DALLAS POLICE & FIRE PENSION SYSTEM 2008 ANNUAL REPORT

SERVING THOSE WHO PROTECT THE DALLAS COMMUNITY

2008 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= 5,235

Benefit Recipients = 3,375

Terminated Vested = 151

Total Participants = 8,761

Service Retirements Added

Police = 74

Fire = 47

Total = 121

Disability Retirements Added

Police = 3

Fire = 1

Total = 4

System Assets at Market Value = $2,529,465,000

Benefits Paid =* $142,075,673

Member Contributions (Net of Refunds) = $18,281,139

City Contributions = $104,372,723

*Includes DROP Distributions


DALLAS
POLICE & FIRE
PENSION SYSTEM
DALLAS FIRE
RESCUE
DALLAS POLICE

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

for the Year Ending December 31, 2008

Richard L. Tettamant, Administrator
Dallas Police and Fire Pension System
4100 Harry Hines Blvd., Suite 100
Dallas, Texas 75219
214.638.3863 or 1.800.638.3861

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Introduction

Richard L. Tettamant,
Administrator

Brian F. Blake,
Assistant Administrator

Donald C. Rohan,
Assistant Administrator

Mike Taylor
Chief Financial Officer

DALLAS POLICE & FIRE PENSION SYSTEM

July 31, 2009

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,* including also the Financial Statements of the Supplemental Police and Fire Pension Plan of the City of Dallas (the Supplemental Plan), for the fiscal year ended December 31, 2008 (the Annual Report). Though the assets of System and Supplemental Plan are co-invested through a Group Trust, the two plans are two separate legal entities.

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. To the best of our knowledge, the information is accurate in all material respects and presents fairly the financial position and operations of the System.

During the 12 month period which ended December 31, 2008, the global equity market experienced one of the most challenging periods as the credit crisis and global economic slowdown sent the market to steep losses. The broad US equity market retreated approximately 37% as measured by the S&P 500 index, the worst calendar year performance since 1931. International equity markets plummeted about 45%. Against this backdrop, the System's assets declined 24% for the 12 month period which ended December 31, 2008. This performance, although disappointing, compared favorably with that of indices and other public funds. The System's investment performance still ranked in the top 9% over three years, and top 1% over five years for public pension funds using the Independent Consultants Cooperative Universe (ICC) database. As of December 31, 2008, the ICC public fund database consisted of 165 public funds.

This annual report is divided into six sections:

- The **Introduction** 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.

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- 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 covering the combined assets of the System and Supplemental Plan.

- The **Actuarial Report** section 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 *2008 Actuarial Valuation* and the *2008 Financial Statements with Independent Auditor's Report* 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 report indicates that the financial statements are in accordance with 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 78.4% funded and a funding period of 33 years to fully fund. The Actuarial Valuation for the Supplemental Plan is included in the last section of this annual report.

Except where noted, NEPC and The Townsend Group provided the investment performance data included in this report.

The System's management staff is responsible for maintaining 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.

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At a time when the defined benefit form of public pension plan remains under attack in many jurisdictions around the country, the System's outstanding investment return over time 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:

"Serving 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. The employees and the City 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 provision of state law.

Plan A became effective September 15, 1969. 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 approved Plan B, created by the membership, effective March 1, 1973. Together, the three plans are referred to as the Combined Pension Plan. In 2008, the System celebrated its 92nd 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 12 member Board of Trustees composed of:

- 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.

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 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 Institutional Investment Management
Ashmore Investment Management Limited
BankCap Partners
Brandywine Investment Management
Bridgewater Associates Inc.
Capmark Investments LP
CDK Realty Advisors
Clay Finlay, Inc
Crow Holdings Realty Partners
Eagle Asset Management
Forest Investment Associates
Frank Russell Company
Grantham, Mayo, Van Otterloo & Co. LLC
HM Capital Partners
Hancock Agricultural Investment Group
Hearthstone Advisors
Highland Capital Management
W. R. Huff Asset Management
INTECH
Invesco Real Estate
JPMorgan Asset Management
Kennedy Associates Real Estate Counsel
L&B Realty Advisors, LLP
Levine Leichtman Capital Partners
Lone Star Advisors
Loomis, Sayles & Company
Mellon Capital Management Corporation
Merit Energy
The Mitchell Group
Mondrian Investment Partners
OFI Institutional Asset Management, Inc.
Oaktree Capital Management
Olympus Real Estate Partners
Orleans Capital
Pharos Capital Group
Pyramis Global Advisors
RCM Capital Management, LLC
RMK Timberland Group
RREEF
Sustainable Asset Management USA Inc.
T. Rowe Price Associates
Texas Private Equity
Yellowstone Capital

Investment Operators

Criswell Radovan
Knudson Luxury Housing
LandBaron Investments

Actuary

Buck Consultants Inc.

Auditor

MFR. P.C.

Custodian Bank

JP Morgan Chase Bank

Investment Consultants

The Townsend Group
NEPC

Performance Measurement Consultants

Financial Control Systems Inc.

Legal Advisors

Strasburger & Price, LLP
Locke, Lord, Bissell, & Liddell, LLP
Hillco Partners
Travis & Calhoun

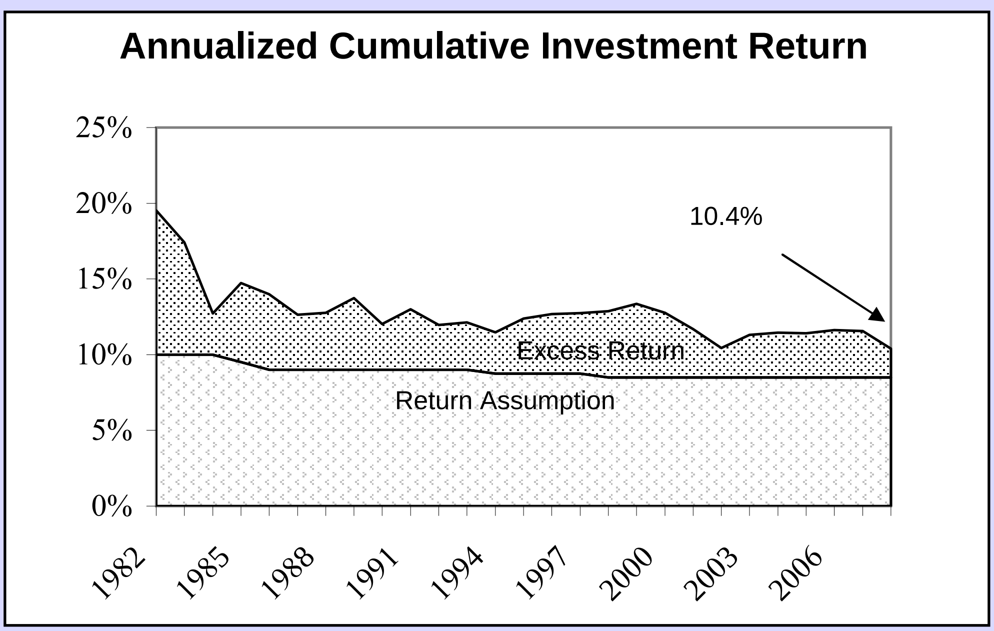
The Board meets monthly and as needed in the performance of its fiduciary duties. The Board also meets at least quarterly with its investment consultants to review the performance of each investment manager, asset class and fund investments. Periodically, the Board conducts an asset allocation study 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 33 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 contributions received and current earnings pursuant to an annual fiscal budget adopted by the Board.

INVESTMENT HIGHLIGHTS

As of December 31, 2008, the System's assets were valued at approximately $2.55 billion representing a decline in net assets of 24% for the year. Although disappointing on an absolute basis, diversification and prudent investment management helped relative performance. The System's agricultural investments, managed by the Hancock Agricultural Investment Group, had a double digits return for the year and a strong longer term performance track record. As of the end of 2008, the System's agricultural holdings have produced an annualized return of 23.4% over five years. The System's investments in timber have served the System well last year as well returning approximately 12%. Longer term performance was 15.7% and 16.2% for the three-year and five-year period ending December 2008. Among the System's real estate investment managers, Kennedy Associates Real Estate Counsel LP returned an impressive 49.9% net of fees for the year ranking as the top producing real estate investment manager.



The above chart demonstrates that the System's long-term investment performance of 10.4% since 1982 has exceeded the expected rate of return.

MAJOR INITIATIVES

With the assistance of NEPC, the System's general investment consultant, a new asset allocation policy was adopted in April 2008. The changes include:

(i) Increased allocation of Global Equity to 20% and deleted separate international equity allocation.

(ii) Added Portable Alpha allocation of 10%. This allocation was never funded and subsequently deleted in January 2009.

(iii) Increased allocation to Global Asset Allocation to 10% from the initial 5% allocation. The increased allocation has not been funded as of December 31, 2008.

The System, within the Global Equity allocation, hired five new investment managers including RCM EcoTrend ($25 million), Robeco Sustainable Asset Management ($25 million), Levine Leichtman Capital Partner IV ($ 50 million), JPMorgan Asian Infrastructure & Related Resources ($37 million), and HM Capital Partner Sector Performance Fund ($50 million). We also made new investments with current managers Pharos Capital Group LLC to co-invest in American Beacon Advisors LLC ($40 million). In addition the System funded new investments in the Lone Star CRA Fund ($15 million).

In 4th Quarter 2008 the System further refined asset allocation with the addition of the Global Natural Resources to the System's asset allocation. The new asset allocation including Global Equity (Public Equity and Private Equity), Global Natural Resources, Global Fixed Income (Public Fixed Income and Private Fixed Income), Global Asset Allocation, and Global Real Estate, was adopted by the Board in January of 2009.

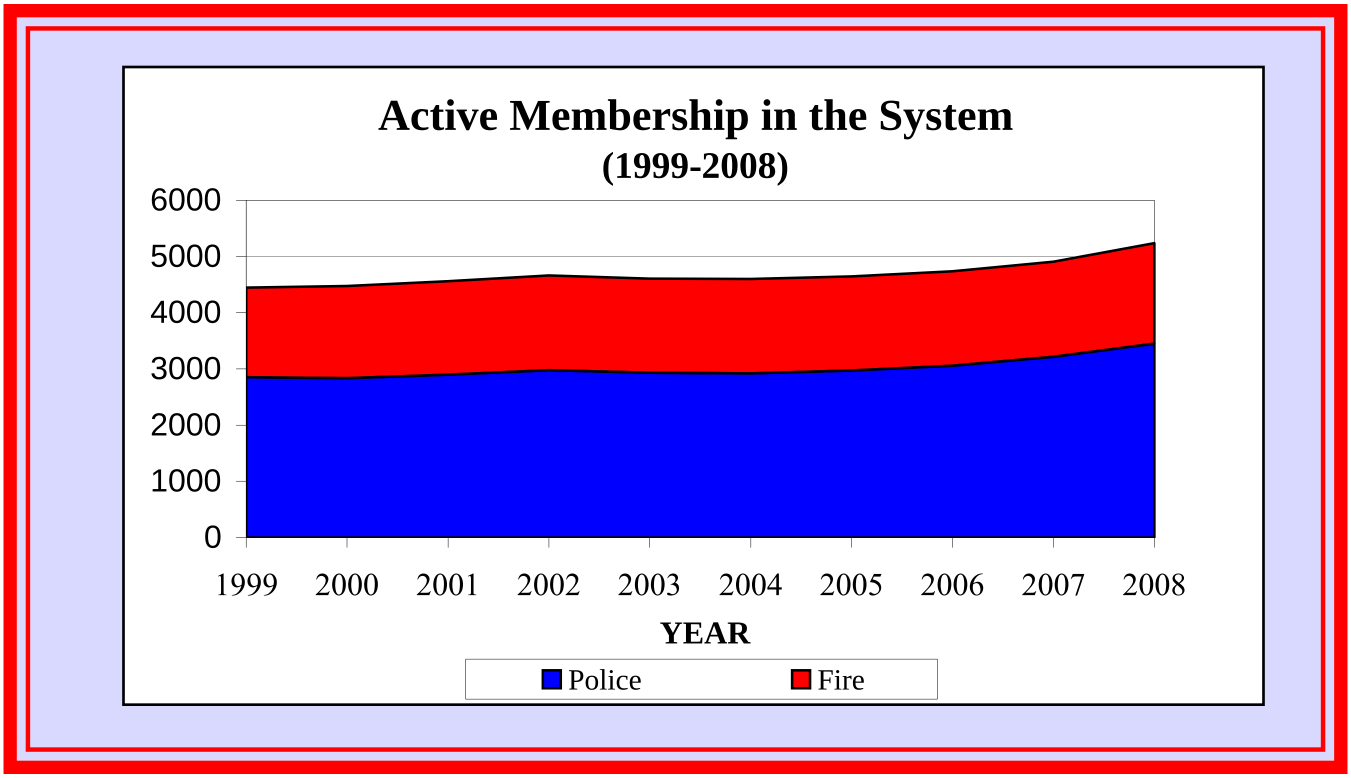
In December 2008, the System moved into a four-story office building situated north of downtown Dallas at 4100 Harry Hines Boulevard. The System office occupies the first floor of the building, with the Board Room and Conference Center located on the second floor. The building was acquired by the Pension System in 2006. Consistent with our mandate toward sustainability investments, the building was refurbished using Green Building Standards with the intent of earning LEEDS certification. A "Green" building" operates in such a way that it is more energy efficient and has less of an impact on the environment.

PLAN MEMBERSHIP

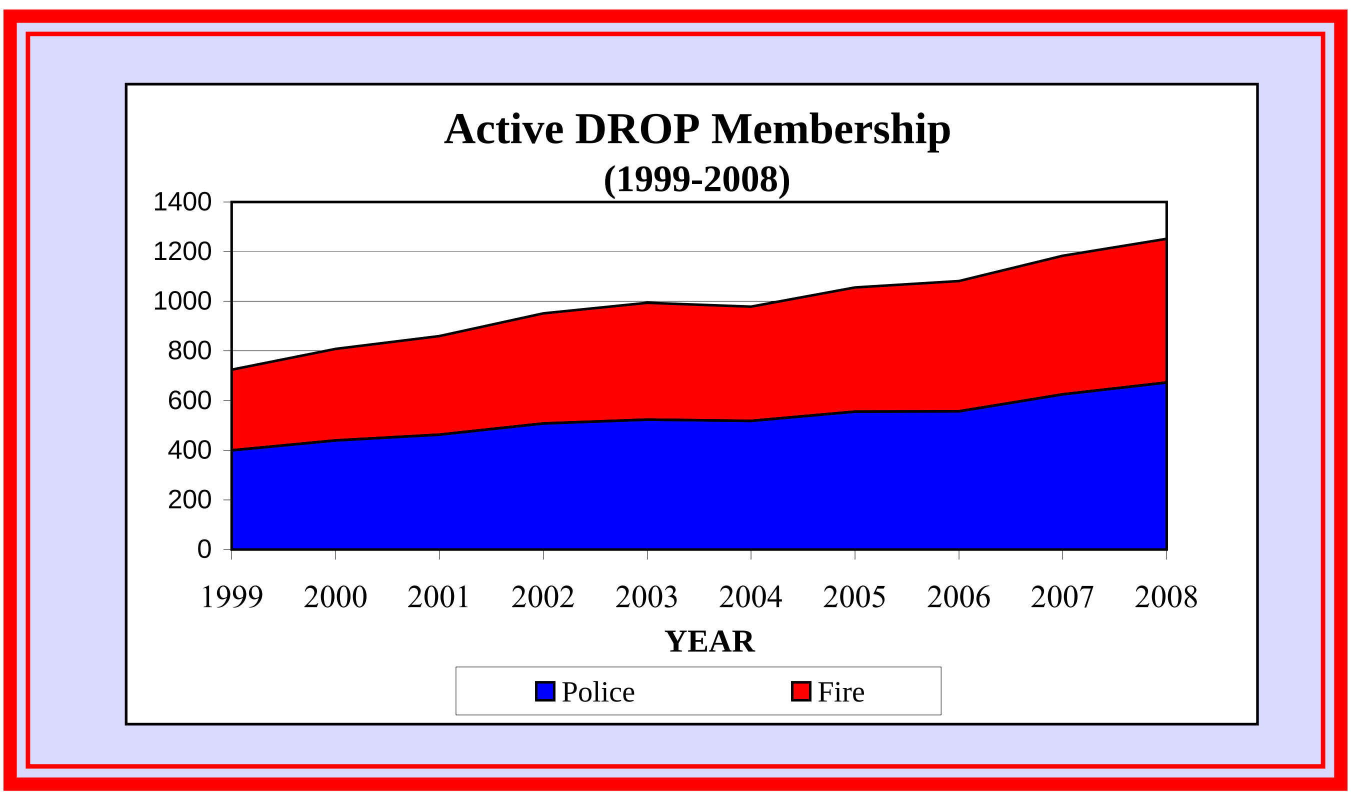
The System provides comprehensive retirement, disability and survivor benefits for the City's 8,761 Police Officers, Firefighters, Pensioners, and their beneficiaries. As of December 31, 2008, 3,447 Police Officers and 1,788 Firefighters were active Members of the Pension System. The total of 5,235 active Members reflects an increase of 326 from last year's total of 4,909 (3,218 Police Officers and 1,691 Firefighters). The average Police Officer is 40.28 years of age with 13.70 years of pension service. The average Firefighter is 42.82 years of age and has 16.61 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 DROP participants in active service reached 1,252 during 2008, an increase of 68 from the prior year. The average DROP participant in Active Service is 54.27 years of age with 28.58 years of pension service. The average age at which members enter DROP is 49.9 years of age.

