971
94	1	32,385	32,385
96	1	27,300	27,300
TOTAL	2,182	$ 89,509,344	$ 41,022
POLICE	1,283	$ 50,492,453	$ 39,355
FIRE	899	$ 39,016,891	$ 43,400

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TABLE 4

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF DISABLED MEMBERS
BY AGE AS OF JANUARY 1, 2007

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
30	1	$ 26,464	$ 26,464
34	2	59,790	29,895
38	1	27,312	27,312
39	2	56,744	28,372
40	1	28,641	28,641
41	1	34,017	34,017
42	2	58,972	29,486
43	3	85,814	28,605
44	3	89,972	29,991
45	2	48,936	24,468
46	3	83,174	27,725
47	2	70,538	35,269
49	2	60,680	30,340
50	4	115,643	28,911
51	3	84,681	28,227
52	5	151,322	30,264
53	2	60,003	30,002
54	1	31,800	31,800
55	6	218,778	36,463
56	6	205,674	34,279
57	6	263,876	43,979
58	6	192,269	32,045
59	7	255,880	36,554
60	4	104,609	26,152
61	2	41,890	20,945
62	6	196,424	32,737
63	2	74,318	37,159
64	4	184,232	46,058
65	3	91,724	30,575
66	7	276,546	39,507
67	12	522,924	43,577
68	6	238,698	39,783
69	6	227,311	37,885
70	6	181,708	30,285

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TABLE 4

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF DISABLED MEMBERS
BY AGE AS OF JANUARY 1, 2007
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
71	5	$ 197,383	$ 39,477
72	5	192,232	38,446
73	4	130,078	32,520
74	4	136,370	34,093
75	4	119,095	29,774
76	5	215,821	43,164
77	5	168,713	33,743
78	4	130,021	32,505
79	4	128,817	32,204
80	6	192,905	32,151
81	4	128,990	32,248
82	5	171,624	34,325
83	3	91,882	30,627
84	4	117,304	29,326
85	2	59,578	29,789
86	2	64,408	32,204
87	1	32,081	32,081
89	1	31,784	31,784
94	1	32,229	32,229
TOTAL	198	$ 6,792,679	$ 34,306
POLICE	74	$ 2,223,904	$ 30,053
FIRE	124	$ 4,568,775	$ 36,845

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TABLE 5

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF BENEFICIARIES
BY AGE AS OF JANUARY 1, 2007

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
3	1	$ 4,727	$ 4,727
6	2	21,004	10,502
7	3	22,083	7,361
8	4	30,916	7,729
9	4	23,205	5,801
10	6	36,584	6,097
12	4	34,581	8,645
13	2	31,145	15,573
14	4	26,457	6,614
15	5	57,876	11,575
16	3	66,266	22,089
17	6	104,510	17,418
18	4	64,207	16,052
19	2	13,213	6,607
23	1	13,200	13,200
33	2	29,191	14,596
35	3	48,878	16,293
36	1	14,923	14,923
37	3	35,548	11,849
38	1	14,936	14,936
39	3	46,791	15,597
40	2	27,600	13,800
41	1	14,400	14,400
42	3	47,145	15,715
44	1	37,488	37,488
45	3	57,865	19,288
46	5	68,804	13,761
47	6	102,003	17,001
48	5	94,519	18,904
49	4	69,633	17,408
50	3	47,029	15,676
51	6	91,183	15,197
52	11	201,569	18,324
53	9	184,774	20,530

TABLE 5

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF BENEFICIARIES
BY AGE AS OF JANUARY 1, 2007
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
54	6	$ 97,956	$ 16,326
55	11	211,663	19,242
56	11	220,725	20,066
57	13	224,692	17,284
58	19	362,092	19,057
59	14	308,495	22,035
60	23	446,099	19,396
61	18	330,531	18,363
62	11	191,077	17,371
63	18	375,762	20,876
64	16	330,655	20,666
65	18	352,611	19,590
66	17	264,984	15,587
67	30	640,495	21,350
68	20	443,169	22,158
69	17	462,648	27,215
70	17	375,686	22,099
71	24	479,047	19,960
72	20	366,984	18,349
73	18	298,147	16,564
74	25	415,891	16,636
75	18	372,247	20,680
76	25	419,508	16,780
77	23	387,486	16,847
78	31	621,659	20,054
79	23	387,743	16,858
80	29	517,120	17,832
81	18	322,412	17,912
82	28	463,447	16,552
83	22	397,341	18,061
84	15	280,384	18,692
85	19	339,098	17,847
86	9	147,319	16,369
87	14	227,808	16,272

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TABLE 5

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF BENEFICIARIES
BY AGE AS OF JANUARY 1, 2007
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
88	15	$ 245,329	$ 16,355
89	9	144,519	16,058
90	9	146,834	16,315
91	6	140,199	23,367
92	6	98,729	16,455
93	1	16,593	16,593
94	3	48,426	16,142
95	3	49,731	16,577
96	1	16,581	16,581
97	1	16,593	16,593
98	1	16,593	16,593
TOTAL	818	$ 14,807,361	$ 18,102
POLICE	457	$ 8,005,901	$ 17,518
FIRE	361	$ 6,801,460	$ 18,841

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TABLE 6

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS,
DISABLED MEMBERS AND BENEFICIARIES
BY AGE AS OF JANUARY 1, 2007

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
3	1	$ 4,727	$ 4,727
6	2	21,004	10,502
7	3	22,083	7,361
8	4	30,916	7,729
9	4	23,205	5,801
10	6	36,584	6,097
12	4	34,581	8,645
13	2	31,145	15,573
14	4	26,457	6,614
15	5	57,876	11,575
16	3	66,266	22,089
17	6	104,510	17,418
18	4	64,207	16,052
19	2	13,213	6,607
23	1	13,200	13,200
30	1	26,464	26,464
33	2	29,191	14,596
34	2	59,790	29,895
35	3	48,878	16,293
36	1	14,923	14,923
37	3	35,548	11,849
38	2	42,248	21,124
39	5	103,535	20,707
40	3	56,241	18,747
41	2	48,417	24,209
42	5	106,117	21,223
43	3	85,814	28,605
44	5	158,638	31,728
45	8	202,992	25,374
46	11	222,413	20,219
47	22	561,029	25,501
48	11	276,972	25,179
49	16	477,977	29,874
50	13	345,875	26,606

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TABLE 6

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS,
DISABLED MEMBERS AND BENEFICIARIES
BY AGE AS OF JANUARY 1, 2007
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
51	26	$ 761,653	$ 29,294
52	35	1,054,231	30,121
53	31	904,395	29,174
54	28	1,019,295	36,403
55	62	2,498,461	40,298
56	68	2,803,797	41,232
57	103	4,632,065	44,972
58	119	4,611,424	38,751
59	143	5,873,032	41,070
60	152	6,110,959	40,204
61	112	4,291,787	38,320
62	98	3,729,954	38,061
63	108	4,379,439	40,550
64	129	5,157,319	39,979
65	91	3,639,609	39,996
66	122	4,709,564	38,603
67	121	4,758,774	39,329
68	114	4,658,046	40,860
69	96	3,998,859	41,655
70	85	3,092,631	36,384
71	93	3,308,054	35,570
72	91	3,071,585	33,754
73	85	2,735,080	32,177
74	90	3,023,773	33,597
75	86	2,685,981	31,232
76	87	2,613,777	30,043
77	83	2,402,678	28,948
78	83	2,431,325	29,293
79	65	1,902,849	29,275
80	62	1,657,936	26,741
81	49	1,330,829	27,160
82	67	1,815,806	27,102
83	48	1,284,031	26,751
84	30	768,269	25,609