The System paid $142,075,673 million in pension benefit payment, including DROP payments, to recipients in 2008. At the end of the year benefit payments were being made to 2,317 service Pensioners, 191 disability Pensioners, and 867 beneficiaries.



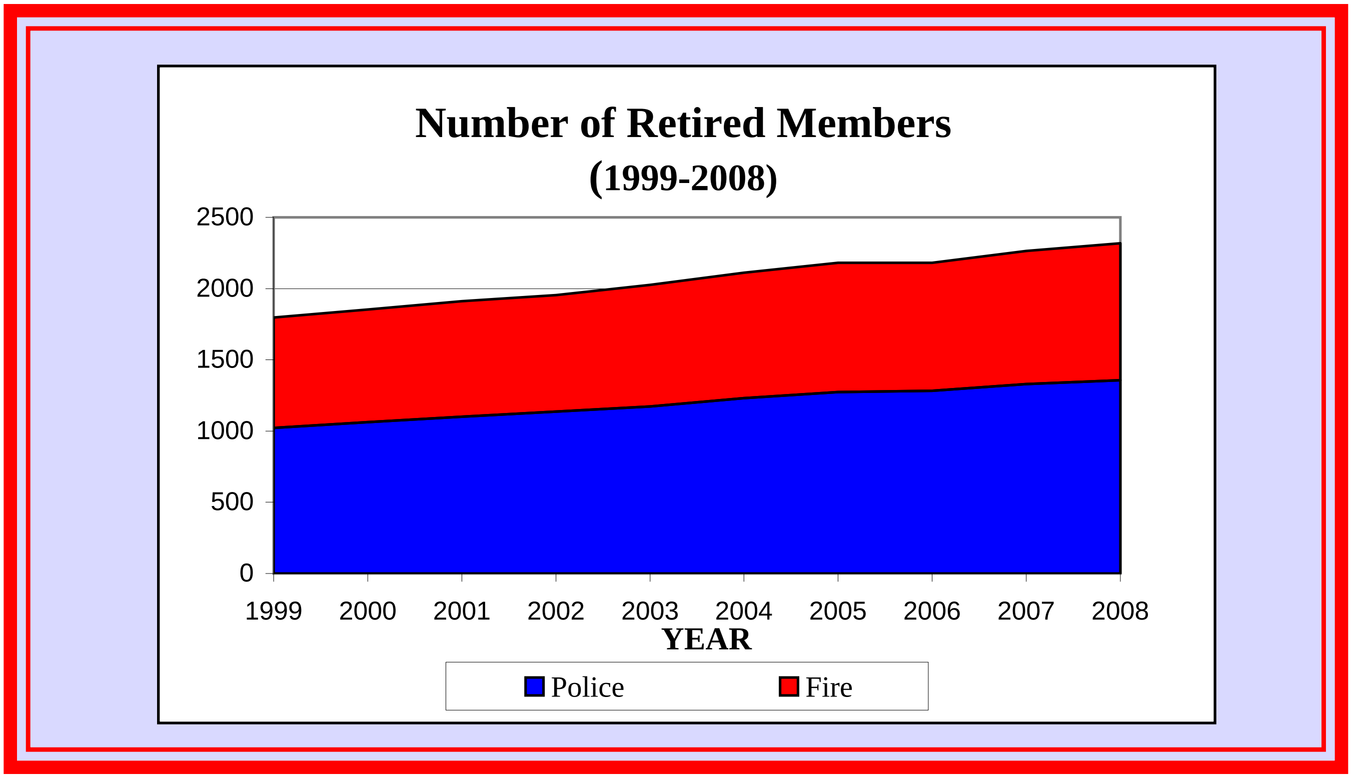
Total Active Membership increased by 787 Members over the last ten years from 4,448 to 5,235 Members— 3,218 Police Officers and 1,691 Firefighters.



Active DROP Membership increased by 527 Participants over the last ten years from 725 to 1,252 Participants— 673 Police Officers and 579 Firefighters.

These numbers taken together reflect an increase in the workforce, particularly the Police Department, with a corresponding decrease in average age and years of service because of the influx of new, younger members. Similarly, as DROP enrollment grows, average DROP participant age and years of service has declined slightly. System benefit payments continue to grow as the number of pensioners and beneficiaries grows and benefits are increased through the annual adjustment and benefit supplement provisions.

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 1,797 in 1999 to 2,317 as of December 31, 2008, including 1,357 retired Police Officers and 960 retired Firefighters.

PLAN AMENDMENTS

There were no changes to the Combined Pension Plan in 2007.

LEGISLATION

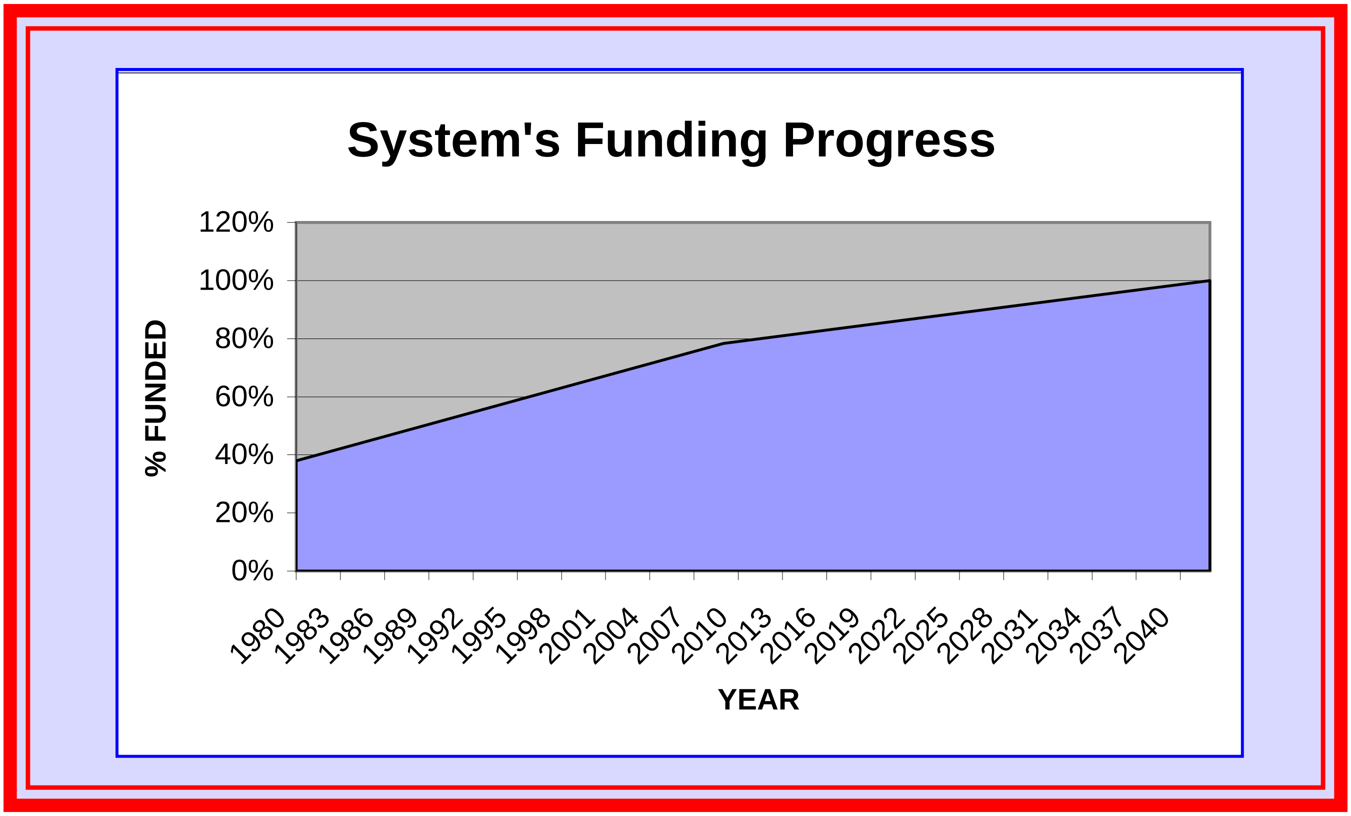
The System continuously monitors both State and federal legislative bodies to identify legislation that might have impact, positive or negative, on the System and our membership and take the appropriate action to support or oppose the legislation.

The major legislative issue on a national basis was the continued attempt to enact corrections to the 2006 Pension Protection Act. HB 7327 containing the corrections was enacted in December 2008. The bill included an important protection that permits the System to continue to pay DROP interest as provided in the Plan..

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 System is on Track to be fully funded in 33 years.

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.

2008 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

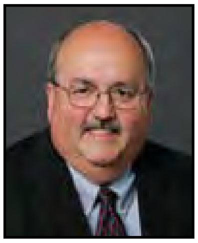
Jerry Allen
City Council Trustee

Dwaine Caraway
City Council Trustee

Pauline Medrano
City Council Trustee

David Neumann
City Council Trustee

2008 Administrative Staff


Richard Tettamant
Administrator

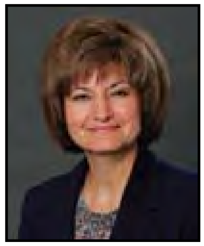

Brian Blake
Asst. Administrator
Investments

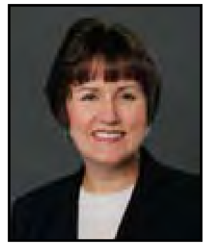

Don Rohan
Asst. Administrator
Operations

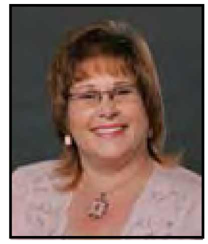

Everard Davenport
General Counsel


Mike Taylor
Chief Financial
Officer

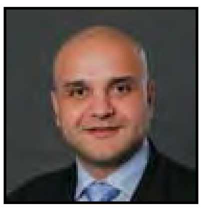

John Holt
Information Technology
Manager


Pat McGennis
Benefits
Manager

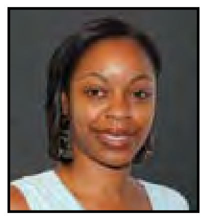

Linda Rickley
Board Coordination
Manager


Carol Turbeville
Executive Secretary


Jerry Chandler
Systems Analyst


Talal Elass
Investment Analyst


Crystal Flores
Administrative Clerk


Larissa Guiste
Accountant


Greg Irlbeck
Investment Analyst


Yvette Hall
Assistant Pensioner
Advocate

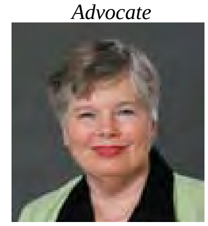

Aimee Jasper
Asst. Benefits
Counselor

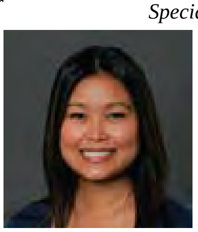

Vickie Johnson
Accounting
Specialist

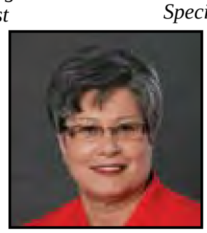

Kevin Killingsworth
Communications
Specialist

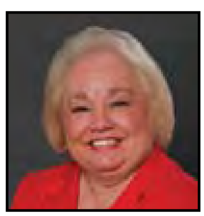

Larry Landfried
Investment Ananlyst

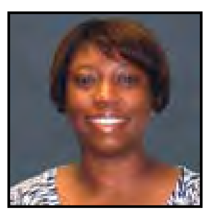

Ann Matthews
Benefits Counselor


Barbara McCann
Pensioner Liaison

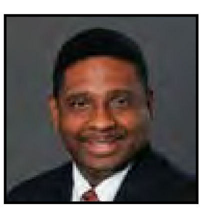

Chang Men
Admin. Assistant

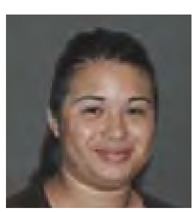

Gale Paul
Pensioner Advocate


Rosa Perez
Receptionist


Erica Ramsey
Benefits Counselor


Cynthia Reyes
Admin. Assistant


Bill Scoggins, Jr.
Senior Accountant

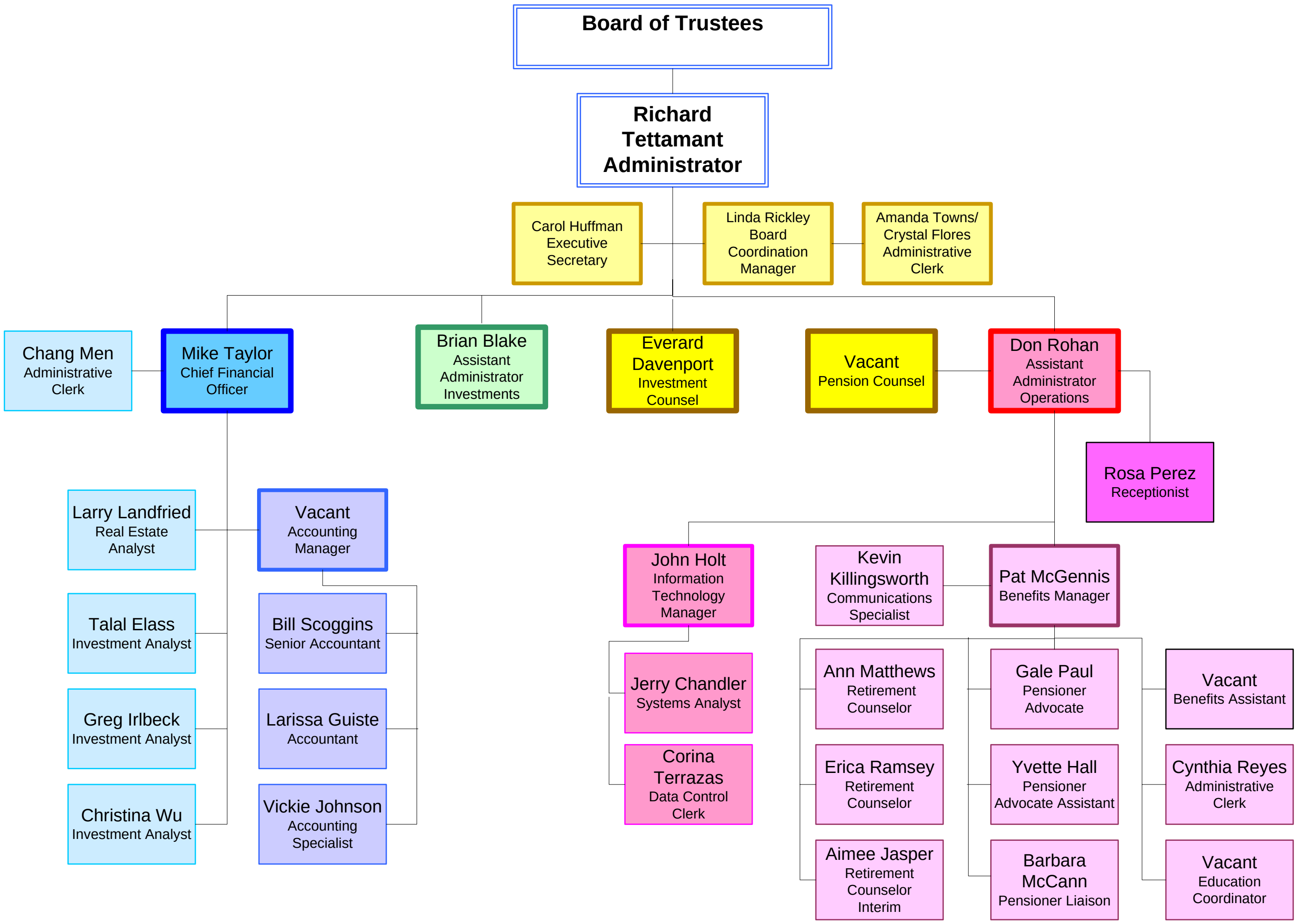

Corina Terrazas
Data Control Clerk


Amanda Towns
Admin. Assistant


Christina Wu
Investment Ananlyst

Dallas Police & Fire Pension System

2008 Organization Chart



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

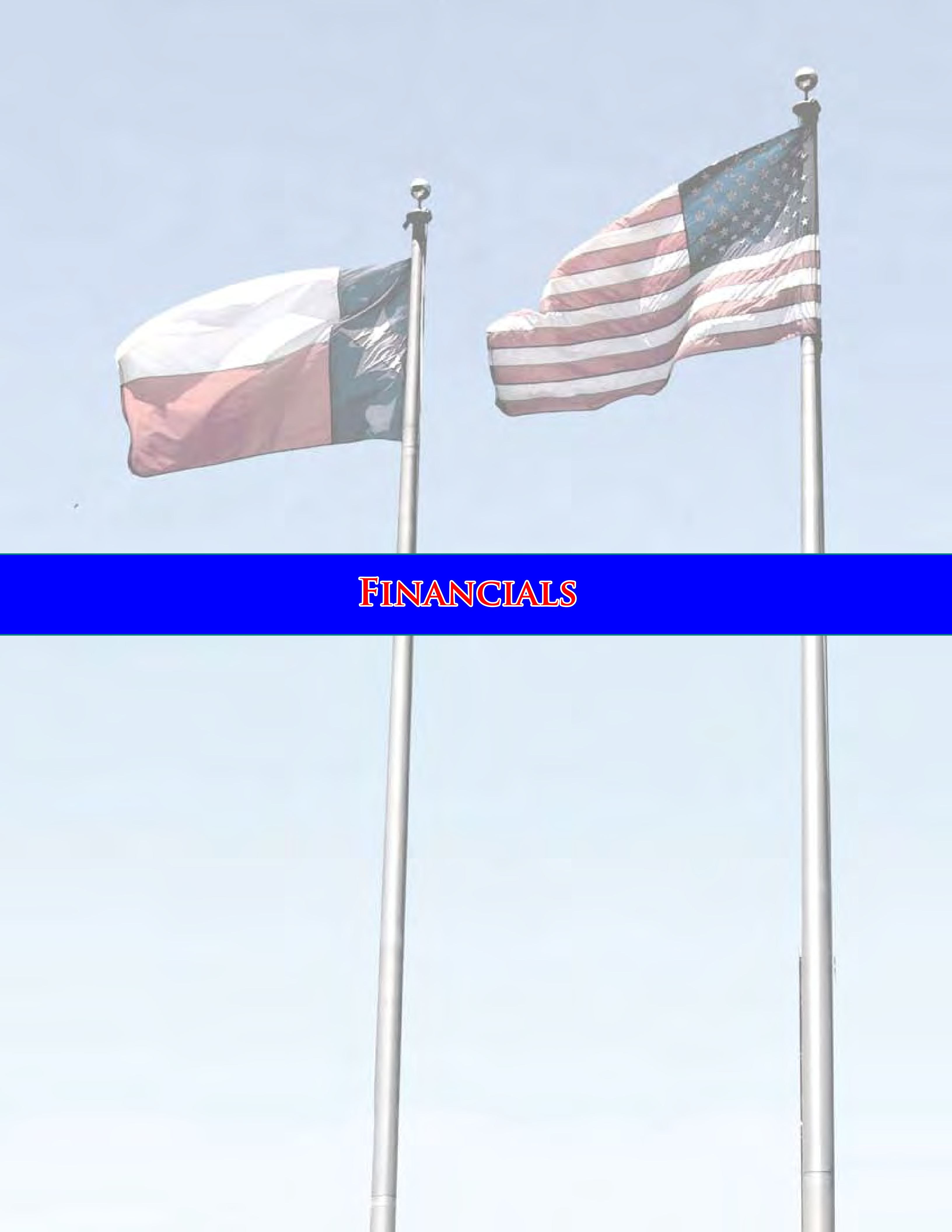
- Initiated unitization of investment of Pension System assets co-investing the assets of the System and the Supplemental Plan
- System assets totaled $3.13 billion (12-31-06)

2007

- Implemented provisions of the federal Pension Protection Act of 2006
- System Assets totaled $3.35 billion (12-31-07)

2008

- Adopted new asset allocation policy with emphasis on global investments
- Moved office location to new site at 4100 Harry Hines Blvd
- System Assets totaled $2.53 billion (12-31-08)



FINANCIALS

DALLAS POLICE AND FIRE PENSION SYSTEM

Financial Statements
and
Required Supplemental Information

December 31, 2008 and 2007
(With Independent Auditors' Report Thereon)

DALLAS POLICE AND FIRE PENSION SYSTEM

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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, 2008 and 2007, 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, 2008 and 2007, 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.

MFR, P.C.

July 17, 2009

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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, 2008 and 2007. 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 over time 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)

	2008	2007	2006
Assets	$ 2,530,668	3,354,793	3,131,495
Liabilities	1,203	1,453	230
Net Assets Available for Benefits	2,529,465	3,353,340	3,131,265
Contributions	123,011	115,677	109,595
Investment and Other (Loss) Income	(796,511)	245,028	413,041
Benefit Payments	142,076	131,626	122,120
Withdrawals and Refunds of Contributions	358	914	728
Administrative Expenses and Professional Fees	7,942	6,091	4,265

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FINANCIAL HIGHLIGHTS

- The System's plan net assets decreased $824 million in 2008 and increased $222 million in 2007. Plan net assets totaled $2.53 billion in 2008 and $3.35 billion in 2007. The decrease in plan net assets reflects the current financial market trend.

- The rate of return on System investments during 2008 was (24%) net of fees, compared to a rate of return of 10.3% for 2007. The investment return reflects deteriorating financial market conditions in late 2008. The System's return still exceeded most of our peers for the period, demonstrating the success of the System's asset allocation. Performance numbers are provided by the System's general investment consultant. The actuarial expected rate of return for both years was 8.5%. As of December 31, 2008, the System's assets are valued at approximately $2.53 billion representing a decline in net assets of 24% for the year. Although disappointing on an absolute basis, diversification and prudent investment management helped relative performance. The System's agricultural investments, managed by the Hancock Agricultural Investment Group, had a double digits return for the year and a strong longer term performance track record. As of end of 2008, the System's agricultural holdings have produced an annualized return of 23.4% over five years. The System's investments in timber have served the System well last year as well returning approximately 12%. Longer term performance is 15.7% and 16.2% for the three-year and five-year period ending December 2008. Among the System's real estate investment managers, Kennedy Associates Real Estate Counsel LP returned an impressive 49.9% net of fees for the year, ranking as the top producing real estate investment manager. Recent events in the financial markets include a devaluation of some assets including certain mortgages and derivative assets. The U.S. banking system and credit markets has required intervention by the Federal Reserve and the U.S. Treasury Department. In addition, the public equity markets have seen large price declines on a year to date basis. As a result, future investment returns could be adversely impacted in certain asset classes. Management is assessing the likely impact on future investment returns and developing risk mitigation strategies.

- Liabilities totaled $1.20 million as of December 31, 2008. Liabilities at December 31, 2007 totaled $1.45 million. Investment liabilities are incorporated into the Group Trust and reflected in total investments.

- The System received employee contributions of $18.6 million in 2008 and $17.9 million in 2007 and received employer contributions from the City of Dallas in the amounts of $104.4 million and $97.8 million in 2008 and 2007, 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. Total employee contributions increased by $700,000, or about 4%, in 2008 compared to 2007. Total employer contributions increased by $6.6 million, or 6.75% over the same period.

- The System paid $142.1 million in service retirement, disability retirement, survivor benefits and DROP disbursements during 2008, compared to payments of $131.6 million benefits in 2007. The System refunded approximately $357.6 thousand and $913.5 thousand in contributions to former members in 2008 and 2007, respectively. No changes to benefit provisions were implemented in 2008. The increase of $10.5 million, or 8%, in benefit payments in 2008 compared to 2007 resulted both from an increase in the number of benefit recipients and annual adjustment increases to base benefits.

- The cost of administering the benefit programs of the System, including administrative costs and professional fees, was $ 7.94 million in 2008 compared to $6.09 million in 2007.

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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, 2009. 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 decreased $857.9 million during 2008 to $2.53 billion as of January 1, 2009. The market value of assets as of January 1, 2008 was $3.35 billion. During the same period, the actuarial value of the assets (AVA) decreased $219.0 million to a total of $3.04 billion as of January 1, 2009. The actuarial value of the assets as of January 1, 2008 was $3.26 billion.

- As of January 1, 2009, the actuarial accrued liability (AAL), or actuarial value of liabilities, increased during 2008 by $234.4 million to $3.88 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 decreased to 78.4% during 2008. The ratio as of January 1, 2008 was 89.4%.

- 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, 2009, the System's UAAL was $838 million, an increase of $453 million from a UAAL of $385 million as of January 1, 2008.

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, 2009, the employer contribution rate of 27.5% covers the normal cost and the amortization of the UAAL over 33 years, compared to 14 years to fund as of the January 1, 2008 valuation. This increase of 19 years in the number of years to fully fund the System demonstrates the impact on the System's funding status of the economic downturn in 2008.

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 4100 Harry Hines Blvd., Suite 100, Dallas, TX 75219.

DALLAS POLICE AND FIRE PENSION SYSTEM

Statements of Plan Net Assets
December 31, 2008 and 2007

Assets	2008	2007
Plan interest in Group Master Trust, at fair value (notes 2, 3, 4, 6 and 7)	$ 2,527,902,765	3,352,843,319
Receivables:		
Employer contributions (note 5)	2,344,000	1,653,009
Member contributions (note 5)	418,773	296,754
Other receivables	2,554	
Total receivables	2,765,327	1,949,763
Total assets	2,530,668,092	3,354,793,082
Liabilities and Net Assets		
Administrative expense payable	1,203,175	1,453,313
Total liabilities	1,203,175	1,453,313
Net assets held in trust for pension benefits (a schedule of funding progress is included on page 26)	$ 2,529,464,917	3,353,339,769

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, 2008 and 2007

	2008	2007
Additions to plan net assets:		
Investment income -		
net investment (loss) gain from the Group Master Trust	$ (796,511,439)	245,027,585
Contributions:		
Employer	104,372,723	97,762,335
Employee	18,638,767	17,914,832
Total contributions	123,011,490	115,677,167
Total net (reduction) additions to plan net assets	(673,499,949)	360,704,752
Deductions from plan net assets:		
Benefit payments	142,075,673	131,626,059
Withdrawal payments and refunds of contributions	357,628	913,522
Administrative expenses and professional fees	7,941,602	6,090,624
Total deductions from plan net assets	150,374,903	138,630,205
Net (decrease) increase in plan net assets	(823,874,852)	222,074,547
Plan net assets held in trust for pension benefits:		
Beginning of year	3,353,339,769	3,131,265,222
End of year	$ 2,529,464,917	3,353,339,769

See accompanying notes to basic financial statements.

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements
December 31, 2008 and 2007

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, 2008 and 2007, the System's membership consisted of:

	2008	2007
Non-active member:		
Pensioners and qualified survivors currently receiving benefits and terminated employees entitled to benefits but not yet receiving them:		
Firefighters	1,458	1,423
Police officers	1,917	1,870
Terminated vested members not yet receiving benefits	151	183
Total non-active members	3,526	3,476
Current employees:		
Vested:		
Firefighters	1,400	1,417
Police officers	2,445	2,435
Total vested current employees	3,845	3,852
Nonvested:		
Firefighters	388	274
Police officers	1,002	783
Total non-vested current employees	1,390	1,057
Total current employees	5,235	4,909

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 $700,217,165 and $597,764,805 at December 31, 2008 and 2007, 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 2008 and 2007, 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 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 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 years ended December 31, 2008 and 2007. The fair value of the System's interest in the Group Trust is based on the unitized interest that it has in the Group Trust. The System's interest in the Group Trust was approximately 99.289% and 99.298% at December 31, 2008 and 2007, respectively. The allocation of investment income and administrative expenses between the System and the Supplemental Plan is based on the number of units owned of the Group Trust. Benefits and contributions and 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. 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.

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.

Benefits

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

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

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, 2008 and 2007 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, 2008 and 2007, respectively. These foreign exchange gains and losses are included in the Group Trust net (depreciation) appreciation in fair value of investments in the accompanying disclosures of the Group Trust.

Administrative expenses

The cost of administering the System is paid by the System from current earnings pursuant to an annual fiscal budget approved 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, 2008 and 2007, the Group Trust and the System had bank balances of $2,318,275 and $5,840,577, respectively, that are in demand deposit accounts subject to coverage by the Federal Deposit Insurance Corporation, but not collateralized. The Group Trust and the System do not have a deposit policy for custodial credit risk; however, management believes that 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 the System's interest in the Group Master Trust are made for the Group Master Trust as of and for the years ended December 31, 2008 and 2007. 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. 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. Dividend income is recorded on the ex-dividend date. Interest and income from other investments are recorded as earned.

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

	2008	2007
Investments, at fair value (notes 2, 3 and 4):		
Cash and cash equivalents	$ 189,628,091	288,681,823
United States government securities	1,754,304	10,879,556
United States government sponsored enterprises	19,479,059	20,496,465
Foreign government securities	99,780,380	204,014,254
Commingled funds	20,999,013	85,940,352
Domestic equities	367,155,694	1,045,749,584
International equities	1,012,510,245	990,822,594
Corporate securities	243,474,306	306,456,923
Investments, at appraised value - real estate equity funds	1,138,167,164	943,189,733
Total investments	3,092,948,256	3,896,231,284
Receivables:		
Accrued interest and dividends	8,945,704	11,956,730
Forward currency contracts (note 6)	57,271,091	166,741,241
Securities sold	26,852,309	32,273,311
Total receivables	93,069,104	210,971,282
Total assets	3,186,017,360	4,107,202,566
Liabilities and Net Assets		
Repurchase loan agreement (note 7)	33,316,200	32,572,000
Payable for securities purchased	28,701,252	31,691,181
Professional fees payable	5,982,653	4,769,636
Forward currency contracts (note 6)	56,691,520	166,352,773
Securities lending collateral (note 4)	148,844,078	218,371,133
Line of credit and other bank loans (note 8)	366,476,000	276,850,000
Total liabilities	640,011,703	730,606,723
Net assets in the Group Trust	$ 2,546,005,657	3,376,595,843

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

The following summarizes the net change in the Group Trust for the years ended December 31:

	2008	2007
Investment income:		
Interest	$ 33,379,607	36,676,719
Dividends	40,171,711	35,347,457
Real estate income	9,123,317	44,149,704
Net (depreciation) appreciation in fair value of investments	(865,198,727)	148,254,062
Securities lending income	1,253,546	922,183
Less investment expenses:		
Custody fees	(645,670)	(269,847)
Investment services	(20,077,353)	(17,533,373)
Total investment (loss) income in Group Trust	(801,993,569)	247,546,925
Plan net assets held in trust for pension benefits:		
Beginning of year	3,376,595,843	3,149,791,259
Benefit payments in excess of contributions received for System and Supplemental Plan	(28,596,617)	(20,742,341)
End of year	$ 2,546,005,657	3,376,595,843
The following is a break out of interest held in the Group Trust:		
Group Trust interest held by the System	$ 2,527,902,765	3,352,843,319
Group Trust interest held by the Supplemental Plan	18,102,892	23,752,524
Total nets assets of Group Trust	$ 2,546,005,657	3,376,595,843

Portions of the Group Trust'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.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

The fair values of the Group Trust's investments at December 31, 2008 and 2007 are presented by type, as follows:

	2008	2007
Cash and cash equivalents	$ 189,628,091	288,681,823
United States government securities	1,754,304	10,879,556
U.S. government sponsored enterprises	19,479,059	20,496,465
Foreign government securities	99,780,380	204,014,254
Commingled funds	20,999,013	85,990,352
Domestic equities	367,155,694	1,045,749,584
International equities	1,012,510,245	990,822,594
Corporate securities	243,474,306	306,456,923
Investments, at appraised value - real estate equity funds	1,138,167,164	943,189,733
Total investments	$ 3,092,948,256	3,896,231,284

The Board has contracted with investment managers to manage the investment portfolio of the Group Trust, 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.