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TABLE 6

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS,
DISABLED MEMBERS AND BENEFICIARIES
BY AGE AS OF JANUARY 1, 2007
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
85	33	$ 777,310	$ 23,555
86	28	797,647	28,487
87	30	739,951	24,665
88	18	352,924	19,607
89	18	429,750	23,875
90	13	283,915	21,840
91	7	172,453	24,636
92	6	98,729	16,455
93	2	46,564	23,282
94	5	113,040	22,608
95	3	49,731	16,577
96	2	43,881	21,941
97	1	16,593	16,593
98	1	16,593	16,593
TOTAL	3,198	$ 111,109,384	$ 34,743
POLICE	1,814	$ 60,722,258	$ 33,474
FIRE	1,384	$ 50,387,126	$ 36,407

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TABLE 7

THE NUMBER AND FUTURE ANNUAL
ALLOWANCE OF TERMINATED MEMBERS
ENTITLED TO A FUTURE BENEFIT
BY AGE AS OF JANUARY 1, 2007

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
29	6	$ 20,614	$ 3,436
30	4	22,541	5,635
31	2	8,301	4,151
32	4	35,366	8,842
33	2	17,524	8,762
34	4	39,071	9,768
35	3	27,939	9,313
36	9	84,991	9,443
37	11	120,462	10,951
38	8	111,768	13,971
39	7	102,925	14,704
40	6	55,418	9,236
41	14	163,838	11,703
42	7	129,066	18,438
43	9	123,451	13,717
44	16	334,524	20,908
45	9	99,338	11,038
46	9	159,420	17,713
47	6	143,993	23,999
48	6	79,719	13,287
49	6	75,662	12,610
50	6	63,546	10,591
51	1	11,095	11,095
52	1	18,825	18,825
53	1	21,164	21,164
57	1	4,997	4,997
TOTAL	158	$ 2,075,558	$ 13,136
POLICE	129	$ 1,742,606	$ 13,509
FIRE	29	$ 332,952	$ 11,481

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TABLE 8

THE NUMBER, ANNUAL RETIREMENT
ALLOWANCE AND ACCOUNT BALANCE
OF DROP MEMBERS
BY AGE AS OF JANUARY 1, 2007

POLICE AND FIRE
DROP

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT	ACCOUNT BALANCE	AVERAGE ACCOUNT BALANCE
42	2	$ 59,635	$ 29,818	$ 56,737	$ 28,369
43	1	28,254	28,254	38,609	38,609
44	1	28,172	28,172	45,916	45,916
45	1	25,500	25,500	28,073	28,073
46	4	102,078	25,520	257,352	64,338
47	6	180,911	30,152	430,508	71,751
48	16	737,013	46,063	301,092	18,818
49	31	1,380,732	44,540	1,127,842	36,382
50	68	3,340,434	49,124	3,137,496	46,140
51	97	4,861,114	50,115	6,288,118	64,826
52	121	6,102,542	50,434	14,376,280	118,812
53	105	5,288,714	50,369	17,390,809	165,627
54	116	6,171,017	53,198	26,928,925	232,146
55	127	6,510,138	51,261	35,511,161	279,615
56	93	4,304,263	46,282	27,940,797	300,439
57	82	3,773,905	46,023	29,494,008	359,683
58	57	2,454,787	43,066	22,143,350	388,480
59	58	2,444,223	42,142	25,908,972	446,706
60	38	1,472,852	38,759	17,273,535	454,567
61	20	897,960	44,898	11,229,731	561,487
62	12	566,253	47,188	7,894,954	657,913
63	11	455,554	41,414	6,897,983	627,089
64	8	349,264	43,658	5,582,836	697,855
66	2	80,105	40,053	1,845,036	922,518
67	2	42,718	21,359	681,836	340,918
69	1	56,258	56,258	1,219,641	1,219,641
71	1	87,302	87,302	662,745	662,745
TOTAL	1,081	$ 51,801,698	$ 47,920	$ 264,694,342	$ 244,861
POLICE	557	$ 26,558,531	$ 47,681	$ 124,668,707	$ 223,822
FIRE	524	$ 25,243,167	$ 48,174	$ 140,025,635	$ 267,224

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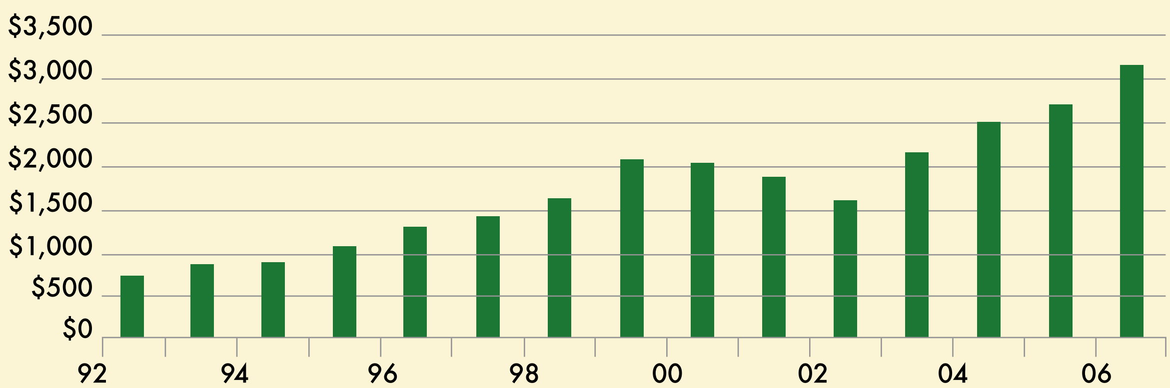
ACTIVE MEMBERSHIP OF THE SYSTEM
(AS OF JANUARY 1, 2007) INCLUDING DROP

YEARS OF SERVICE	POLICE	FIRE	TOTAL
FEWER THAN FIVE	666	263	929
5 9	466	253	719
10 14	343	204	547
15 19	649	172	821
20 24	407	314	721
25 29	301	243	544
30 AND OVER	224	234	458
TOTAL	3,056	1,683	4,739

The chart above reports the number of Active Members by Department according to years of service. The average age for all Active Members is 41.98, 41.03 for Police Officers and 43.69 for Firefighters. The average service is 15.78 years, 14.75 years of service for Police Officers and 17.66 for Firefighters. There were 4,739 Active Members as of January 1, 2007.

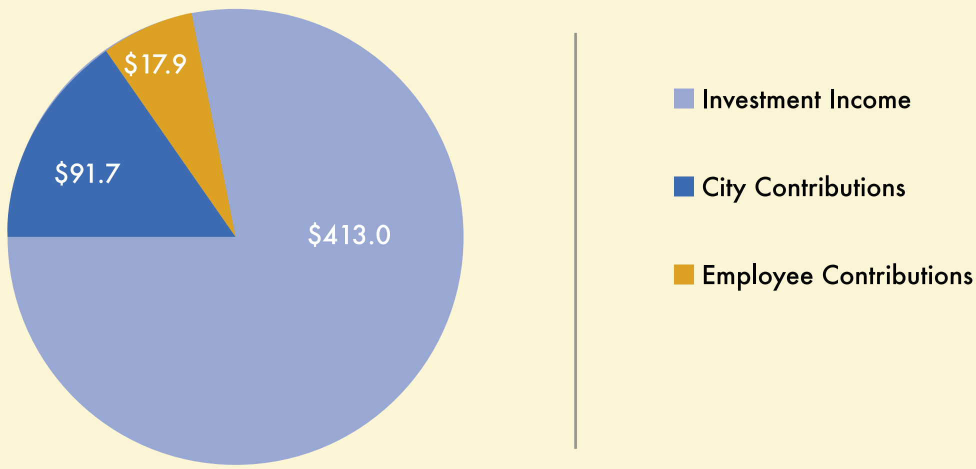
The above chart provides a summary of the principle results of actuarial valuations of the System over the last three years, demonstrating the funding progress made by the System over this period.