Group Trust 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 of the Group Trust at December 31 are as follows:

	2008 Fair value	2007 Fair value
Investments greater than 5% of net assets, at quoted market value:		
Securities lending - Global Securities Lending JP Morgan	$ 148,884,079	218,371,133
Total investments greater than 5% of net assets	148,884,079	218,371,133
Investments less than 5% of net assets:		
At quoted market value	1,805,897,013	2,734,670,418
At appraised value	1,138,167,164	943,189,733
Total investments	$ 3,092,948,256	3,896,231,284

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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 or 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, 2008 and 2007, 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 within a 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 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 comes 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, 2008, the following tables show the Group Trust's investments by type, time-to-maturity, fair value, and foreign currency fluctuation:

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	$	1,754,304			1,754,304
U.S. Govt agency securities				19,479,059	19,479,059
Municipal bonds				635,000	635,000
Corporate securities:					-
Asset backed securities					-
Collateralized mortgage obligation			16,155	10,943,286	10,959,441
Corporate bonds	113,494	40,051,402	72,153,824	117,538,673	229,857,393
Commingled funds				20,909,013	20,999,013
Convertible bonds		1,771,719		120,375	1,892,094
Investment interests				130,380	130,380
Total fixed maturity domestic	113,494	43,577,425	72,169,979	169,845,786	285,706,684
International government bonds:					
Australian Dollar		923,245	10,513,133		11,436,378
Argentina Peso					
Belgium Franc		1,393,442			1,393,442
Brazil Real		2,897,601			2,897,601
British Pound Sterling		8,866,438	5,073,840	3,099,513	17,039,791
Canadian Dollar		2,713,901			2,713,901
EURO Currency		3,537,619	8,840,492	6,840,422	19,218,533
Iceland Krona		501,021			501,021
Indonesian Rupiah		1,432,374		292,000	1,724,374
Japanese Yen		11,716,794		2,849,424	14,566,218
Malaysian Ringgit		4,020,467			4,020,467
Mexican New Peso		7,321,936		2,129,039	9,450,975
Netherland Guilder				949,518	949,518
New Zealand Dollar		2,520,898			2,520,898
Norway Krona					-
Philippines Peso		864,320			864,320
Poland New Zloty		6,388,272			6,388,272
Singapore Dollar					-
South African Rand		1,837,878			1,837,878
Swedish Krona		2,256,791			2,256,791
Uruguay Peso					
Total international government bonds	-	59,192,997	24,427,465	16,159,916	99,780,378
Total fixed maturity	$ 113,494	102,770,422	96,597,444	186,005,702	385,487,062

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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, 2008 is as follows:

Type	S & P Rating	Amount	Percentage of holding
Corporate securities:			
Convertible bonds			
	B	$ 120,375	0.03%
	NR	1,771,719	0.46%
Total convertible bonds		1,892,094	0.49%
Corporate bonds			
	AAA	1,264,490	0.33%
	AA+	1,425,570	0.37%
	AA	1,430,977	0.37%
	AA-	2,222,492	0.58%
	A+	3,782,987	0.98%
	A	2,891,675	0.75%
	A-	2,032,032	0.53%
	BBB+	6,196,450	1.61%
	BBB	4,723,585	1.23%
	BBB-	12,290,820	3.19%
	BB+	2,438,653	0.63%
	BB	18,014,497	4.67%
	BB-	16,773,849	4.35%
	B+	25,258,021	6.55%
	B	18,463,530	4.79%
	B-	7,466,053	1.94%
	CCC+	6,641,835	1.72%
	CCC	8,832,313	2.29%
	CCC-	1,747,725	0.45%
	CC	387,146	0.10%
	C	1,735,295	0.45%
	D	1,430,160	0.37%
	NR	82,397,340	21.37%
Total corporate bonds		229,857,392	59.62%

Type	S & P Rating	Amount	Percentage of holding
Mortgage bonds			
	AAA	5,991,186	1.55%
	A+	16,155	0.00%
	A	297,438	0.08%
	NR	4,654,661	
Total mortgage bonds		10,959,440	2.84%
Investment fund			
	NR	130,380	0.03%
Total corporate securities		242,839,306	62.98%
Government sponsored enterprises:			
	AAA	2,436,296	0.63%
	NR	17,042,763	4.42%
Total government sponsored enterprises		19,479,059	5.05%
Foreign government securities:			
	AAA	26,045,850	6.76%
	AA+	6,196,848	1.61%
	AA	16,371,280	4.25%
	A+	15,149,552	3.93%
	A	13,768,695	3.57%
	A-	3,305,460	0.86%
	BBB+	2,269,035	0.59%
	BBB	1,191,803	0.31%
	BB-	4,193,336	1.09%
	B-	1,134,288	0.29%
	NR	10,134,233	2.63%
Total foreign government securities		99,780,380	25.89%
United States government securities - Treasury Notes	AAA	1,754,304	0.46%
Municipal bonds	Aaa	635,000	0.16%
Commingled	NR	20,999,013	5.45%
Total credit risk debt securities		$ 385,487,062	100.00%

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DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

4. **Securities Lending**

The Board has authorized the Group Trust to enter into an agreement with JP Morgan Chase (JP Morgan) for the lending of certain of the Group Trust'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 2008 and 2007, JP Morgan lent, on behalf of the Group Trust, securities held by JP Morgan as the Group Trust's custodian, 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 2008 and 2007 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 2008 and 2007. Moreover, there were no losses during the 2008 and 2007 fiscal years 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 2008 and 2007, 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 Group Trust'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, 2008 and 2007, 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 $148,844,079 and $218,371,133 at December 31, 2008 and 2007, respectively.

Disclosure of securities lending revenue is shown gross with the associated reductions for investment expenses on the face of the Group Trust's 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 Group Trust as of December 31, 2008 and 2007.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

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 33 years as of January 1, 2009 compared to 14 years as of January 1, 2008.

The required contribution rate of the City, pursuant to an actuarial study effective January 1, 2009, consists of 17.86% of covered members' salaries to pay normal costs, 12.75% of covered members' salaries to amortize its funding deficit over 33 years, and by (3.11)% 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.

In 2008 and 2007, 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 2008 and 2007, 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 2008 and 2007, 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, 2008 and 2007.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

During 2008 and 2007, the Group Trust recognized net realized gains and losses on foreign currency forward contracts of $7,081 and $388,468, respectively. At December 31, 2008 and 2007, the Group Trust had net unrealized gains and losses on forward currency contracts reflected in the accompanying Group Trust summary information of $556,702 and $5,941,188, respectively.

7. **Obligation Under Reverse Repurchase Agreements**

State statutes permit the System to enter into reverse repurchase agreements. The credit exposure at year end 2008 and 2007 related to these agreements was $33,316,200 and $32,572,000 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, 2008 and 2007.

8. **Line of Credit and Other Bank Loans**

The Group Trust has a credit agreement with a commercial bank which provides for a revolving line of credit bearing interest at the 30 day floating LIBOR plus 45 basis points and 40 basis points at December 31, 2008 and 2007, respectively, payable quarterly. At December 31, 2008 and 2007, the Group Trust had borrowed approximately $329,216,000 and $276,850,000, respectively, related to the revolving credit line, which provides for a maximum borrowing of $350,000,000. The revolving credit line was opened on November 1, 2006, and expires on September 13, 2009. The Group Trust and the System also pay a quarterly fee on the unused portion of the line of credit equaling .14 basis points. The line of credit agreement contains various covenants under the terms of the agreement in which the bank may call the line of credit, if the Group Trust is in violation of any restrictive covenants.

In addition to the line of credit, the Group Trust has an additional loan agreement with the commercial bank bearing interest per annum at the LIBOR rate plus 45 basis points and 40 points at December 31, 2008 and 2007, respectively, payable quarterly. At December 31, 2008 and 2007, the loan balance outstanding was $37,260,000. The loan is secured by real property and matures on September 30, 2009. The bank loan agreement contains various covenants under the terms of the agreement in which the bank may call the loan if the Group Trust is in violation of any restrictive covenants.

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.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

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 $119,159 and $69,310 related to the System's overall administrative costs during the years ended December 31, 2008 and 2007, respectively.

Group Trust investment related expenses for the years ended December 31, 2008 and 2007 also include $20,077,353 and $17,533,373, respectively, in asset management fees for the Group Trust.

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, 2008 and 2007, aggregate contributions from active members of the System with less than five years of service were $9,075,284 and $6,763,187, respectively.

The Group Trust had outstanding investment commitments to various limited partnerships and international investment advisors of $415,523,031 and $566,176,827 at December 31, 2008 and 2007, respectively.

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 2008 and 2007, the System contributed $297,309 and $256,281, 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 invests in various investment 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 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 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 management 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, 2008 and 2007.

REQUIRED SUPPLEMENTAL INFORMATION

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 in millions):

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)
1/1/2000	$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 %
1/1/2008	3,259	3,644	385	89.4 %	321	119.9 %
1/1/2009	3,040	3,878	838	78.4 %	348	240.8 %

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
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%
2007	97,762	100%
2008	104,373	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, 2009 and 2008 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 of 4% to 9.64%
Actuarial cost method	Entry age normal cost method
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	33 years in 2009 actuary report and 14 years in 2008 actuary report
DROP account returns	9% per annum 2009 and 9% per annum 2008
Post retirement mortality	1994 Group Annuity Mortality Table

The actuarial information presented was determined by the actuarial firm Buck Consultants, Inc. for 2008 and 2007 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, 2009 and 2008, and are not materially different from what they would have been had they been calculated on December 31, 2008 and 2007, 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.

* Includes inflation rate of 4% and net of all expenses

** Includes inflation rate of 4%.

INVESTMENTS

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.

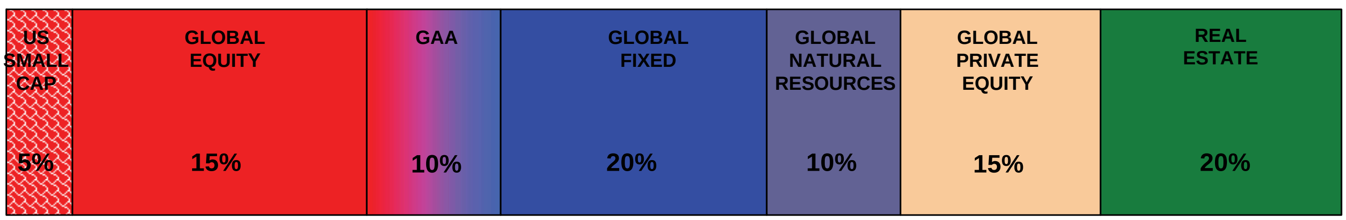
3. The pension investment program shall at all times comply with existing and future applicable state and federal regulations.

STRATEGIC ASSET ALLOCATION POLICY

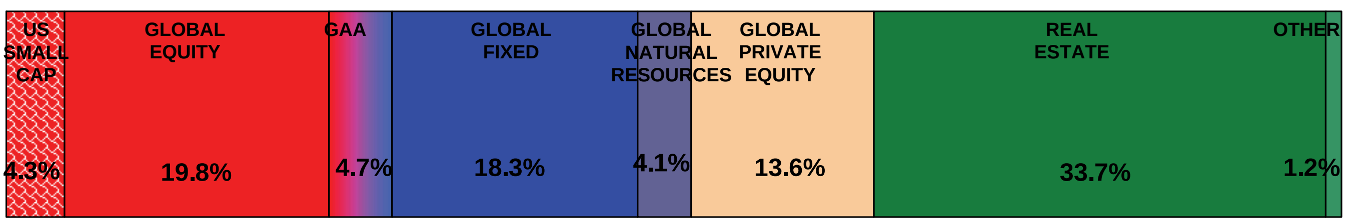
In order to achieve maximum returns, the policy of the Board of Trustees (“the Board”) is to diversify between various investment types as deemed suitable.

The Board has adopted an asset allocation policy with the following primary asset groups, Global Equity (Public equity and Private equity), Global Natural Resources, Global Fixed Income (Public Fixed Income and Private Fixed Income), Global Asset Allocation, and Real Estate, as shown in the chart below:

2009 Target Asset Allocation



Actual Asset Allocation



The plan has a -0.7% cash position.

“Other” reflects the capital recovered from the Rreef Infrastructure strategy.

An asset allocation review is conducted monthly. This comparison is developed from the month end asset valuation obtained from the System’s custodian. If the 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 the target allocation.

GENERAL INVESTMENT MANAGER GUIDELINES

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

INVESTMENT HIGHLIGHTS

Calendar year 2008 was one of the most challenging and disappointing years for global investors since the Great Depression. The broad US stock market as measured by the S&P 500 index returned about -37%, the worst calendar-year performance since 1931. International markets plummeted about -45% as the credit crisis and economic distress resonated worldwide. The financial sector, the center of the crisis, was hit the hardest, but no sector or asset class was safe from the market's violent force. Against this backdrop, the System's assets are valued at $2.55 billion, representing a 24.0% decline for the year.

Although it was certainly a disappointing year, the System maintained its long-term perspective. the System ranked in the top 9% over three-year, and top 1% over five-year among public funds by NEPC, the System's investment consultant, the System continues to rank among the best performing public pension plans in the nation. The System's use of multiple investment strategies, asset diversification, and asset rebalancing, has served us well over many market cycles and will continue to help the System achieve its financial goals in the years to come. For a more detailed comparison, see "Rates of Return by Asset Class" below.

Rates of Return by Asset Class

INVESTMENT CATEGORY	RATE OF RETURN	BENCHMARK COMPARISON	BENCHMARK
Global Equity			
Domestic Equity	-37.92%	-37.00%	S&P 500
International Equity	-45.20%	-45.24%	MSCI EAFE
Global Fixed Income			
Global Aggregate Bonds	3.53%	4.79%	BC Global Aggravated Index
Global Opportunistic	-31.96%	-25.92%	Citi Comp High Yield
Global Asset Allocation	-20.94%	8.07%	90 Bill+ 600BPS
Real Estate	-0.44%	-6.46%	Townsend Group Stylized Index
Cash Equivalent	2.83%	2.06%	91 Day T Bill

Global Equity Portfolio

The System's Global Equity portfolio represents 37.7% of System's total market value of which 24.1% represents public equity. Investment products that make up the public equity composite include domestic equity, international equity, and global equity portfolios. Domestic equities fared better as measured by the S &P 500 Index one year return of -37%, whereas international stocks performed worse returning -45% for the year. The System's Global Equity portfolio declined along with the broad equity markets with ending market value of approximately $614.6 million.

Top Ten Equity Holdings

SECURITY DESCRIPTION	MARKET VALUE BASE
Nestle SA	$6,565,557.56
Roche Hldg AG Genusscheine	$6,356,943.20
Exxon Mobil Corp	$6,075,063.00
Vodafone Group	$5,375,149.61
Telefonica SA	$5,239,279.17
Time Warner Cable Inc	$4,383,672.15
Microsoft Corp	$4,352,616.00
Chevron Corp	$4,253,275.00
Schlumberger	$4,224,534.00
Novartis AG	$4,205,206.00

The System's private equity portfolio represents approximately 13.6% of the System's total investment portfolio. Among the investments which performed well for 2008, Merit Energy returned 14.4% and Huff Energy returned 9.9% while the North Texas Growth Opportunity Fund returned 39.2%. Private equity investments made during 2008 include commitments to Levine Leichtman Capital Partners IV, JP Morgan Asian Infrastructure & Related Resources, Lone Star CRA Fund, HM Capital Partner Sector Performance Fund and a $40 million co-investment in American Beacon Advisors. Levine Leichtman Capital Partners IV seeks to make structured equity investments in entrepreneurially led companies located in the United States while the JP Morgan Asian Infrastructure & Related Resources seeks to invest in core infrastructure projects across Asia.

Global Natural Resources

Global Natural Resources was added to the System's asset allocation mix to represent the System's existing investments in global natural resources and continuing commitment to alternative energy, eco-friendly and sustainable technology investing. The portfolio consists of the System's energy, farmland, and timber holdings as well as newly made investments in the RCM EcoTrends and Robeco Sustainable Asset Management products.

The System's timber and farmland holdings continued to outperform their respective benchmarks. The timber portfolio is managed by Forest Investment Associates and RMK Timberland Group. As of the year ending 2008, timber investments had a market value of approximately $94.7 million with a one year return of 12.2%. Longer term performance for the timber portfolio has provided 15.7% and 16.2% for the three year, and five year period ending 2008. The System's farmland holdings managed by the Hancock Agricultural Investment Group has a market value of approximately $72.4 million and has an impressive annualized return of 23.4% over a five year period. The 2008 return for the agricultural investments was 10.5% net of fees. 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.

In third quarter 2008, the Board approved a $20 million commitment to Hancock Agricultural Investment Group for future row crop acquisitions.

Global Fixed Income Portfolio

The System's global fixed income investments represent approximately 18.3 % of the total portfolio. While the global high quality fixed income market had a moderate return of 4.8% for the year, the global high yield and opportunistic fixed income market tanked along with the global equity market. The

Top Ten Fixed Income Holdings

SECURITY DESCRIPTION	MARKET VALUE
Japan	$14,557,637.62
Mexico (UTD MEX ST)	$8,709,387.78
U.S. Treasury Bonds	$8,668,118.01
Freeport-McMoran Copper & Gold	$7,175,000.00
Poland (Gov't of)	$6,415,384.52
New South Wales Treasury Corp.	$5,560,037.90
France (Gov't of)	$5,094,291.40
AES Corp	$3,901,334.64
Range Resources Corp	$3,679,650.00
CitiBank	$2,897,600.77

Citigroup High Yield index returned -25.9% for the year. Among the high quality fixed income managers, Mondrian Investment Partners returned an impressive 13.3% for the Fund and outperformed their benchmark, the BC Global Aggregate index, by 8.5%.

Global Asset Allocation Portfolio

The System's Global Asset Allocation portfolio represents approximately 4.7% of the System's market value. Among the three Global Asset Allocation Managers, GMO performed better among its peers, returning -10.3%, while Bridgewater All-Weather and Mellon Capital Management returned -24.2% and -29.1% for the year respectively. The Global Asset Allocation category has a target asset allocation of 10% which is anticipated to be fully funded over the next two years.

Real Estate Portfolio

Amid one of the worst 12-month periods on record for the equity market, the global real estate market also weathered an unusually difficult year, as fallout from the subprime-mortgage crisis continued to rock the real estate market. Among the investments affected the most, the System's public real estate portfolio consisting of investments in Real Estate Investment Trusts (REITs) declined 46.8% net of fees. As of end of 2008, the System's public real estate portfolio has an ending market value of approximately $20 million.

The System's private real estate portfolio represents approximately 97.7% of the total real estate portfolio, 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. The location of the private assets covers the United States from Hawaii, Idaho, California, Arizona, Nebraska, Colorado, Georgia, Wisconsin, Nevada, and Texas. International locations of the System's private real estate investments include Paris, France and the Bahamas.

The System had strong performance in the private real estate portfolio from Kennedy Associates Real Estate Counsel, LP returning 49.9% net of fees for the year. Overall Kennedy Associates Real Estate Counsel has had strong performance with annualized return of 22.2% and 20.6% net of fees over three and five year period ending 2008. L&B Realty Advisors, who manage approximately $72.1million of assets on behalf of the System, also posted a positive year returning 4.5% net of fees for the year. Longer term returns are 10.1% and 9.3% net of fees over the three year and five year period respectively.

The performance history for the System's private real estate is impressive albeit a difficult 2008. Having returned net annualized numbers of 8.1%, and 11.7% respectively for three years, and five years ending 2008, the System's real estate portfolio has consistently outperformed the weighted benchmark.

INFLATION

Inflation as measured by the Consumer Price Index for all Urban Consumers (CPI-U) rose 0.1% for the year 2008 according to the U.S. Department of Labor.

ACTUARIAL REPORT

DALLAS POLICE AND FIRE PENSION SYSTEM

ACTUARIAL VALUATION

AS OF JANUARY 1, 2009

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May 20, 2009

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, 2009

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, 2009.

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, 2009, the employer contribution rate for GASB 27 purposes to pay the normal cost and fund the Unfunded Actuarial Accrued Liability over 30 years is 30.61%. This amount is more than the 24.81% employer contribution rate calculated as of January 1, 2008. 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 33 years.

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Mr. Richard Tettamant
May 20, 2009
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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 valuation is based on the same assumptions and methods as the previous valuation.

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

Data

Asset information and member data for retired, active, and inactive members was supplied as of January 1, 2009 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.

I am an Enrolled Actuary, a Fellow of the Society of Actuaries, and a Member of the American Academy of Actuaries. I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

Very truly yours,

Richard A. Mackesey, FSA, EA, MAAA
Principal, Consulting Actuary

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Enclosures

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2009

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Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2009

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Summary of Principal Results

	January 1, 2009	January 1, 2008
Membership		
Active	5,235	4,909
Terminated with refunds due	45	N/A
Terminated with deferred benefits	151	182
Retired members and beneficiaries	3,375	3,294
Compensation		
Total	$ 348,106,883	$ 321,491,941
Average	$ 66,496	$ 65,490
Assets		
Market value	$ 2,533,055,971	$ 3,390,974,909
Actuarial value	$ 3,039,667,165	$ 3,258,627,218
Valuation Results		
Unfunded actuarial accrued liability	$ 838,429,477	$ 385,091,924
Funding period	33	14
GASB No. 25		
Actuarial accrued liability (AAL)	$ 3,878,096,642	$ 3,643,719,142
Assets (actuarial)	$ 3,039,667,165	$ 3,258,627,218
GASB ratio	78.4%	89.4%
Unfunded AAL	$ 838,429,477	$ 385,091,924

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 increased to 33 years from 14 years. This increase was primarily due to the loss on the actuarial value of assets.

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 30.61% compared with the City's actual contribution rate of 27.50% and with the 30-year funding cost in 2008 of 24.81%. Section 3 shows a reconciliation of the changes between the 2008 and 2009 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 33 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 2008 and 2009.

GASB Statements

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

Benefit Provisions

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

Actuarial Assumptions and Methods

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

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

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

GASB Statement No. 27

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 30.61% will be required for the City to avoid showing an accrued pension liability on its financial statements for the fiscal year beginning in 2009. At the current rate of contribution, and assuming no other changes, the City will 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 2008 and 2009 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 assets was reset to the market value of assets and a five-year phase in of gains and losses will begin with the asset gains and losses that occur after December 31, 2005. For the 2009 valuation, 20% of the asset loss for 2008, 40% of the asset gain for 2007, 60% asset gain for

2006, and 80% of the asset gain for 2005 is reflected in the actuarial value of assets. The estimated rate of return for 2008 is (24.80)% for the market value of assets, and (6.14)% for the actuarial value of assets.

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 4,909 members as of January 1, 2008 to 5,235 members as of January 1, 2009, a 6.6% increase. The total active payroll increased from $321,491,941 to $348,106,883 over the same period, a 8.3% increase. Schedule A shows a summary of the membership data.

Experience

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

Actuarial Cost, Margin and Funding Period

		January 1, 2009	January 1, 2008
1.	Covered Payroll		
	a. Active members excluding DROP	230,430,232	215,828,664
	b. DROP members	117,676,651	105,663,277
	c. Total	348,106,883	321,491,941
2.	Actuarial value of future pay		
	a. Active members excluding DROP	2,011,095,100	1,805,865,500
	b. DROP members	1,416,929,400	1,309,538,600
	c. Total	3,428,024,500	3,115,404,100
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	4,750,685,548	4,460,198,126
5.	Actuarial present value of future normal costs		
	a. Total	872,588,906	816,478,984
	b. Member (3b x 2a)	170,943,084	153,498,571
	c. City (5a - 5b)	701,645,822	662,980,413
6.	Actuarial accrued liability (4 - 5a)	3,878,096,642	3,643,719,142
7.	Actuarial value of assets	3,039,667,165	3,258,627,218
8.	Unfunded actuarial accrued liability (UAAL) (6 - 7)	838,429,477	385,091,924
9.	Normal cost		
	a. Normal cost percentage (5a ÷ 2c)	25.45%	26.21%
	b. Total normal cost (1c x 9a)	88,593,202	84,263,038
	c. Member normal cost (1a x 3b)	19,586,570	18,345,436
	d. City normal cost (9b - 9c)	69,006,632	65,917,602
	e. City normal rate (9d ÷ [1c x 1.11])	17.86%	18.47%

Actuarial Cost, Margin and Funding Period

	January 1, 2009	January 1, 2008
10. 30-year funding cost*		
a. City normal cost rate**	17.86%	18.47%
b. Amortization rate	12.75%	6.34%
c. Total	30.61%	24.81%
11. Margin over/(under) 30-year cost* (3a - 10c)	(3.11)%	2.69%
12. Funding period to amortize UAAL	33	14

* 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 33 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.

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Analysis of Change in UAAL

1. UAAL as of January 1, 2008	$ 385,091,924
2. Changes due to:	
a. Expected increase (negative amortization)	$ 28,116
b. Actual contributions greater than expected	(4,403,378)
c. Liability experience	(17,983,314)
d. Asset experience	475,696,129
e. Total changes	$ 453,337,553
3. UAAL as of January 1, 2009	$ 838,429,477

Analysis of Change in Funding Cost

1. 30-year funding cost* as of January 1, 2008	24.81%
2. Changes due to:	
a. Resetting of amortization from prior year	(0.24)
b. Actual contributions greater than expected	(0.07)
c. Liability experience	(1.12)
d. Asset experience	7.23
e. Total	5.80
3. 30-year funding cost* as of January 1, 2009	30.61%

* 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 33 years.

Analysis of Change in Funding Period

1. Funding period as of January 1, 2008	14
2. Changes due to:	
a. Passage of time	(1)
b. Actual contributions greater than expected	0
c. Liability experience	(1)
d. Assumption Change	0
e. Asset experience	21
f. Total	19
3. Funding period as of January 1, 2009	33

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, 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%
January 1, 2008	3,259	3,644	385	89.4%	321	119.9%
January 1, 2009	3,040	3,878	838	78.4%	348	240.8%

GASB #25 Schedule of Employer Contributions for Year Ending December 31, 2008

Annual Required Contribution	Percentage Contributed
27.50% of Pay	100.0%

Summary of Accumulated Benefits
(FASB #35)

Accumulated Benefits at January 1, 2009

Vested benefits of participants and beneficiaries currently receiving payments	$ 1,813,714,414
Other vested benefits	1,847,692,209
Nonvested benefits	148,129,542
Total benefits	$ 3,809,536,165

FASB #35 Reconciliation

Accumulated benefits at January 1, 2008		$ 3,574,009,044
Benefits accumulated	$ 80,099,626	
Interest	297,860,796	
Benefits paid	(142,433,301)	
Assumption change	0	
Plan amendments	0	
Total Change		235,527,121
Accumulated benefits at January 1, 2009		$ 3,809,536,165

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Reconciliation of Fund Assets

	Year Ending December 31, 2008
1. Value of fund at beginning of year	$ 3,390,974,909
2. Contributions	
a. City	104,372,723
b. Member	18,638,767
c. Total	$ 123,011,490
3. Benefit payments (including DROP payments)	(142,075,673)
4. Refunds	(357,628)
5. Earnings	(831,393,103)
6. Expenses	(7,104,024)
7. Value of assets at end of year	$ 2,533,055,971
8. Estimated rate of return	(24.80)%

Determination of Excess Earnings To Be Deferred

	Year Ending December 31, 2008
1. Market value at beginning of year	$ 3,390,974,909
2. Net new investments	
a. Contributions	$ 123,011,490
b. Benefit payments (including DROP payments)	(142,075,673)
c. Refunds	(357,628)
d. Total	$ (19,421,811)
3. Market value at end of year	$ 2,533,055,971
4. Yield (3 - 1 - 2d)	$ (838,497,127)
5. Average balance [1 + ½ x (2d)]	3,381,264,004
6. Assumed investment return rate	8.50%
7. Expected net return (5 x 6)	$ 287,407,440
8. Gains/(losses) subject to deferral (4 - 7)	$ (1,125,904,567)

Calculation of Actuarial Value of Assets

1.	Market value of assets as of January 1, 2009				$2,533,055,971
2.	Deferral amounts				
		Year	Total Gain/(Loss)	Percent Deferred	Deferral Amount
	a.	2008	$(1,125,904,567)	80%	$ (900,723,654)
	b.	2007	10,785,809	60%	6,471,485
	c.	2006	168,016,769	40%	67,206,708
	d.	2005	57,272,457	20%	11,454,491
	e.	Total			$ (815,590,970)
3.	Preliminary actuarial value of assets (1 - 2e)				3,348,646,941
4.	80% of Market value				2,026,444,777
5.	120% of Market value				3,039,667,165
6.	Actuarial value of assets (3, not less than 4 or more than 5)				3,039,667,165
7.	Rate of return on actuarial value of assets				(6.14)%

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Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2009

Schedule A

Membership Data

	January 1, 2009	January 1, 2008
1. Active members (excluding DROP)		
a. Police and Fire		
1. Number	3,983	3,725
2. Covered payroll	$230,430,232	$215,828,664
3. Average annual pay	$ 57,853	$ 57,941
4. Average age	37.02	37.63
5. Average service (years)	10.33	11.14
b. Police		
1. Number	2,774	2,593
2. Covered payroll	$159,857,887	$149,560,273
3. Average annual pay	$ 57,627	$ 57,678
4. Average age	36.94	37.42
5. Average service (years)	10.21	10.92
c. Fire		
1. Number	1,209	1,132
2. Covered payroll	$ 70,572,345	$ 66,268,391
3. Average annual pay	$ 58,372	$ 58,541
4. Average age	37.21	38.11
5. Average service (years)	10.60	11.64

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Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2009

Schedule A
(continued)

Membership Data
(continued)

	January 1, 2009	January 1, 2008
2. Active members (DROP only)		
a. Police and Fire		
1. Number	1,252	1,184
2. Covered payroll	$117,676,651	$105,663,277
3. Average annual pay	$ 93,991	$ 89,243
4. Average age	54.27	54.26
5. Average total service (years)	28.58	28.53
6. Average time in DROP (years)	4.51	4.38
7. DROP account balance	$340,065,656	$296,459,343
b. Police		
1. Number	673	625
2. Covered payroll	$ 63,636,248	$ 56,602,051
3. Average annual pay	$ 94,556	$ 90,563
4. Average age	54.04	54.15
5. Average total service (years)	28.09	28.12
6. Average time in DROP (years)	4.20	4.15
7. DROP account balance	$165,510,776	$145,084,578
c. Fire		
1. Number	579	559
2. Covered payroll	$ 54,040,403	$ 49,061,226
3. Average annual pay	$ 93,334	$ 87,766
4. Average age	54.54	54.38
5. Average service (years)	29.15	28.98
6. Average time in DROP (years)	4.87	4.63
7. DROP account balance	$174,554,880	$151,374,765

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2009

Schedule A
(continued)

Membership Data
(continued)

	January 1, 2009	January 1, 2008
3. Active members (including DROP)		
a. Police and Fire		
1. Number	5,235	4,909
2. Covered payroll	$348,106,883	$321,491,941
3. Average annual pay	$ 66,496	$ 65,490
4. Average age	41.15	41.64
5. Average service (years)	14.69	15.33
6. DROP account balance	$340,065,656	$296,459,343
b. Police		
1. Number	3,447	3,218
2. Covered payroll	$223,494,135	$206,162,324
3. Average annual pay	$ 64,837	$ 64,065
4. Average age	40.28	40.67
5. Average service (years)	13.70	14.26
6. DROP account balance	$165,510,776	$145,084,578
c. Fire		
1. Number	1,788	1,691
2. Covered payroll	$124,612,748	$115,329,617
3. Average annual pay	$ 69,694	$ 68,202
4. Average age	42.82	43.49
5. Average service (years)	16.61	17.37
6. DROP account balance	$174,554,880	$151,374,765

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Membership Data
(continued)

	January 1, 2009	January 1, 2008
4. Inactive members eligible for annuity		
a. Retired members	2,508	2,458
b. Beneficiaries	867	836
c. Number entitled to deferred benefits	151	182
d. Total number of inactive members	3,526	3,476
e. Total annual benefit	$127,349,411	$121,360,391
f. Average annual benefit	$ 36,117	$ 34,914
5. Inactive members with refunds due		
a. Number	45	N/A
b. Accumulated contribution balance	$ 102,314	N/A

Summary of Benefit Provisions
As of January 1, 2009
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.

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2009

Schedule B
(continued)

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

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2009

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.

Group B

Definitions

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

Average Computation Pay: Computation Pay averaged over 36 months.

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

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

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

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

Pension System: The Dallas Police and Fire Pension System.

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

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

Contribution Rates

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

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

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

Service Retirement Benefits

Annual Normal Retirement Pension

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

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

Early Retirement Pension

Condition for Retirement:

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

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

b. 20 years of Pension Service

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

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

Special Rule for Members of former Old Plan or Plan A

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

Disability Retirement Benefits

Service-Related Disability

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

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

Non-Service Related Disability

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

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

Survivor Benefits

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

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

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

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

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

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

Post-Retirement 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.

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2009

Schedule C

Statement of Actuarial Methods and Assumptions
(Effective as of January 1, 2009)

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	.48	.28	.35	.70
25	47.0	23.0	48.30	26.30	.62	.29	.37	.75
30	35.0	18.0	36.20	23.70	.78	.33	.42	.84
35	25.0	18.0	27.80	21.40	.85	.45	.48	.96
40	25.0	18.0	28.20	20.90	1.00	.65	.57	1.15
45	25.0	18.0	32.20	22.40	1.46	.92	.79	1.58
50	NA	NA	38.30	25.70	2.33	1.31	NA	NA
60	NA	NA	60.30	33.10	7.09	3.86	NA	NA
70	NA	NA	73.90	41.10	21.73	12.71	NA	NA
75	NA	NA	84.20	49.20	34.05	20.38	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
Actuarial Valuation - January 1, 2009

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

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 2007.

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, set back one year 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 Postretirement 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.

In no event is the actuarial value of assets less than 80% nor more than 120% of the market value of assets.

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2009

Schedule D

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, 2008 shows that during this period there have been about 18% more terminations than expected.

January 1, 2004 through December 31, 2008	Actual	Expected	Actual/Expected
Termination Prior to Retirement	453	385	118%

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, 2004 through December 31, 2008 shows that during this period there have been about 80% more of disability retirements as expected. Since the actual number of disablements is so small, we do not feel that any change in this assumption is necessary at this time.

January 1, 2004 through December 31, 2008	Actual	Expected	Actual/Expected
Disability Retirements	18	10	180%

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2009

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, 2008 shows that during this period there have been about 19% less retirements than expected.			
January 1, 2004 through December 31, 2008			
	Actual	Expected	Actual/Expected
Retirement	572	710	81%

Death			
This assumption was changed as of January 1, 2007 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, 2007 through December 31, 2008 shows that during this period there have been 6% more deaths than expected. It is generally desirable to have some margin in this assumption for mortality improvement.			
January 1, 2007 through December 31, 2008			
	Actual	Expected	Actual/Expected
Death	196	185	106%

Age at DROP			
This assumption has not changed since the implementation of DROP in 1993. The actual age at DROP is virtually 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, 2008			
	Actual	Expected	Actual/Expected
Age at DROP	49.9	50.0	100%

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2009

Schedule D (continued)

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, 2008 has been 3.69%. 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, 1948 through December 31, 2008

	Actual	Expected	Actual/Expected
Inflation	3.69%	4.00%	92%

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, 2008 follows.