Market Value Fiscal Years 1992-2006 (Millions)



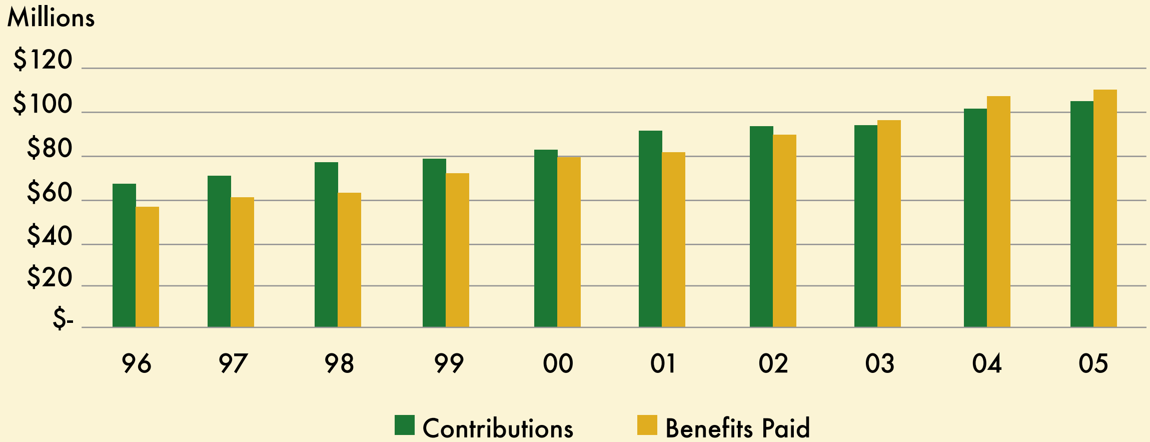
The graph above indicates the long-term growth in market value of the System's assets.
The market value of System assets has grown from $719 million in 1990 to over $3.1 billion in 2006.

2006 REVENUES
in Millions



REVENUES TOTALED $522.6 MILLION IN 2006

CONTRIBUTIONS AND BENEFITS PAID
1997-2006



Total benefit payments have grown faster over the last ten years than contributions received. As is typical for a mature pension plan, investment income pays benefits not covered by contributions received.

TEN YEAR HISTORY OF BENEFIT PAYMENTS BY TYPE

-

-

EXAMPLES OF MONTHLY BENEFIT PAYMENTS BASED ON YEARS OF SERVICE AND FINAL AVERAGE COMPUTATION PAY

AVERAGE MONTHLY COMP PAY	YEARS OF PENSION SERVICE					
	5	10	15	20	25	30
$3,000	$450	$900	$1,350	$1,800	$2,250	$2,700
$3,500	$525	$1,050	$1,575	$2,100	$2,625	$3,150
$4,000	$600	$1,200	$1,800	$2,400	$3,000	$3,600
$4,500	$675	$1,350	$2,025	$2,700	$3,375	$4,050
$5,000	$750	$1,500	$2,250	$3,000	$3,750	$4,500
$5,500	$825	$1,650	$2,475	$3,300	$4,125	$4,950
$6,000	$900	$1,800	$2,700	$3,600	$4,500	$5,400
$6,500	$975	$1,950	$2,925	$3,900	$4,875	$5,850
$7,000	$1,050	$1,050	$3,150	$4,200	$5,250	$6,300

Go down first column to a sample average computation pay amount and read across the row to the column for years of pension service. The number in the selected block is the approximate monthly benefit at age 50.

DALLAS POLICE AND FIRE PENSION SYSTEM
SUPPLEMENTAL PLAN

ACTUARIAL VALUATION

AS OF JANUARY 1, 2007

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June 25, 2007

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 Supplemental Plan Actuarial Valuation as of January 1, 2007

Dear Mr. Tettamant:

We certify that the information contained in this report is accurate and fairly presents the actuarial position of the Dallas Police and Fire Pension System Supplemental Plan (the Plan) as of January 1, 2007.

Actuarial Valuation

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

Basis for Funding

The member contribution rates are established by statute. The City's contribution rate is intended to be sufficient to amortize the unfunded actuarial accrued liability over five years, including the normal cost. The contribution is also limited to be within $100,000 of the previous year's contribution. However, in no event will the City's contribution be less than the amount necessary to satisfy GASB 27. For 2007, the contribution is $1,340,414.

Funding Progress

As of January 1, 2007, the City's contribution rate needed in order to meet the funding goal is 154.79% of covered payroll. This amount is higher than the 140.13% employer rate calculated as of January 1, 2006. The current contribution rate of 154.79% of covered payroll covers the normal cost and the amortization of the Unfunded Actuarial Accrued Liability (UAAL).

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

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Mr. Richard Tettamant
June 25, 2007
Page 2

Benefit Provisions

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

Assumptions and Methods

The actuarial assumptions and methods used in the valuation are presented in Schedule C. The salary increase assumption was changed to a service-based table that better reflects the anticipated future salary increases. All other assumptions are consistent with the last actuarial 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, 2007, 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,

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

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Enclosures

Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2007

Table of Contents

Summary of Principal Results

	January 1, 2007	January 1, 2006
Membership		
Active	41	42
Retired and terminated members and beneficiaries	109	106
Compensation		
Total	$ 865,975	$ 927,703
Average	$ 21,121	$ 22,088
Assets		
Market value	$ 23,313,933*	$ 19,960,748
Valuation Results		
Unfunded actuarial accrued liability (UAAL)	$ 5,348,659	$ 6,409,421
City's normal cost contribution	$ 178,193	$ 187,872
Funding Policy contribution	$ 1,340,414	$ 1,300,000
GASB No. 25		
Actuarial accrued liability (AAL)	$ 28,662,592	$ 26,370,169
Assets	$ 23,313,933*	$ 19,960,748
GASB ratio	81.3%	75.7%
Unfunded AAL	$ 5,348,933	$ 6,409,421

* Includes $1,300,000 contribution for the 2006 plan year that was contributed in January 2007.

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Comments on the Valuation

Overview

The current valuation indicates that a total contribution of $1,340,414 should be contributed during 2007.

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 salary increase assumption was changed to a service-based table that better reflects the anticipated future salary increases. All other assumptions are consistent with the last actuarial valuation.

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

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GASB Statement No. 27

Initially, under GASB Statement No. 27, employers were required to determine a pension expense based on a 40-year amortization of the UAAL for fiscal years beginning after June 15, 1996. After the 10-year transition period, the required amortization period is now 30 years. The amortization can assume payroll growth due to inflation, but no membership growth. If the actual contribution rate is less than the rate required by GASB No. 27, the excess must be expensed. This will result in the employer showing an accrued but unpaid liability for pension benefits on its financial statements.

A City Contribution rate of 56.19% will be required for the City to avoid showing an accrued pension liability on its financial statements for the fiscal year beginning in 2007, 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. Additionally, the assets include the 2006 plan year contribution of $1,300,000 that was contributed in January 2007.

Section 5 reconciles the Plan's assets between 2006 and 2007. The estimated rate of return for 2006 was 15.89%.

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 42 members as of January 1, 2006, to 41 members as of January 1, 2007. The payroll decreased from January 1, 2006 to January 1, 2007 ($927,703 for 2006 and $865,975 for 2007). Schedule A shows a summary of the membership data.