January 1, 2006 through December 31, 2008

	Actual	Expected	Actual/Expected
Valuation Compensation	$923,390,148	$925,508,685	100%

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Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2009

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, 2008 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
1/1/2007	through	12/31/2007	8.85
1/1/2008	through	12/31/2008	(24.80)
10/1/1988	through	12/31/2008	8.77%

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 5.80%. Last year's DROP interest rate was 9.75%. Therefore, the annual DROP interest rate for October 1, 2009 is 9.50%.

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Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2009

Schedule E

Asset Projection

Year	Market Value of Assets at Beginning of Year	Expected Contributions During Year	Expected Benefit Payments During Year	Expected Investment Income During Year*	Market Value of Assets at End of Year
2009	$2,533,055,971	$128,300,000	$171,800,000	$213,500,000	$2,703,100,000
2010	2,703,100,000	133,500,000	193,200,000	227,200,000	2,870,600,000
2011	2,870,600,000	138,800,000	216,400,000	240,700,000	3,033,700,000
2012	3,033,700,000	144,400,000	241,700,000	253,700,000	3,190,100,000
2013	3,190,100,000	150,100,000	269,600,000	266,100,000	3,336,700,000
2014	3,336,700,000	156,100,000	299,400,000	277,500,000	3,470,900,000
2015	3,470,900,000	162,400,000	332,400,000	287,800,000	3,588,700,000
2016	3,588,700,000	168,900,000	367,800,000	296,600,000	3,686,400,000
2017	3,686,400,000	175,600,000	406,000,000	303,600,000	3,759,600,000
2018	3,759,600,000	182,700,000	445,500,000	308,400,000	3,805,200,000
2019	3,805,200,000	190,000,000	437,500,000	312,900,000	3,870,600,000
2020	3,870,600,000	197,600,000	416,700,000	319,700,000	3,971,200,000
2021	3,971,200,000	205,500,000	437,600,000	327,700,000	4,066,800,000
2022	4,066,800,000	213,700,000	458,200,000	335,300,000	4,157,600,000
2023	4,157,600,000	222,200,000	477,900,000	342,500,000	4,244,400,000

* Assuming an 8.5% return on the market value of assets, net of expenses.

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TABLE 1

THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(excluding DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2009

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	98	42,479	95	44,642	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	135	42,581	299	45,947	59	51,903	0	0	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	53	42,410	152	46,051	205	53,921	58	58,000	1	50,070	0	0	0	0	0	0	0	0	0	0
35 to 39	30	42,756	76	46,290	155	54,320	185	62,175	68	69,082	0	0	0	0	0	0	0	0	0	0
40 to 44	15	42,162	27	54,102	50	54,755	97	62,443	292	70,062	90	74,558	0	0	0	0	0	0	0	0
45 to 49	6	42,967	9	46,808	21	55,609	39	64,969	141	69,754	182	75,262	78	76,125	0	0	0	0	0	0
50 to 54	0	0	3	44,664	3	54,087	4	64,812	14	70,228	4	71,343	13	72,060	3	71,600	0	0	0	0
55 to 59	1	41,690	2	48,488	3	65,995	0	0	0	0	1	65,847	3	66,786	1	79,046	0	0	0	0
60 to 64	0	0	1	81,844	1	52,359	0	0	1	69,979	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, 2009

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	49	41,990	20	43,682	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	57	42,121	92	45,584	18	52,520	1	53,567	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	33	41,921	79	47,104	124	55,338	29	58,618	1	54,139	0	0	0	0	0	0	0	0	0	0
35 to 39	4	42,700	29	46,441	91	55,740	93	63,068	31	69,679	0	0	0	0	0	0	0	0	0	0
40 to 44	0	0	12	47,118	30	54,145	41	62,011	67	70,142	49	76,280	1	75,063	0	0	0	0	0	0
45 to 49	1	41,690	9	48,496	6	56,007	14	63,892	51	70,385	127	74,668	37	75,662	0	0	0	0	0	0
50 to 54	0	0	1	44,961	0	0	0	0	3	69,877	2	84,727	3	76,426	0	0	0	0	0	0
55 to 59	1	41,690	1	44,962	0	0	0	0	1	72,201	0	0	0	0	1	74,370	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

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TABLE 1

THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(excluding DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2009

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	147	42,316	115	44,475	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	192	42,445	391	45,861	77	52,047	1	53,567	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	86	42,222	231	46,411	329	54,455	87	58,206	2	52,105	0	0	0	0	0	0	0	0	0	0
35 to 39	34	42,749	105	46,332	246	54,846	278	62,474	99	69,269	0	0	0	0	0	0	0	0	0	0
40 to 44	15	42,162	39	51,953	80	54,526	138	62,315	359	70,077	139	75,165	1	75,063	0	0	0	0	0	0
45 to 49	7	42,784	18	47,652	27	55,698	53	64,685	192	69,922	309	75,018	115	75,976	0	0	0	0	0	0
50 to 54	0	0	4	44,738	3	54,087	4	64,812	17	70,166	6	75,804	16	72,879	3	71,600	0	0	0	0
55 to 59	2	41,690	3	47,313	3	65,995	0	0	1	72,201	1	65,847	3	66,786	2	76,708	0	0	0	0
60 to 64	0	0	1	81,844	1	52,359	0	0	1	69,979	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, 2009

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	98	42,479	95	44,642	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	135	42,581	299	45,947	59	51,903	0	0	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	53	42,410	152	46,051	205	53,921	58	58,000	1	50,070	0	0	0	0	0	0	0	0	0	0
35 to 39	30	42,756	76	46,290	155	54,320	185	62,175	68	69,082	0	0	0	0	0	0	0	0	0	0
40 to 44	15	42,162	27	54,102	50	54,755	97	62,443	292	70,062	95	75,526	0	0	0	0	0	0	0	0
45 to 49	6	42,967	9	46,808	21	55,609	40	65,413	143	70,076	221	78,063	120	86,994	0	0	0	0	0	0
50 to 54	0	0	3	44,664	5	56,947	7	73,752	34	77,329	82	89,852	158	92,778	77	100,172	8	87,671	0	0
55 to 59	1	41,690	2	48,488	3	65,995	1	71,041	11	87,610	31	95,215	38	88,090	70	97,597	48	91,952	0	0
60 to 64	0	0	1	81,844	1	52,359	0	0	1	69,979	6	83,791	10	92,007	10	93,128	23	97,040	7	88,669
65 to 69	0	0	0	0	0	0	0	0	0	0	1	84,520	1	76,769	2	107,810	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, 2009

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	49	41,990	20	43,682	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	57	42,121	92	45,584	18	52,520	1	53,567	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	33	41,921	79	47,104	124	55,338	29	58,618	1	54,139	0	0	0	0	0	0	0	0	0	0
35 to 39	4	42,700	29	46,441	91	55,740	93	63,068	31	69,679	0	0	0	0	0	0	0	0	0	0
40 to 44	0	0	12	47,118	30	54,145	41	62,011	67	70,142	52	77,187	1	75,063	0	0	0	0	0	0
45 to 49	1	41,690	9	48,496	6	56,007	15	62,412	51	70,385	166	79,283	53	81,701	1	76,282	0	0	0	0
50 to 54	0	0	1	44,961	0	0	1	66,463	15	80,558	67	91,235	118	91,926	65	97,537	0	0	0	0
55 to 59	1	41,690	1	44,962	1	78,588	1	91,188	6	79,533	10	95,737	40	87,860	92	93,134	62	94,303	0	0
60 to 64	0	0	0	0	0	0	0	0	0	0	1	80,511	0	0	18	95,780	22	90,672	3	164,577
65 to 69	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	113,372	1	101,616	4	117,265
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	106,861

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TABLE 2

THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(including DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2009

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	147	42,316	115	44,475	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	192	42,445	391	45,861	77	52,047	1	53,567	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	86	42,222	231	46,411	329	54,455	87	58,206	2	52,105	0	0	0	0	0	0	0	0	0	0
35 to 39	34	42,749	105	46,332	246	54,846	278	62,474	99	69,269	0	0	0	0	0	0	0	0	0	0
40 to 44	15	42,162	39	51,953	80	54,526	138	62,315	359	70,077	147	76,113	1	75,063	0	0	0	0	0	0
45 to 49	7	42,784	18	47,652	27	55,698	55	64,595	194	70,157	387	78,587	173	85,372	1	76,282	0	0	0	0
50 to 54	0	0	4	44,738	5	56,947	8	72,841	49	78,317	149	90,474	276	92,414	142	98,966	8	87,671	0	0
55 to 59	2	41,690	3	47,313	4	69,144	2	81,115	17	84,759	41	95,342	78	87,972	162	95,062	110	93,277	0	0
60 to 64	0	0	1	81,844	1	52,359	0	0	1	69,979	7	83,323	10	92,007	28	94,833	45	93,927	10	111,441
65 to 69	0	0	0	0	0	0	0	0	0	0	1	84,520	1	76,769	3	109,664	1	101,616	4	117,265
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	106,861

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TABLE 3

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS
BY AGE AS OF JANUARY 1, 2009

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
44	1	$ 31,597	$ 31,597
45	1	30,099	30,099
46	9	187,135	20,793
47	6	151,982	25,330
48	8	237,212	29,652
49	16	467,252	29,203
50	16	630,789	39,424
51	15	533,943	35,596
52	20	598,631	29,932
53	23	914,303	39,752
54	25	1,123,816	44,953
55	35	1,529,104	43,689
56	49	2,746,218	56,045
57	77	4,060,053	52,728
58	65	3,183,748	48,981
59	104	5,376,212	51,694
60	113	5,179,591	45,837
61	145	6,615,531	45,624
62	138	6,428,635	46,584
63	96	4,308,580	44,881
64	84	3,644,519	43,387
65	90	4,229,936	46,999
66	113	5,061,709	44,794
67	69	3,303,001	47,870
68	96	4,314,608	44,944
69	76	3,626,787	47,721
70	87	4,097,214	47,094
71	70	3,331,503	47,593
72	61	2,608,739	42,766
73	57	2,443,021	42,860
74	60	2,423,981	40,400
75	59	2,249,921	38,134
76	58	2,490,987	42,948
77	58	2,087,163	35,986

TABLE 3

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS
BY AGE AS OF JANUARY 1, 2009
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
78	53	$ 1,901,016	$ 35,868
79	48	1,700,122	35,419
80	44	1,622,661	36,879
81	33	1,248,192	37,824
82	23	808,038	35,132
83	20	677,845	33,892
84	26	927,421	35,670
85	22	796,528	36,206
86	9	325,692	36,188
87	9	299,130	33,237
88	12	443,412	36,951
89	11	372,533	33,867
90	1	33,916	33,916
91	4	128,925	32,231
92	1	33,792	33,792
93	1	33,842	33,842
TOTAL	2,317	$ 101,600,585	$ 43,850
POLICE	1,357	$ 57,149,636	$ 42,115
FIRE	960	$ 44,450,949	$ 46,303

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TABLE 4

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF DISABLED MEMBERS
BY AGE AS OF JANUARY 1, 2009

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
32	1	$ 28,581	$ 28,581
33	1	20,599	20,599
36	2	64,387	32,194
37	1	35,281	35,281
38	1	23,948	23,948
40	2	63,488	31,744
41	4	133,714	33,429
42	1	30,686	30,686
43	1	36,536	36,536
44	2	61,385	30,693
45	4	127,468	31,867
46	3	93,852	31,284
47	2	51,793	25,897
48	3	84,819	28,273
49	2	75,054	37,527
51	2	63,839	31,920
52	4	119,882	29,971
53	3	89,806	29,935
54	5	157,529	31,506
55	2	62,832	31,416
56	1	34,313	34,313
57	6	232,846	38,808
58	6	216,608	36,101
59	6	278,811	46,469
60	6	201,787	33,631
61	7	269,813	38,545
62	4	109,646	27,412
63	2	44,378	22,189
64	6	206,108	34,351
65	2	78,105	39,053
66	4	165,585	41,396
67	2	62,716	31,358
68	7	289,836	41,405
69	12	546,522	45,544

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TABLE 4

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF DISABLED MEMBERS
BY AGE AS OF JANUARY 1, 2009
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
70	6	$ 250,247	$ 41,708
71	5	188,089	37,618
72	5	155,759	31,152
73	4	172,996	43,249
74	5	201,343	40,269
75	4	134,675	33,669
76	4	142,977	35,744
77	3	96,985	32,328
78	5	225,751	45,150
79	5	175,108	35,022
80	3	111,127	37,042
81	2	67,560	33,780
82	5	168,690	33,738
83	3	101,525	33,842
84	5	179,799	35,960
85	2	61,216	30,608
86	3	94,452	31,484
87	2	61,167	30,584
88	2	67,584	33,792
91	1	33,372	33,372
TOTAL	191	$ 6,852,975	$ 35,879
POLICE	72	$ 2,258,183	$ 31,364
FIRE	119	$ 4,594,792	$ 38,612

TABLE 5

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF BENEFICIARIES
BY AGE AS OF JANUARY 1, 2009

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
5	1	$ 5,105	$ 5,105
6	1	4,576	4,576
8	2	25,696	12,848
9	3	22,683	7,561
10	4	35,552	8,888
11	6	39,035	6,506
12	7	43,273	6,182
14	4	40,159	10,040
15	3	52,002	17,334
16	4	39,501	9,875
17	9	132,051	14,672
18	3	69,746	23,249
19	4	80,563	20,141
25	1	13,200	13,200
34	1	13,200	13,200
35	2	30,871	15,436
37	3	51,207	17,069
38	2	34,743	17,372
39	3	36,717	12,239
40	1	15,966	15,966
41	3	49,906	16,635
42	3	45,959	15,320
43	1	14,400	14,400
44	3	48,592	16,197
46	2	71,771	35,886
47	4	68,910	17,228
48	10	214,268	21,427
49	7	129,919	18,560
50	5	99,574	19,915
51	5	100,238	20,048
52	5	65,579	13,116
53	8	176,187	22,023
54	12	226,657	18,888

TABLE 5

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF BENEFICIARIES
BY AGE AS OF JANUARY 1, 2009
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
55	9	$ 214,264	$ 23,807
56	7	156,274	22,325
57	13	253,902	19,531
58	14	370,152	26,439
59	15	276,890	18,459
60	21	469,839	22,373
61	17	412,144	24,244
62	26	520,416	20,016
63	17	341,146	20,067
64	12	230,764	19,230
65	22	529,370	24,062
66	17	374,680	22,040
67	19	430,074	22,635
68	21	374,512	17,834
69	31	714,963	23,063
70	22	514,364	23,380
71	22	618,084	28,095
72	18	408,633	22,702
73	24	499,588	20,816
74	29	561,023	19,346
75	20	343,635	17,182
76	28	505,765	18,063
77	21	450,473	21,451
78	23	404,030	17,567
79	19	322,592	16,979
80	32	617,681	19,303
81	25	440,254	17,610
82	30	617,603	20,587
83	17	319,009	18,765
84	26	446,757	17,183
85	23	455,543	19,806
86	16	308,036	19,252
87	16	296,815	18,551
88	9	154,968	17,219

TABLE 5

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF BENEFICIARIES
BY AGE AS OF JANUARY 1, 2009
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
89	13	$ 224,606	$ 17,277
90	12	202,233	16,853
91	8	133,836	16,730
92	6	100,056	16,676
93	5	129,535	25,907
94	5	84,878	16,976
95	1	17,201	17,201
96	2	32,604	16,302
97	1	17,364	17,364
99	1	17,364	17,364
TOTAL	867	$ 17,011,726	$ 19,621
POLICE	488	$ 9,388,783	$ 19,239
FIRE	379	$ 7,622,943	$ 20,113

TABLE 6

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS,
DISABLED MEMBERS AND BENEFICIARIES
BY AGE AS OF JANUARY 1, 2009

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
5	1	$ 5,105	$ 5,105
6	1	4,576	4,576
8	2	25,696	12,848
9	3	22,683	7,561
10	4	35,552	8,888
11	6	39,035	6,506
12	7	43,273	6,182
14	4	40,159	10,040
15	3	52,002	17,334
16	4	39,501	9,875
17	9	132,051	14,672
18	3	69,746	23,249
19	4	80,563	20,141
25	1	13,200	13,200
32	1	28,581	28,581
33	1	20,599	20,599
34	1	13,200	13,200
35	2	30,871	15,436
36	2	64,387	32,194
37	4	86,488	21,622
38	3	58,691	19,564
39	3	36,717	12,239
40	3	79,454	26,485
41	7	183,620	26,231
42	4	76,645	19,161
43	2	50,936	25,468
44	6	141,574	23,596
45	5	157,567	31,513
46	14	352,758	25,197
47	12	272,685	22,724
48	21	536,299	25,538
49	25	672,225	26,889
50	21	730,363	34,779