Actuarial Cost

		January 1, 2007	January 1, 2006
1.	Covered Payroll	$ 865,975	$ 927,703
2.	Actuarial present value of future benefits	$ 29,808,862	$ 27,604,587
3.	Actuarial present value of future normal costs	$ 1,146,270	$ 1,234,418
4.	Actuarial accrued liability (2 - 3)	$ 28,662,592	$ 26,370,169
5.	Actuarial value of assets	$ 23,313,933*	$ 19,960,748
6.	Unfunded actuarial accrued liability (UAAL) (4 - 5)	$ 5,348,659	$ 6,409,421
7.	City's normal cost contribution	$ 178,193	$ 187,872
8.	Funding Policy contribution	$ 1,340,414	$ 1,300,000
9.	Total contribution as a percentage of covered payroll (8 ÷ 1)	154.79%	140.13%

* Includes $1,300,000 contribution for the 2006 plan year that was contributed in January 2007.

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Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2007

Section 3
(continued)

Analysis of Change in UAAL

1. UAAL as of January 1, 2006	$ 6,409,421
2. Changes due to:	
a. Expected decrease	$ (661,858)
b. Actual contributions greater than expected	0*
c. Liability experience	1,232,315
d. Asset experience	(1,481,849)
e. Assumption changes	(149,370)
f. Total Changes	$(1,060,762)
3. UAAL as of January 1, 2007	$ 5,348,659*

* Includes $1,300,000 contribution for the 2006 plan year that was contributed in January 2007.

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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, 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%
January 1, 2005	18.720	24.496	5.776	76.4%	0.818	706.1%
January 1, 2006	19.961	26.370	6.409	75.7%	0.928	690.6%
January 1, 2007	23.314	28.663	5.349	81.3%	0.866	617.7%

GASB #25 Schedule of Employer Contributions for Year Ending December 31, 2006

Annual Required Contribution	Percentage Contributed
$1,300,000	100%

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Summary of Accumulated Benefits
(FASB #35)

Accumulated Benefits at January 1, 2007

Vested benefits of participants and beneficiaries currently receiving payments	$ 21,148,086
Other vested benefits	7,075,202
Nonvested benefits	528,909
Total benefits	$ 28,752,197

FASB #35 Reconciliation

Accumulated benefits at January 1, 2006		$ 26,702,640
Benefits accumulated and actuarial gains/losses	$ 995,492	
Interest	2,221,135	
Benefits paid	(1,167,070)	
Assumption changes	0	
Total change		2,049,557
Accumulated benefits at January 1, 2007		$ 28,752,197

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Reconciliation of Fund Assets

	Year Ending December 31, 2006
1. Value of fund at beginning of year	$ 19,960,748
2. Contributions	
a. City	1,300,000*
b. Member	34,621
c. Total	$ 1,334,621
3. Benefit payments	(1,167,070)
4. Refunds	0
5. Earnings	3,252,714
6. Expenses	(67,080)
7. Value of assets at end of year	23,313,933*
8. Estimated rate of return	15.89%

* Contribution for the 2006 plan year that was contributed in January 2007.

Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2007

Schedule A

Membership Data

	January 1, 2007	January 1, 2006
1. Active members (excluding DROP)		
a. Number	18	19
b. Compensation	$ 359,932	$ 297,807
c. Average compensation	$ 19,996	$ 15,674
d. Average age	47.00	46.37
e. Average service (years)	21.83	22.05
2. Active members (DROP only)		
a. Number	23	23
b. Compensation	$ 506,043	$ 629,896
c. Average Compensation	$ 22,002	$ 27,387
d. Average age	53.74	53.61
e. Average total service	30.35	28.61
f. DROP account balance	$ 1,422,068	$ 1,245,197
3. Inactive members		
a. Number	109	106
b. Total annual benefit	$ 1,510,941	$ 1,401,955
c. Average annual benefit	$ 13,862	$ 13,226

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Summary of Benefit Provisions
As of January 1, 2007
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.

Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2007

Schedule B
(continued)

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.

Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2007

Schedule B
(continued)

b. 20 years of Pension Service

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

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.

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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.

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

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

Post-Retirement Adjustments

Annually, on the first day of October, benefits in pay status will be increased by an amount equal to 4% of the original pension amount. New Members hired on or after January 1, 2007 will not be eligible for an automatic increase.

Benefit Supplement

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

Deferred Retirement Option Plan

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

Dallas Police and Fire Pension System Supplemental Plan **Schedule C**
Actuarial Valuation - January 1, 2007

Statement of Actuarial Methods and Assumptions
(Effective as of January 1, 2007)

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	47.0	23.0	48.30	26.30	.51	.28	.35	.70
25	47.0	23.0	48.30	26.30	.66	.29	.37	.75
30	35.0	18.0	36.20	23.70	.80	.35	.42	.84
35	25.0	18.0	27.80	21.40	.85	.48	.48	.96
40	25.0	18.0	28.20	20.90	1.07	.71	.57	1.15
45	25.0	18.0	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:

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Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2007

Schedule C
(continued)

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

* Due to the revised compensation package adopted by the City Council in 2006, the inflationary component of this increase has been ignored for salary increases expected in 2007.

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

Overtime and other non-computation pay are assumed to be 11% of base pay. The city contribution rate is determined as a percentage of total pay. This assumption is based on the revised compensation package adopted by the city council in 2006.

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

Age	Rate	Age	Rate	Age	Rate
38	2%	48	2%	58	20%
39	2	49	2	59	20
40	2	50	4	60	20
41	2	51	3	61	20
42	2	52	3	62	20
43	2	53	3	63	20
44	2	54	3	64	20
45	2	55	25	65	100
46	2	56	20		
47	2	57	20		

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Rates are applied when a 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.

DROP Election: Members are assumed to elect DROP at age 50 with five years. Any active members who satisfy this criteria and have not entered DROP are assumed to never join DROP.

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

Assumed Post Retirement Cost of Living: Annually, on the first day of October, benefits in pay status will be increased by an amount equal to 4% of the original pension amount. Due to the manner in which members join this plan, the amendment lifting the automatic increase for members hired on or after January 1, 2007 was not reflected in this valuation.

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.

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Financial Statements
and
Required Supplemental Information

December 31, 2006 and 2005
(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 statements of plan net assets of the Supplemental Police and Fire Pension Plan of the City of Dallas (the Supplemental Plan) as of December 31, 2006 and 2005, and the related statements of changes in plan net assets for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Supplemental Plan's internal control over financial reporting. Accordingly, we express no such opinion. 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 audits provide 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, 2006 and 2005, and the changes in its financial status for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (MD&A), the schedule of funding progress and the schedule of employer contributions, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This information is the responsibility of the Supplemental Plan's management. 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 supplementary information. However, we did not audit such information and do not express an opinion on it.

Mir Fox & Rodriguez

April 28, 2008

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

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, 2006 and 2005. The Supplemental Plan is a defined benefit pension plan under Section 401(a) of the Internal Revenue Code.

Certain comparative information between the current year and the prior year is required to be presented in the MD&A. The analysis should be read in conjunction with the Introductory Section of the annual report, the basic financial statements, notes to the basic financial statements and required supplemental information.

FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Supplemental Plan's financial statements which consist of (1) Basic Financial Statements and (2) Notes to Basic Financial Statements, and (3) Required 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 over time is an indication of whether the Supplemental Plan's financial health is improving or deteriorating.

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

The Required Supplemental Information consists of schedules of funding progress and employer contributions and notes to required supplemental information.

CONDENSED FINANCIAL INFORMATION

	2006	2005	2004
Assets	$ 21,169,910	19,960,276	18,883,128
Liabilities	-	207,969	162,974
Net Assets Available for Benefits	21,169,910	19,752,778	18,720,154
Contributions	1,333,399	1,229,869	1,130,145
Investment Income	1,402,176	1,080,964	1,743,013
Benefit Payments	1,251,364	1,232,776	1,046,124
Administrative Expenses and Professional Fees	67,080	45,432	56,884

FINANCIAL HIGHLIGHTS

- In 2006, the System initiated a program to co-invest the assets of the Supplemental Plan with Dallas Police and Fire Pension System (the System) assets. This program, called "unitization", was designed to simplify investment of all the assets under the control of the System and maximize the investment return of the Supplemental Plan by opening the Supplemental Plan to the economies of scale enjoyed by the System. The two plans are still maintained separately. Benefits and contributions are applied directly to each of the plans respectively and all general costs and investment income are allocated to each plan prorated to the amount of assets in each plan.

- The Supplemental Plan's net assets increased by $1.4 million in 2006 to $21.2 million. The Supplemental Plan's net assets increased by $1.03 million in 2005 to $19.9 million.

- The rate of return on Supplemental Plan investments for 2006 was 16.8% for the year, compared to an expected return (actuarial assumed investment rate of return) of 8.5%. The rate of return for 2005 was 4.66%.

- The Plan had no non-investment liabilities as of December 31, 2006, compared to $207,969 in liabilities in of December 31, 2005. The difference in liabilities between the two years primarily is a result of a change in the methodology of recording assets under unitization. In the current method, investment liabilities are incorporated into the Group Trust and are reflected in total investment.

- The Supplemental Plan received employee contributions of $33,399 in 2006 and $29,869 in 2005. The Supplemental Plan had a receivable for employer contributions from the City of Dallas in the amount $1.3 million for 2006. The funds were received in January 2007. The Supplemental Plan received employer contributions in the amount of $1.2 million in 2005.

- The Supplemental Plan paid $1,251,364 in service retirement, disability retirement and survivor benefits during 2006, compared to $1,232,776 in 2005. No changes to benefit provisions were implemented during 2006 and 2005.

- The cost of administering the benefit programs of the Supplemental Plan, including administrative costs and professional fees, was $67,080 compared to $45,432 for 2005.

- The active membership of the Supplemental Plan decreased by one to 41 members as of the end of 2006. There were 42 active members in 2005. The number of retired, terminated vested and beneficiaries were 109 as of December 31, 2006 and 106 as of December 31, 2005.

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

FUNDING PROGRESS

The Supplemental Plan contracted with Buck Consultants, Inc. to conduct an actuarial valuation to determine the actuarial position of the Supplemental Plan as of January 1, 2007.

The ratio of a plan's actuarial value of assets (AVA) to the actuarial accrued liability (AAL), expressed as a percentage, is an indicator of the plan's funding status. Generally, the larger the percentage, the stronger the financial health of the plan. The Supplemental Plan's AAL ratio increased to 81% in 2006 compared to 6% in 2005.

When a plan's total liabilities exceed the assets available to pay benefits on an actuarial basis, the plan is said to have an unfunded actuarial accrued liability (UAAL). As of January 1, 2007, the Supplemental Plan's UAAL was $5,348,659, a decrease of $1.06 million from a UAAL of $6,409,421 as of January 1, 2006.

CONTACTING THE SUPPLEMENTAL PLAN'S FINANCIAL MANAGEMENT

This financial section is designed to provide our members and other users with a general overview of the Supplemental Plan's financial activities. If you have questions about this report or need additional financial information, contact the Administrator of the Supplemental Police and Fire Pension of the City of Dallas at 2301 N. 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, 2006 and 2005

		2006	2005
Assets			
Investments, at fair value (note 4):			
Short-term investments	$		76,237
Commingled trust funds			19,884,039
Plan interest in Group Master Trust, at fair value (note 4)		19,869,445	
Total investments		19,869,445	19,960,276
Accrued interest, dividends and employee contributions receivable		1,300,465	472
Total assets		21,169,910	19,960,748
Liabilities and Plan Net Assets			
Administrative and benefit expenses payable			207,969
Plan net assets held in trust for pension benefits (a schedule of funding progress is presented on page 26)	$	21,169,910	19,752,779

See accompanying notes to basic financial statements.

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SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Statements of Changes in Plan Net Assets
Years Ended December 31, 2006 and 2005

	2006	2005
Additions:		
Net investment income:		
Net investment gain from the Group Master Trust	$ 1,402,176	
Interest and dividends		39,786
Net appreciation in fair value of investments		1,041,178
Total net investment income	1,402,176	1,080,964
Contributions:		
Employer	1,300,000	1,200,000
Member	33,399	29,869
Total contributions	1,333,399	1,229,869
Total additions to plan net assets	2,735,575	2,310,833
Deductions:		
Benefit payments	1,251,364	1,232,776
Administrative and professional fees	67,080	45,432
Total deductions from plan net assets	1,318,444	1,278,208
Net increase in plan net assets	1,417,131	1,032,625
Plan net assets held in trust for pension benefits:		
Beginning of year	19,752,779	18,720,154
End of year	$ 21,169,910	19,752,779

See accompanying notes to basic financial statements.

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SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements
December 31, 2006 and 2005

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

General

The Supplemental Police and Fire Pension Plan of the City of Dallas (the Supplemental Plan) is a single-employer, defined benefit pension plan for police officers and firefighters employed by the City of Dallas, Texas (the City or Employer) and was created in 1973 to supplement the Dallas Police and Fire Pension System's (the System) Plan B Defined Benefit Pension Plan (Plan B). The Plan B benefit structure was 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, 2006 and 2005, the Supplemental Plan membership consisted of:

	2006	2005
Non-active members -		
pensioners and qualified survivors currently		
receiving benefits:		
Firefighters	45	44
Police officers	64	62
Total non-active members	109	106
Current employees -		
vested:		
Firefighters	17	18
Police officers	24	24
Total members	41	42

In 1992, an amendment to Article 6243a-1 was approved by the Members of the Combined Pension Plan allowing for a Deferred Retirement Option Plan (DROP). The amendment automatically modified the Supplemental Plan so members that enter the DROP program in the Combined Pension Plan also enter the DROP program in the Supplemental Plan. DROP Members have their contribution discontinued but the City's portion of the total contribution continues. The Member's monthly benefit remains in the plan and accumulates interest. Upon retirement from the City, the Member is able to withdraw from their DROP Account along with the Member's normal benefits. Amounts included in these basic financial statements related to DROP members are $4,677,345 and $3,798,715 for December 31, 2006 and 2005, respectively.

Continued

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

Pension benefits

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

Contributions

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

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

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

Termination

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

Supplemental Plan administration

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

Continued

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

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

Basis of presentation

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

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.

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.

Continued

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

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.

Investments and Plan Interest in Group Trust

Beginning January 1, 2006, the Supplemental Plan's investments during 2006 were held in the Group Master Trust (Group Trust). JP Morgan Chase served as custodian for the year ended December 31, 2006. The fair value of the Supplemental Plan's interests in the Group Trust is based on the unitized interests that the Supplemental Plan has in the Group Trust. The Supplemental Plan's interest in the Group Trust was approximately 0.6309% at December 31, 2006. The allocation of income between the System and the Supplemental Plan is based on the number of units owned of the Group Trust. Benefits, contributions and administrative expenses are allocated to each plan directly.

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 and are valued based on current market rates. The fair value of limited partnerships, real estate trusts, and real estate loans is based on independent appraisals and recent financial results. Investments that do not have an established market are reported at their estimated fair values. The Supplemental Plan's interest in the Group Master Trust is based on the fair value of the unitized interest held by the Supplemental Plan. The underlying investments included in the Group Master Trust are reported at fair value based on quoted market prices, when quoted market prices are not available, investment are based on independent appraisals and recent financial results, or if not established market then they are reported at their estimated fair values.