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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, 2009
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
51	22	$ 698,020	$ 31,728
52	29	784,092	27,038
53	34	1,180,296	34,715
54	42	1,508,002	35,905
55	46	1,806,200	39,265
56	57	2,936,805	51,523
57	96	4,546,801	47,363
58	85	3,770,508	44,359
59	125	5,931,913	47,455
60	140	5,851,217	41,794
61	169	7,297,488	43,180
62	168	7,058,697	42,016
63	115	4,694,104	40,818
64	102	4,081,391	40,014
65	114	4,837,411	42,433
66	134	5,601,974	41,806
67	90	3,795,791	42,175
68	124	4,978,956	40,153
69	119	4,888,272	41,078
70	115	4,861,825	42,277
71	97	4,137,676	42,656
72	84	3,173,131	37,775
73	85	3,115,605	36,654
74	94	3,186,347	33,897
75	83	2,728,231	32,870
76	90	3,139,729	34,886
77	82	2,634,621	32,130
78	81	2,530,797	31,244
79	72	2,197,822	30,525
80	79	2,351,469	29,765
81	60	1,756,006	29,267
82	58	1,594,331	27,488
83	40	1,098,379	27,459
84	57	1,553,977	27,263

TABLE 6

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS,
DISABLED MEMBERS AND BENEFICIARIES
BY AGE AS OF JANUARY 1, 2009
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
85	47	$ 1,313,287	$ 27,942
86	28	728,180	26,006
87	27	657,112	24,337
88	23	665,964	28,955
89	24	597,139	24,881
90	13	236,149	18,165
91	13	296,133	22,779
92	7	133,848	19,121
93	6	163,377	27,230
94	5	84,878	16,976
95	1	17,201	17,201
96	2	32,604	16,302
97	1	17,364	17,364
99	1	17,364	17,364
TOTAL	3,375	$ 125,465,286	$ 37,175
POLICE	1,917	$ 68,796,602	$ 35,888
FIRE	1,458	$ 56,668,684	$ 38,867

TABLE 7

THE NUMBER AND FUTURE ANNUAL
ALLOWANCE OF TERMINATED MEMBERS
ENTITLED TO A FUTURE BENEFIT
BY AGE AS OF JANUARY 1, 2009

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
25	1	$ 232	$ 232
29	1	4,694	4,694
30	1	7,845	7,845
31	4	25,666	6,417
32	4	24,995	6,249
33	3	16,862	5,621
34	3	27,466	9,155
35	4	43,820	10,955
36	5	41,098	8,220
37	5	40,918	8,184
38	9	95,092	10,566
39	13	123,054	9,466
40	8	111,390	13,924
41	8	134,016	16,752
42	6	56,232	9,372
43	14	170,397	12,171
44	9	180,103	20,011
45	9	131,374	14,597
46	12	210,764	17,564
47	8	84,127	10,516
48	9	145,986	16,221
49	5	88,929	17,786
50	3	41,114	13,705
51	3	21,766	7,255
53	1	11,095	11,095
54	1	18,825	18,825
55	1	21,260	21,260
59	1	4,997	4,997
TOTAL	151	$ 1,884,117	$ 12,478
POLICE	123	$ 1,585,307	$ 12,889
FIRE	28	$ 298,810	$ 10,672

TABLE 8

THE NUMBER, ANNUAL RETIREMENT
ALLOWANCE AND ACCOUNT BALANCE
OF DROP MEMBERS
BY AGE AS OF JANUARY 1, 2009

POLICE AND FIRE
DROP

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT	ACCOUNT BALANCE	AVERAGE ACCOUNT BALANCE
41	1	$ 28,805	$ 28,805	$ 9,620	$ 9,620
42	2	55,784	27,892	46,861	23,431
43	2	58,464	29,232	80,037	40,019
44	3	96,745	32,248	259,026	86,342
45	4	112,879	28,220	215,748	53,937
46	5	162,158	32,432	213,391	42,678
47	7	245,172	35,025	223,808	31,973
48	28	1,317,364	47,049	773,553	27,627
49	65	2,959,282	45,527	3,330,252	51,235
50	113	5,944,711	52,608	6,557,715	58,033
51	122	6,420,838	52,630	9,379,512	76,881
52	130	6,792,834	52,253	16,331,211	125,625
53	95	5,082,792	53,503	17,124,770	180,261
54	117	6,233,499	53,278	29,058,820	248,366
55	96	5,009,569	52,183	28,314,959	294,947
56	90	4,919,457	54,661	33,461,163	371,791
57	97	5,208,083	53,692	41,285,841	425,627
58	83	4,043,806	48,721	36,675,663	441,875
59	60	2,894,314	48,239	31,159,576	519,326
60	39	1,718,304	44,059	19,668,844	504,329
61	35	1,598,300	45,666	22,625,015	646,429
62	25	1,007,419	40,297	15,173,784	606,951
63	13	624,884	48,068	9,857,135	758,241
64	8	394,849	49,356	6,848,044	856,006
65	8	358,509	44,814	6,754,427	844,303
66	2	125,669	62,835	2,832,389	1,416,195
69	1	33,450	33,450	802,762	802,762
73	1	92,759	92,759	1,001,730	1,001,730
TOTAL	1,252	$ 63,540,699	$ 50,751	$ 340,065,656	$ 271,618
POLICE	673	$ 34,001,360	$ 50,522	$ 165,510,776	$ 245,930
FIRE	579	$ 29,539,339	$ 51,018	$ 174,554,880	$ 301,476

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STATISTICS

Active Membership of the System By Service

(As of Jan. 1, 2009, Including DROP)

Years of Service	POLICE	FIRE	TOTAL
Fewer than 5	1002	388	1390
5-9	499	270	769
10-14	388	181	569
15-19	550	171	721
20-24	436	296	732
25-29	327	212	539
30 and over	245	270	515
TOTAL	3,447	1,788	5,235

The chart above reports the number of Active Members by Department according to years of service. The average age for all Active Members is 41.15— 40.28 for Police Officers and 42.82 for Firefighters. The average service is 14.69 years— 13.70 years of service for Police Officers and 16.61 for Firefighters. There were 5,235 Active Members as of January 1, 2009.

Change in Benefit Recipients

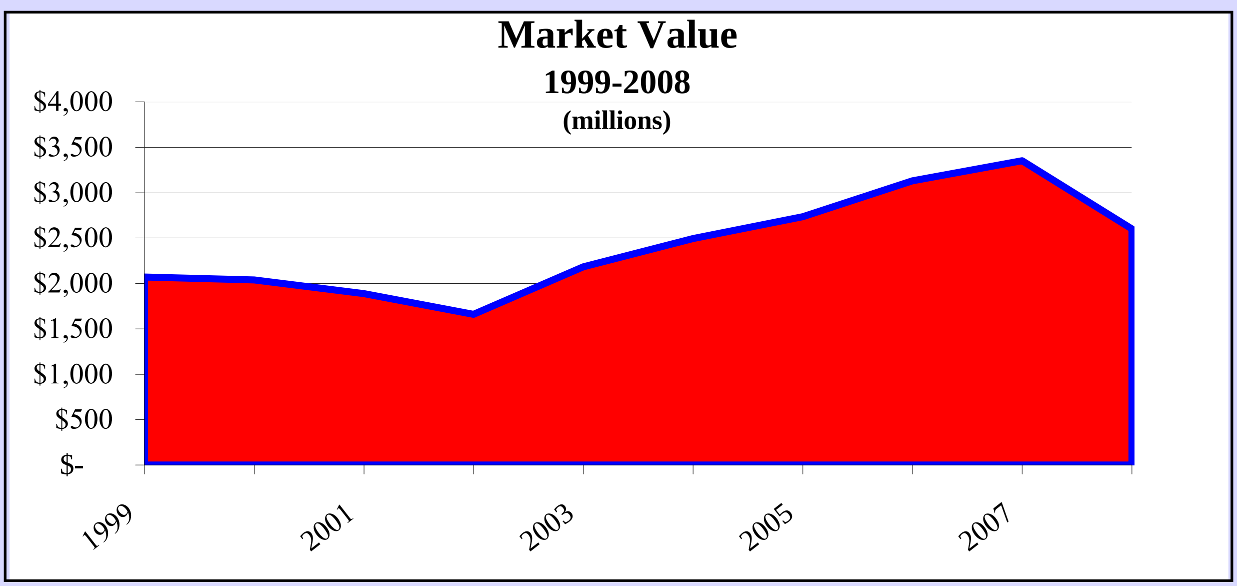
	POLICE	FIRE	TOTAL
Service Pensions Granted	74	47	121
Disability Pensions Granted	3	1	4
Pensions Discontinued Due to Death	38	22	60
Survivor Pensions Granted	34	17	51
Survivor Pensions Disccontinued	7	5	12
New Hires	326	145	471

Actuarial Summary Information

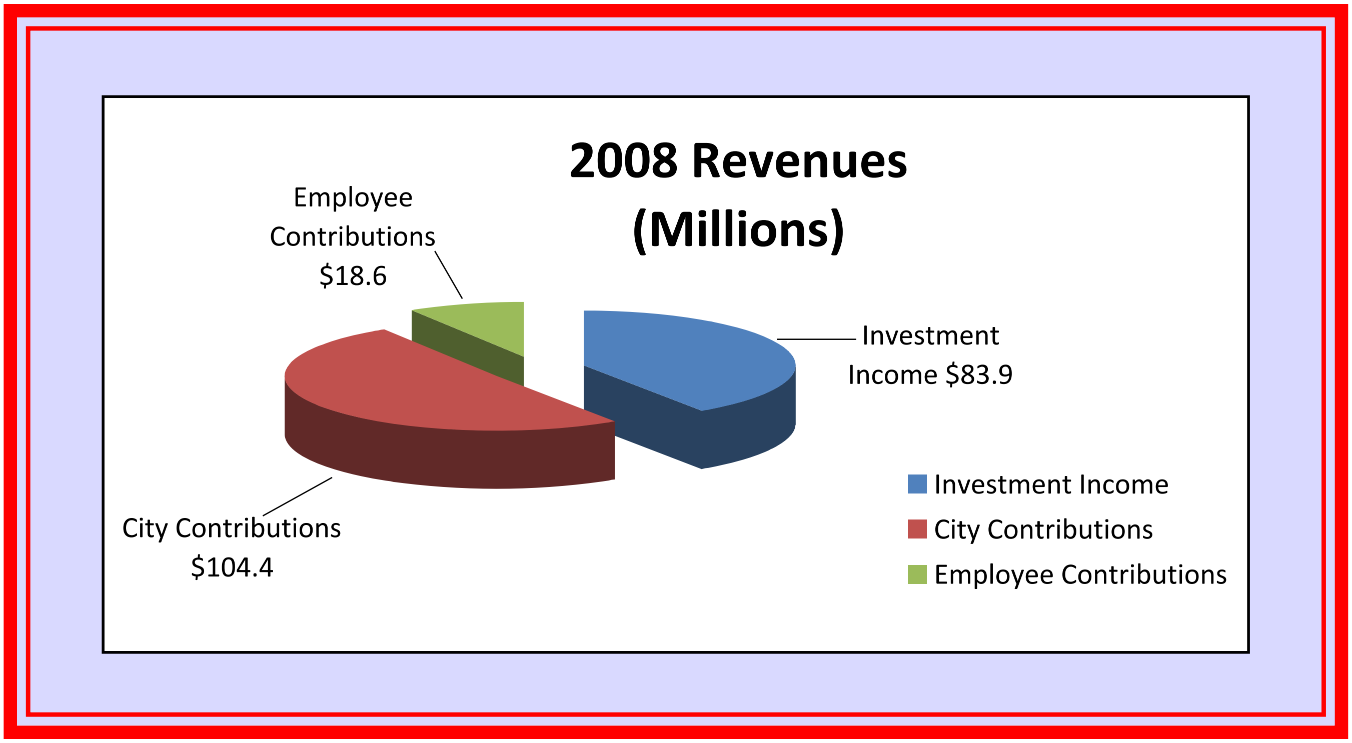
Actuarial Valuation Results	January 1, 2007 Valuation	January 1, 2008 Valuation	January 1, 2009 Valuation
UAAL[1]	$408,079,026	$ 385,091,924	$ 838,429,477
Actuarial Value[2]	$2,962,488,333	$ 3,258,627,218	$ 3,039,667,165
Market Value[3]	$3,131,265,222	$ 3,390,974,909	$ 2,533,055,971
AAL Ratio[4]	87.90%	89.40%	78.40%
Years To Fund[5]	15	14	33

[1] Unfunded Actuarial Accrued Liability
[2] Actuarial Value of Assets
[3] Market Value of Assets
[4] Actuarial Accrued Liability (GASB 25)
[5] Projected Years to Fund Level Funding

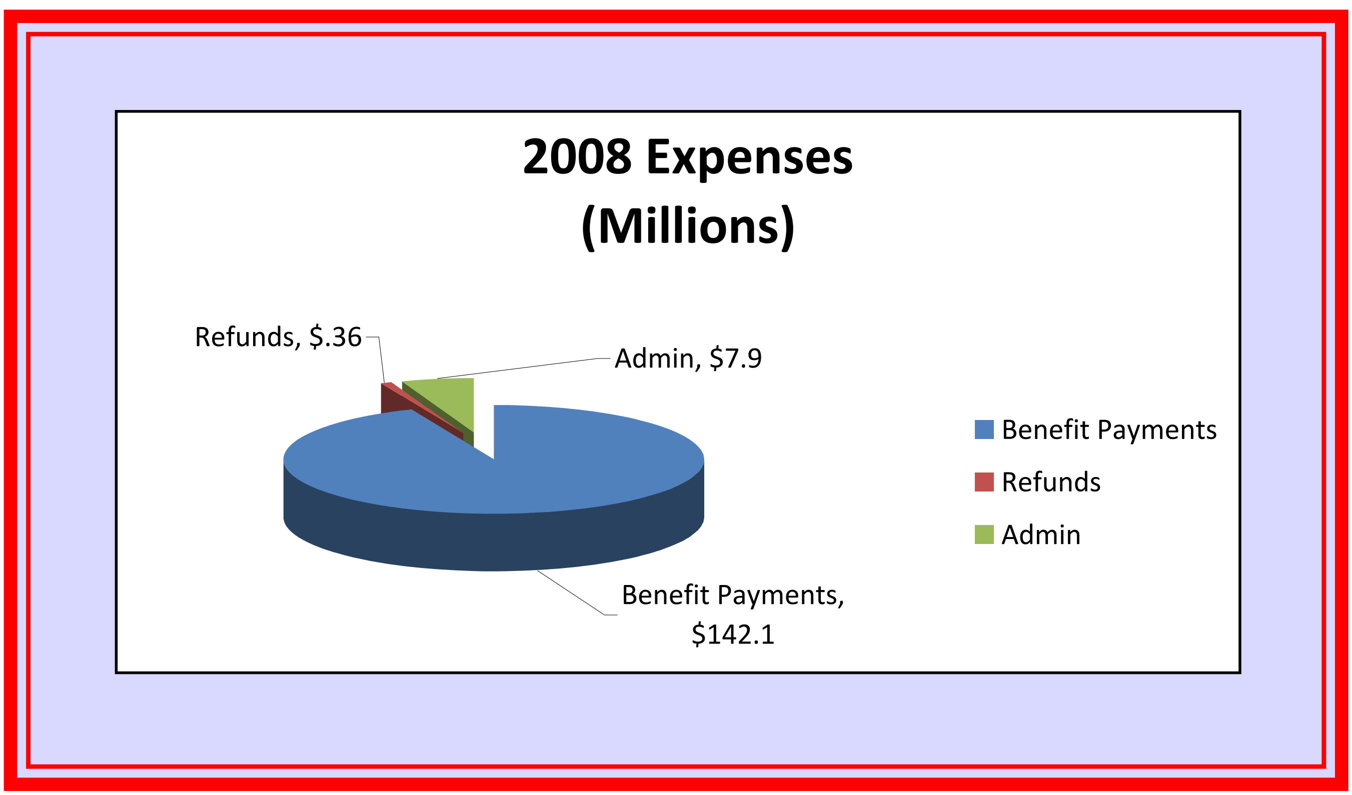
The above chart provides a summary of the principle results of actuarial results of valuations of the System over the last three years, demonstrating the funding make by the system over this period.