Unrealized gains and losses are presented as net appreciation 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 trade 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.

Continued

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

Benefits

Benefits and refunds are recorded in these basic financial statements when they are paid to participants.

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.

Foreign currency transactions

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

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

Investments and broker accounts denominated in foreign currencies outstanding at December 31, 2006 and 2005 were converted to the Group Trust's and the Supplemental Plan's functional currency (United States dollars) at the foreign exchange rates quoted at December 31, 2006 and 2005, respectively. These foreign exchange gains and losses are included in net appreciation in fair value of investments in the accompanying statements of changes in plan net assets.

2. **Cash and Cash Equivalents**

For cash deposits and cash equivalents, custodial credit risk is the risk that in the event of a bank failure, the Group Trust's and the Supplemental Plan's deposits may not be returned to it. The Group Trust's and the Supplemental Plan's deposits are held by the Custodian, JP Morgan Chase. As of December 31, 2006, the Group Trust had bank balances of $1,082,459 that are in demand deposit accounts subject to coverage by Federal deposit insurance, but not collateralized. The Group Trust and the Supplemental Plan does not have a deposit policy for custodial credit risk; however, the Group Trust's and the Supplemental Plan's credit risk exposure is mitigated by the financial strength of the banking institution in which the deposits are held.

Continued

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

3. **Investments and Plan Interest in Group Trust**

The following disclosures on investments and plan interest in Group Master Trust are made for both the Group Master Trust as of and for the year ended December 31, 2006 and for the Supplemental Plan as of and for the year ended December 31, 2005.

The following summarizes the fair value of investments for the Group Trust as of December 31, 2006:

Investments, at fair value (notes 2, 3 and 4):		
Cash and cah equivalents	$	270,728,342
United States government securities		58,045,060
United States government sponsored enterprises		8,980,840
Foreign government securities		194,261,708
Commingled funds		86,465,708
Domestic equities		1,103,204,010
International equities		741,591,982
Corporate securities		374,426,266
Investments, at appraised value - real estate equity funds		767,991,320
Total investments		3,605,695,236
Receivables:		
Accrued interest and dividends		13,467,610
Forward currency contracts (note 6)		79,787,702
Securities sold		51,559,052
Total recievables		144,814,364
Total assets		3,750,509,600
Liabilities and Net Assets		
Repurchase loan agreement (note 7)		35,710,000
Payable for securities purchased		56,554,065
Professional fees payable		2,920,525
Forward currency contracts (note 6)		79,787,702
Securities lending collateral (note 4)		221,286,049
Line of credit (note 8)		204,460,000
Total liabilities		600,718,341
Net assets in the Group Trust	$	3,149,791,259

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SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

The following summarizes the net change in the Group Trust for the year ended December 31, 2006:

Investment income:		
Interest	$	28,451,894
Dividends		30,426,918
Real estate income		19,095,242
Net appreciation in fair value of investments		353,315,991
Securities lending income		937,538
Less investment expenses:		
Securities lending borrower rebates		
Custody fees		(420,106)
Investment services		(17,363,973)
Total investment income in Group Trust		414,443,504
Plan net assets held in trust for pension benefits:		
Beginning of year		-
Transfer of investments by the Supplemental Plan and the System		2,735,347,755
End of year	$	3,149,791,259

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

Group Trust interest held by the System	$ 3,129,921,814
Group Trust interest held by the Supplement Plan	21,169,910
Total nets assets of Group Trust	$ 3,149,791,259

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

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SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

The fair values of the Group Trust's investments at December 31, 2006 and the Supplemental Plan's investments at December 31, 2005 are presented by type, as follows:

	Group Trust 2006	Supplemental Plan 2005
Cash and cash equivalents	$ 270,728,342	76,237
United States government securities	58,045,060	
U.S. government sponsored enterprises	8,980,840	
Foreign government securities	194,261,708	
Commingled funds	86,465,708	19,884,039
Domestic equities	1,103,204,010	
International equities	741,591,982	
Corporate securities	374,426,266	
Investments, at appraised value - real estate equity funds	767,991,320	
Total investments	$ 3,605,695,236	19,960,276

The Board has contracted with investment managers to manage the investment portfolio of the Group Trust and the Supplemental Plan, subject to the policies and guidelines established by the System. The Board has custody agreements with JP Morgan Chase and under such agreements JP Morgan Chase assumes responsibility for the safekeeping of certain investments, handling of transactions based on the instructions of investment managers, and accounting for the investment transactions.

Investments that individually represent 5% or more of the net assets available for benefits and the total of investments that individually represent less than 5% of the net assets available for benefits at December 31 are as follows:

Continued

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

	Group Trust 2006 Fair value	Supplemental Plan 2005 Fair value
Investments greater than 5% of net assets, at quoted market value:		
Securities lending -		
Global Securities Lending JP Morgan	221,286,049	
S&P 500 Index Commingled Equity Trust Fund State Street Global Advisors		7,970,790
Commingled Bond Index Trust Fund State Street Global Advisors		7,824,464
Commingled EAFE Provisional Index Trust Fund State Street Global Advisors		4,088,785
Total investments greater than 5% of net assets	221,286,049	19,884,039
Investments less than 5% of net assets:		
At quoted market value	2,616,417,867	76,237
At appraised value	767,991,320	
Total investments	$ 3,605,695,236	19,960,276

Custodial credit risk

For an investment, custodial credit is the risk that, in the event of the failure of the counterparty, the Group Trust and the Supplemental Plan will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Group Trust and the Supplemental Plan, and are held by either the counterparty or the counterparty's trust department or agent but not in the Group Trust's or the Supplemental Plan's name. At December 31, 2006 and 2005, the Group Trust's and the Supplemental Plan's security investments that were not subject to custodial credit risk were the investments in fixed income and equity investments.

Continued

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

Concentration of credit risk

The allocations of assets among various asset classes are set by the System Board with the objective of optimizing the investment return of the Group Trust and the Supplemental Plan within framework of acceptable risk and diversification. For major asset classes (e.g., domestic equities, international equities, fixed income, alternative investments, and real estate), the Group Trust and the Supplemental Plan will further diversify by employing investment managers who implement the strategies selected by the System Board.

Significant guidelines are as follows:

Public market investments

1. Specific guidelines are developed cooperatively by the System investment staff, legal counsel, and investment manager and shall be incorporated into the Investment Management Services Contract executed by the Chair of the Board, System Administrator, General Counsel, and the investment manager.

2. In case of conflict between the specific manager guidelines and the general guidelines, the specific guidelines, as approved by the Board, shall supersede. The general guidelines are as follows:

   a. Manager investment philosophy, style, and strategy shall remain consistent and shall not change without the Board's approval. The manager shall have discretion to manage the portfolio consistent with the style presented to the Board at the time of selection and further subject to the restrictions established by the policy herein.
   b. The following transactions are prohibited: short sales, selling on margin, put and call options, and the use of derivatives for speculation unless authorized by the Board.
   c. Transactions that involve a broker acting as a principal, where such broker is also affiliated with the manager who is making the transaction are prohibited, unless specifically approved by the Board.
   d. Transactions shall be executed at competitive costs, or within the parameters established for directed brokerage transactions by the Board.
   e. Managers shall maintain cash levels consistent with their style as presented to the Board at the time of selection. Any deviation shall be allowed only after notifying the System Administrator and Assistant Administrator of Investments and should be related to unusual market conditions. The cash level held by each manager will be addressed in the Investment Management Services Contract.

Continued

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

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

Alternative and real estate investments

1. The investment specific guidelines for each manager will be incorporated in a Limited Partnership Agreement, Limited Liability Company Agreement, or other binding agreement as is appropriate for the investment. The Board, System Administrator, General Counsel, and the investment manager execute this document.

2. In case of conflict between the specific manager guidelines and the general guidelines, the specific guidelines, as approved by the Board, shall supersede. The general guidelines are as follows:

   a. Manager investment philosophy, style, and strategy shall remain consistent and shall not change without the Board's approval. The manager shall have discretion to manage the portfolio consistent with the style presented to the Board at the time of selection and further subject to the restrictions established by the policy herein.
   b. The Chair of the Board may execute amendments and consents if the resulting changes or allowances are provided for in the governing documents as previously accepted by the Board. Otherwise, such changes are to be approved by the Board. The Board will be notified on a quarterly basis of all executed amendments.

3. The Board with assistance from the System staff shall monitor each Alternative and Real Estate manager's performance and adherence to strategy and manager specific guidelines. It is the Board's discretion to take corrective action by replacing an investment manager if they deem it feasible and appropriate at any time. Alternative and Real Estate investment manager retention is governed in most cases by Limited Partnership Agreements, Limited Liability Company Agreements, or other binding agreements. In these cases, the Board with assistance from the System staff shall identify available options as allowed by the governing documents and determine the impact and consequences of these options.

<u>Interest rate risk and foreign currency risk</u>

The Group Trust and the Supplemental Plan invests in fixed income securities including, but not limited to, investments representing instruments with an obligated fixed rate of interest including public and private debentures, mortgages, investments in life insurance general accounts and guaranteed investment contracts, with maturities greater than one year, and options/futures. Instruments may have an investment grade or non-investment grade rating. Purchases and sales, investment selection and implementation of investment strategies are delegated to the discretion of the investment manager, subject to compliance with its management agreement and the System's Investment Policy.

Continued

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. Interest rate risk is the greatest risk faced by an investor in the fixed income market. The price of a fixed income security typically moves in the opposite direction of the change in interest rates. The weighted average maturity expresses investment time horizons (when the investment come due and payable) in years, weighted to reflect the dollar size of individual investments within the investment type. The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates, but rather mandates such limits within the Investment Management Services Contract.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. International securities investment managers are expected to maintain diversified portfolios by sector and by issuer using the System Investment Policy.

At December 31, 2006, the following tables show the Group Trust's investments by type, time-to-maturity, fair value, and foreign currency fluctuation:

Continued

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

The following tables provide information as of December 31, 2006, concerning the fair value of investments, interest rate risk, and foreign currency risk:

Type of Investment	Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years	Total Fair Value
Fixed maturity domestic:					
U.S. Treasury securities	$ 9,668,599	8,526,780	3,312,690	36,536,991	58,045,060
U.S. Government Agency Securities				8,980,840	8,980,840
Corporate Securities:					
Asset backed securities			4,120,107	1,217,354	5,337,461
Collateralized mortgage obligation			3,069,824		3,069,824
Corporate bonds	5,331,009	43,796,474	96,088,901	84,576,598	229,792,982
Commingled funds				86,465,708	86,465,708
Convertible bonds	1,911,000	25,770,975	2,090,737	2,076,962	31,849,674
Investment interests				68,155,759	68,155,759
Total fixed maturity domestic	16,910,608	78,094,229	106,682,259	288,010,212	491,697,308
International government bonds:					
Australian Dollar AUD		3,739,340	7,840,577		11,579,917
Argentina		1,363,229			1,363,229
British Pound Sterling		5,738,851	11,737,218		17,476,069
Canadian dollar		8,617,075	2,240,399		10,857,474
EURO Currency	2,250,611	34,689,933	5,031,530	10,191,794	52,163,868
Japanese Yen	14,090,758	8,704,649	13,226,971		36,022,378
Mexican New Peso		9,397,369	218,065	1,203,035	10,818,469
New Zealand Dollar			3,245,872		3,245,872
Poland		3,644,188	8,086,824	6,071,669	18,002,681
Peru			1,432,512		1,432,512
Singapore Dollar	8,020,427	5,634,599			13,655,026
South African Rand		3,750,625	3,455,376		7,206,001
Swedish Krona		10,438,212			10,438,212
Total international government bonds	24,381,796	95,918,070	56,515,344	17,466,498	194,281,708
International corporate bonds:					
Australian Dollar			1,356,499		1,356,499
British Pound Sterling		6,144,216	4,932,936		11,077,152
EURO Currency	5,060,182	5,365,982	5,048,918	1,187,073	16,662,153
Indonesian Rupiah		2,001,362			2,001,362
Thai Bat		5,123,400			5,123,400
Total international corporate bonds	5,060,182	18,634,960	11,338,351	1,187,073	36,220,566
Pooled international fixed maturity	-	4,832,149	1,247,205	68,155,759	74,235,113
Total international fixed maturity	29,421,978	119,385,179	69,100,900	86,809,330	304,717,387
Total fixed maturity	$46,332,586	192,647,259	176,535,954	306,663,793	722,179,582

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SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Group Trust does not have a formal policy limiting investment credit risk, but rather mandates such limits within the Investment Management Services Contract. The Group Trust's exposure to investment credit risk in fixed income securities as of December 31, 2006 is as follows:

Type	Moody Rating	Amount	Percentage of Holdings
Corporate securities:			
Asset backed securities			
	B2	$ 247,877	0.03%
	Ba1	54,493	0.01%
	Ba2	868,654	0.12%
	Ba2	587,364	0.08%
	WR	3,578,983	0.50%
Total asset backed securities		5,337,461	0.74%
Convertible bonds			
	B2	429,463	0.06%
	B3	1,427,063	0.20%
	Ba2	916,800	0.13%
	Caa2	2,821,138	0.39%
	Caa3	1,728,350	0.24%
	NR	24,291,810	3.36%
	WR	236,250	0.03%
Total convertible bonds		31,849,874	4.41%
Corporate bonds			
	A1	1,762,561	0.24%
	A2	4,575,496	0.63%
	A3	2,484,853	0.34%
	Aa1	6,023,899	0.83%
	Aa3	2,370,726	0.33%
	Aaa	9,350,937	1.29%
	B1	54,726,837	7.58%
	B1e	1,218,000	0.17%
	B2	38,797,013	5.37%
	B3	29,375,498	4.07%
	B3e	715,850	0.10%
	Ba1	8,418,019	1.17%
	Ba2	20,463,300	2.84%
	Ba3	18,644,791	2.58%
	Baa1	6,204,504	0.86%
	Baa2	2,910,887	0.40%
	Baa3	9,013,981	1.25%
	Caa1	25,018,321	3.46%
	Caa2	1,517,000	0.21%
	P1	150,628	0.02%
	NR	3,902,298	0.54%
	WR	18,347,149	2.54%
Total corporate bonds		266,013,548	36.83%
Mortgage bonds			
	B3	$ 1,247,205	0.17%
	WR	1,822,619	0.25%
Total mortgage bonds		3,069,824	0.43%
Investment fund			
	NR	68,155,759	9.44%
Total investment fund		68,155,759	9.44%
Total corporate securities:		374,426,267	51.86%
Government sponsored enterprises -			
	Aaa	8,950,840	1.24%
Foreign government securities - Government bonds			
	A2	57,398,872	7.95%
	A3	2,730,854	0.38%
	Aa1	2,240,399	0.31%
	Aa2	2,355,339	0.33%
	Aaa	106,414,398	14.74%
	Ba3	1,432,512	0.20%
	Baa1	10,818,469	1.50%
	NR	10,882,879	1.51%
Total foreign government securities		194,281,728	26.90%
United States government securities:			
Treasury bill	P-1	4,990,250	0.69%
Treasury bond	Aaa	36,536,991	5.06%
Treasury note	Aaa	16,517,819	2.29%
Total U.S. government securities		58,045,060	8.04%
Commingled	NR	86,465,708	11.97%
Total credit risk debt securities		722,179,582	100.00%

For the years ended December 31, 2006 and 2005, the Supplemental Plan's investments, including investments bought, sold, as well as held during the year, appreciated in value as follows:

	2006	2005
Investments, at quoted market value:		
S&P 500 Index Commingled Equity Trust Fund	$	364,659
Commingled Bond Index Trust Fund		180,003
Commingled EAFE Provisional Index Trust Fund		496,516
	$ -	1,041,178

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SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

4. Securities Lending

The System Board has authorized the Group Trust and the System to enter into an agreement with JP Morgan Chase (JP Morgan) for the lending of certain of the Group Trust's and the Supplemental Plan's securities (the Securities Lending Program or program) including, but not limited to, stocks and bonds to counterparty brokers and banks (borrowers), for a predetermined period of time and fee. Such transactions are allowed by State statute.

During 2006, JP Morgan lent, on behalf of the Group Trust and the Supplemental Plan, securities held by JP Morgan as the Group Trust's and the Supplemental Plan's custodians, and received United States dollar cash and United States government securities as collateral. 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 System Board did not impose any restrictions during 2006 on the amount of the loans that 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 2006. Moreover, there were no losses during the 2006 fiscal year resulting from a default of the borrower, JP Morgan indemnifies the Group Trust in respect of any loan related to any non-cash distribution and return of securities.

During 2006, the System 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 JP Morgan. The relationship between the average maturities of the investment pool and the System 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, 2006, the Group Trust and the Supplemental Plan had no credit risk exposure to borrowers. The market value of securities on loan and collateral held for the Group Trust were $221,286,049 at December 31, 2006.

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 Group Trust information as of December 31, 2006.

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SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

5. **Contributions Required and Contributions Made**

Funding policy

The City is required by ordinance to contribute amounts, as determined by an actuary, necessary to maintain the Supplemental Plan. The City's contribution rate is intended to be sufficient to amortize the unfunded actuarial liability over five years as of January 1, 2007 and 2006. The contribution is also limited to be within $100,000 the previous year's contribution.

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

The required contribution rate of the City, pursuant to an actuarial study effective January 1, 2007, consists of 154.79% of covered members' salaries, increased by 10.46% of covered members' salaries of 140.13% as of January 1, 2006.

Historical trend information

Historical trend information is provided as supplemental information on pages 26 through 28. This information is intended to demonstrate progress the Supplemental Plan has made in accumulating sufficient assets to pay benefits when due and the related actuarial assumptions used in determining the actuarially determined amounts.

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

Continued

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

6. **Forward Contracts**

During fiscal year 2006, the Group Trust entered into forward foreign exchange contracts. A currency forward is a contractual agreement between two parties to pay or receive specific amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. Forward commitments are not standardized and carry credit risk due to the possible nonperformance by one of the counterparties. The maximum potential loss is the aggregate face value in U.S. dollars at the time the contract was opened; 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 Group Trust records the unrealized currency translation gain or loss based on the applicable forward exchange rates. Such matching existed at December 31, 2006.

During 2006, the Group Trust recognized net realized losses on foreign currency forward contracts of $1,964,102. At December 31, 2006, the Group Trust had net unrealized loss on forward currency contracts reflected in the accompanying Group Trust summary information and the basic financial statements of approximately $2,068,373.

7. **Obligation Under Reverse Repurchase Agreements**

State statutes permit the Supplemental Plan to enter into reverse repurchase agreements. The credit exposure at year end 2006 related to these agreements was $35,710,000 in the Group Trust. All sales of investments under reverse repurchase agreements are for fixed terms. In investing the proceeds of reverse repurchase agreements, the System policy is for the term to maturity of the investment to be the same as the term of the reverse repurchase agreements. Such matching existed at December 31, 2006.

8. **Line of Credit**

The Group Trust has a credit agreement with a commercial bank which provides for a revolving line of credit bearing interest of 5.75% at December 31, 2006, payable quarterly. At December 31, 2006, the Group Trust had borrowed approximately $204,460,000 related to the revolving credit line which provides for a maximum borrowing of $234,000,000. The revolving credit line was opened in November 1, 2006, and expires on September 13, 2008. The interest rate is based on LIBOR plus 40 basis points. The Group Trust pays a quarterly fee on the unused portion of the line of credit.

9. **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.

Continued

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

10. **Administrative Expenses**

The Supplemental Plan's plan 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, $67,080 and $45,432 was reimbursed to the System by the Supplemental Plan during the years ended December 31, 2006 and 2005, respectively.

11. **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, 2006 and 2005, aggregate contributions from active members of the Supplemental Plan with less than five years of service were $8,650 and $8,112, respectively.

The Group Trust had outstanding investment commitments to various limited partnerships and international investment advisors of $501,151,919 at December 31, 2006.

12. **Risks and Uncertainties**

The Group Trust and 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 27, and schedule of funding progress, page 26, 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 Supplemental Plan's basic financial statements as of December 31, 2006 and 2005.

Schedule 1

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Schedule of Funding Progress (Unaudited)
(000's)

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

Schedule of Funding Progress

Actuarial valuation date	Actuarial value of assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
1/1/1998	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
1/1/2005	18,720	24,496	5,776	76	818	706
1/1/2006	19,961	26,320	6,409	76	928	691
1/1/2007	23,314	28,663	5,349	81	866	618

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

Analysis of the dollar amounts of actuarial value of assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the plan is becoming financially stronger or weaker, generally, the greater this percentage, the stronger the plan. Trends in unfunded actuarial accrued liability and covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of covered payroll approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

See accompanying independent auditors' report.
See accompanying note to required supplemental schedules.

Schedule 2

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Schedule of Employer Contributions (Unaudited)

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

Schedule of Contributions

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 %
2004	1,100,000	100 %
2005	1,200,000	100 %
2006	1,300,000	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.

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

Contributions were made in accordance with actuarially determined contribution requirements as adopted by the Board.

See accompanying independent auditors' report.
See accompanying note to required supplemental schedules.

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Note to Required Supplemental Schedules (Unaudited)

The information in the accompanying schedules of required supplemental information were determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation date of January 1, 2007 and 2006 is 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 4.00% to 9.6% per 2007 actuary report and range 4.3% to 10% per 2006 actuary report
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	5 years in 2007 and 2006
DROP account returns	9% per annum
Post retirement marketing	1994 Group Annuity Mortality Table

* Includes inflation rate of 4% and a real rate of return of 4.5%. DROP balances are assumed to earn 9% per annum. Total payroll is assumed to increase 4% per year. Overtime is assumed to be 11% of base pay per the 2007 actuary report and 7% of base pay per the 2006 actuary report.

The actuarial information presented was determined by the actuarial firm Buck Consultants, Inc. for 2006 and 2005 and results from applying various assumptions with regard to termination, disability, retirement, mortality and the time value of money to the accumulated plan benefits.

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

Actuarial calculations were made by the consulting actuary Buck Consultants, Inc. as of January 1, 2007 and 2006, and are not materially different from what they would have been had they been calculated on December 31, 2006 and 2005, respectively. The above assumptions are used by the Supplemental Plan's actuaries to determine the Supplemental Plan's obligations only, and are not used to calculate the actual Supplemental Plan benefits. Plan benefits are fully described in the Supplemental Plan's document.