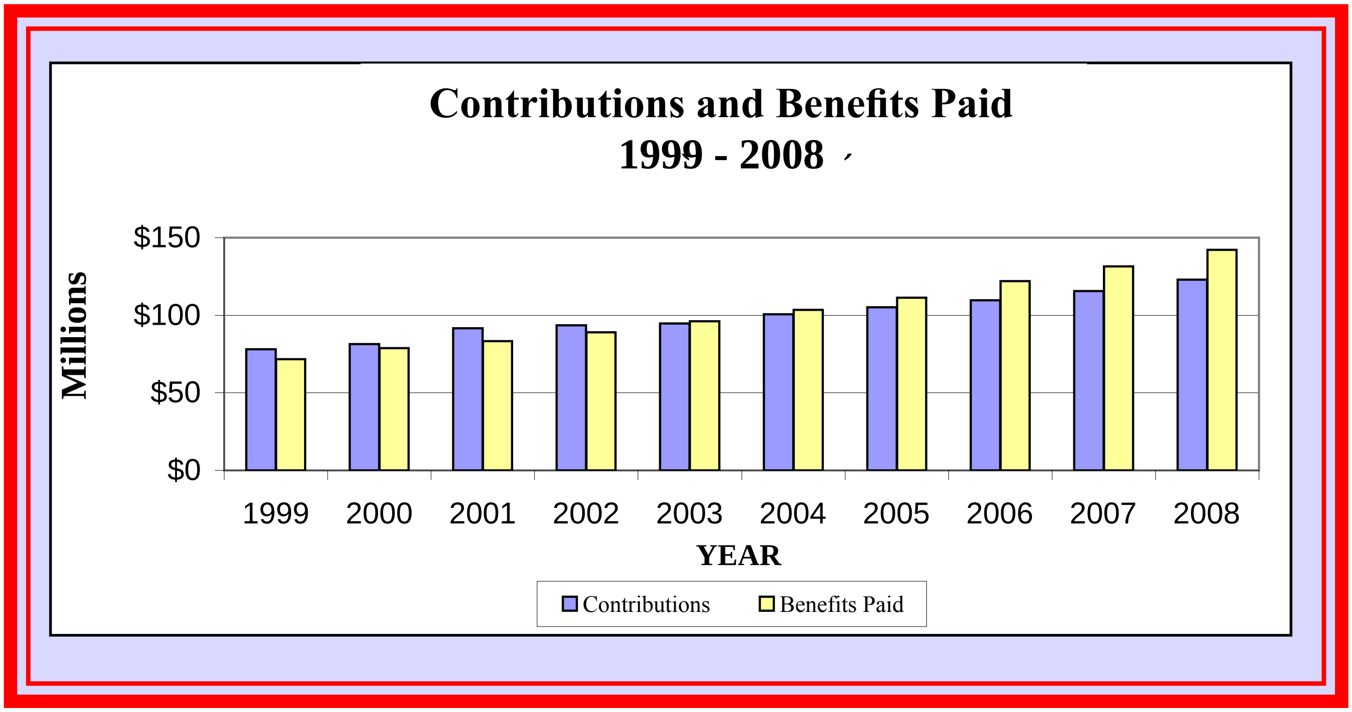
The market value of System Assets has increased from $2.1 billion as of 1999 to $2.5 billion as of the end of 2008.



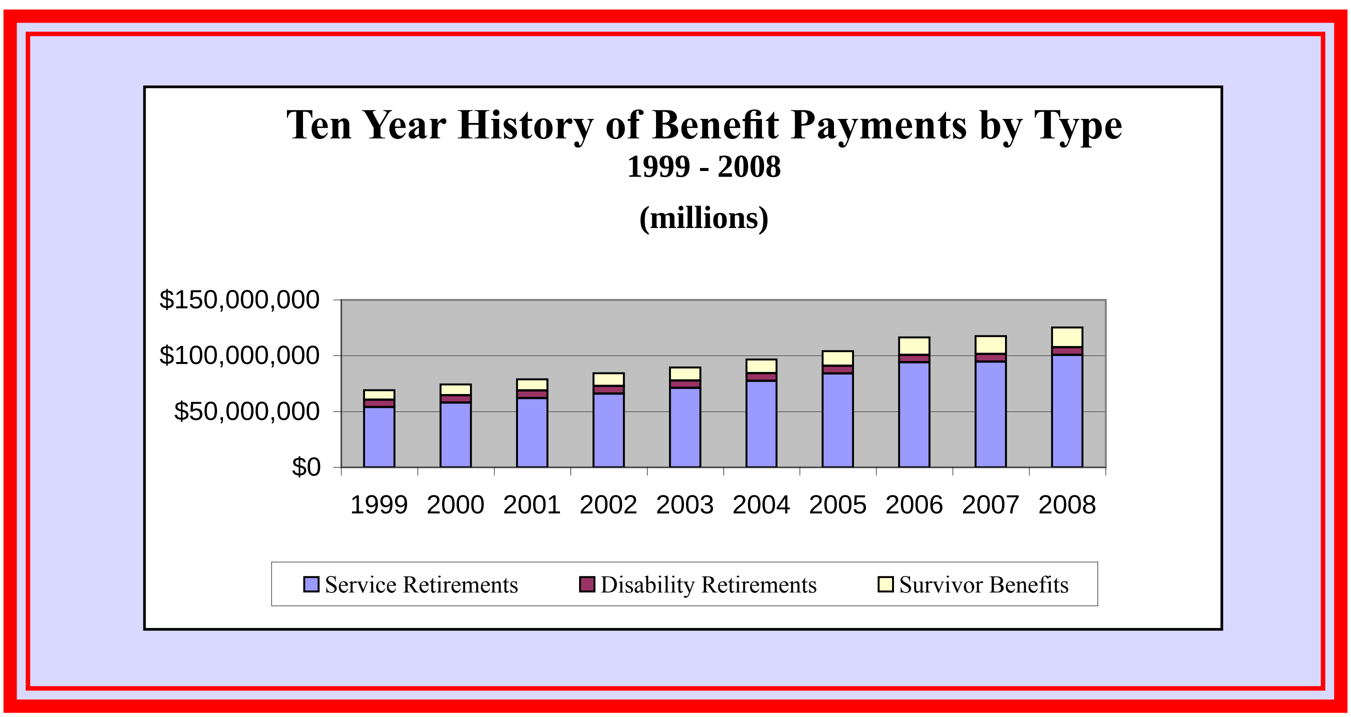
Revenues Totaled $206.9 Million in 2008.



Expenses Totaled $150.4 Million in 2008.

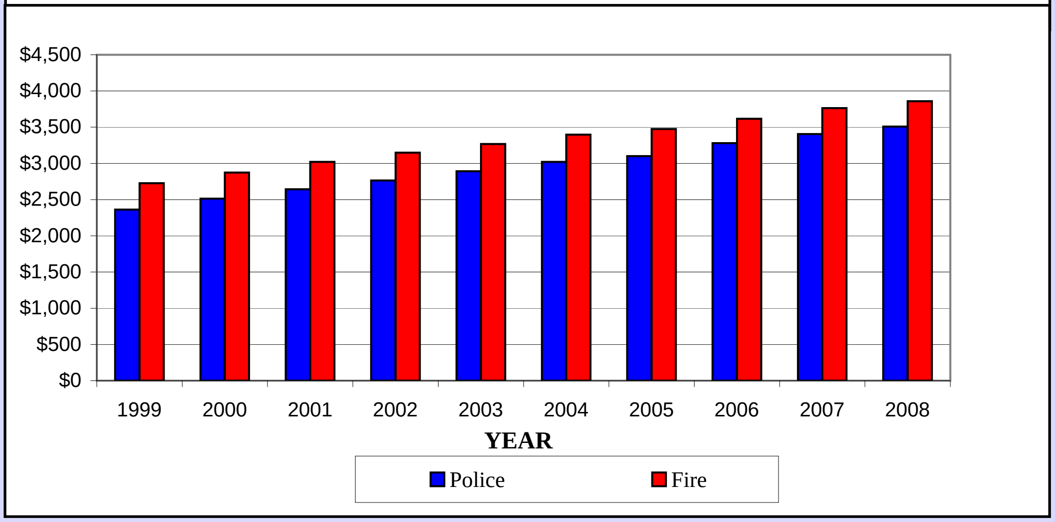


As the System matures, total benefit payments have grown faster over the last ten years than contributions received. Investment income pays benefits not covered by contributions received.



Ten year history of benefit payments by type, excluding lump sum DROP distributions, demonstrates that payments have increased from $69.2 Million in 1999 to $125.2 Million in 2008

Average Monthly Retirement Benefit Payments 1999 - 2008

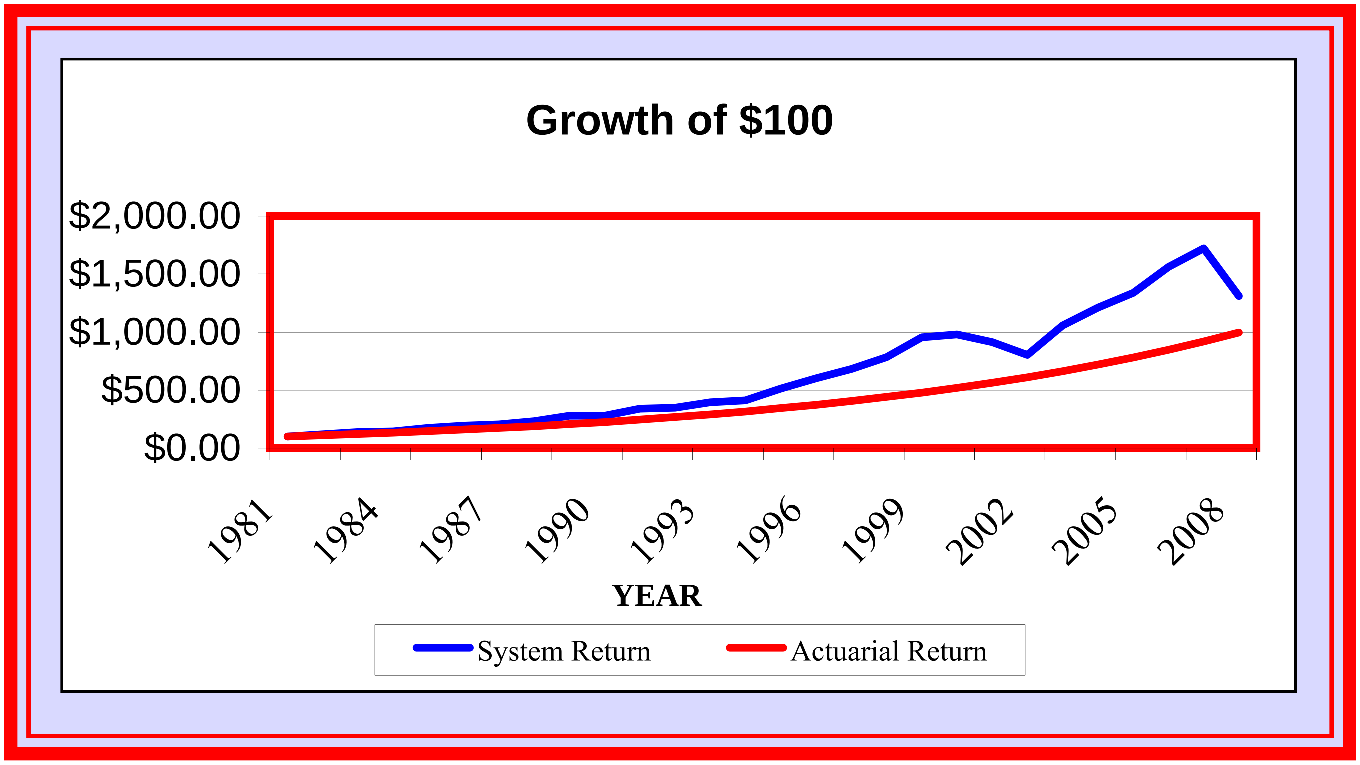


Benefit payments for both Police and Fire Retired Members has increased steadily over the last ten years. The average monthly benefit of retired Police Officers was $3,510 and of Fiefighters was $3,859.

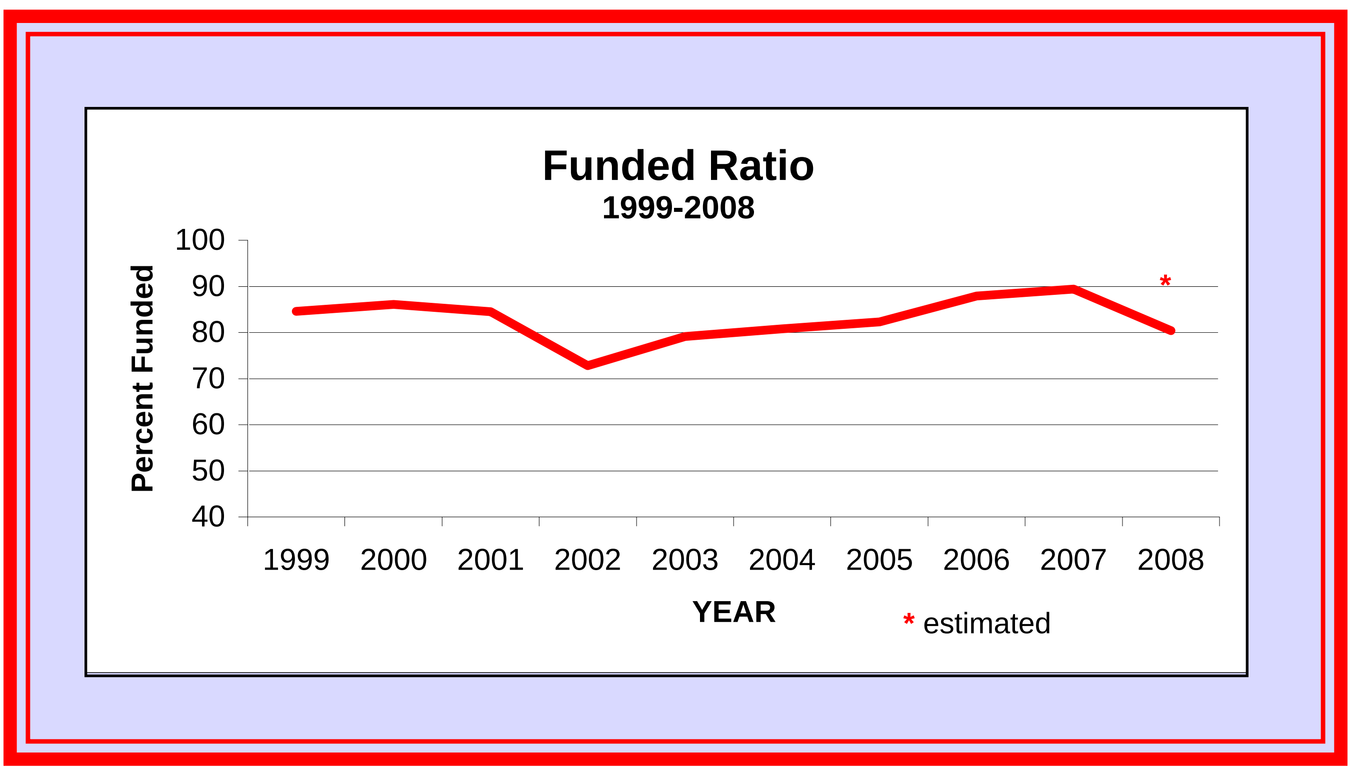
Examples of Monthly Benefit Payments Based on Years of Service and Final Average Computation Pay

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	$2,100	$3,150	$4,200	$5,250	$6,300

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



One hundred dollars invested in the Pension System's portfolio in 1982 is worth $1,360.65 as of December 31, 2008. If the $100 had earned the actuarial interest rate, it would be worth $996.43.



The System's Funded Ratio has remained relatively constant over the last ten years.

SUPPLEMENTAL PENSION PLAN

DALLAS POLICE AND FIRE PENSION SYSTEM
SUPPLEMENTAL PLAN

ACTUARIAL VALUATION

AS OF JANUARY 1, 2009

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May 20, 2009

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, 2009

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, 2009.

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 2009, the contribution is $1,343,717.

Funding Progress

As of January 1, 2009, the City's contribution rate needed in order to meet the funding goal is 128.79% of covered payroll. This amount is lower than the 132.57% employer rate calculated as of January 1, 2008. The current contribution rate of 128.79% 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
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Mr. Richard Tettamant
May 20, 2009
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 valuation is based on the same assumptions and methods as the previous valuation.

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

Data

Asset information and member data for retired, active, and inactive members was supplied as of January 1, 2009, 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.

I am an Enrolled Actuary, a Fellow of the Society of Actuaries, and a Member of the American Academy of Actuaries. I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

Very truly yours,

Richard A. Mackesey, FSA, EA, MAAA
Principal, Consulting Actuary

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Enclosures

Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2009

Table of Contents

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Summary of Principal Results

	January 1, 2009	January 1, 2008
Membership		
Active	41	40
Retired and terminated members and beneficiaries	112	111
Compensation		
Total	$ 1,043,356	$ 938,160
Average	$ 25,448	$ 23,454
Assets		
Market value	$ 18,139,795	$ 25,254,016
Valuation Results		
Unfunded actuarial accrued liability (UAAL)	$ 13,913,501	$ 4,843,565
City's normal cost contribution	$ 176,155	$ 191,249
Funding Policy contribution	$ 1,343,717	$ 1,243,717
GASB No. 25		
Actuarial accrued liability (AAL)	$ 32,053,296	$ 30,097,581
Assets	$ 18,139,795	$ 25,254,016
GASB ratio	56.6%	83.9%
Unfunded AAL	$ 13,913,501	$ 4,843,565

Comments on the Valuation

Overview

The current valuation indicates that a total contribution of $1,343,717 should be contributed during 2009.

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

GASB Statements

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

Benefit Provisions

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

Actuarial Assumptions and Methods

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

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

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 93.76% will be required for the City to avoid showing an accrued pension liability on its financial statements for the fiscal year beginning in 2009, assuming no other changes are made. Under the current funding arrangement, the City would not be required to show an accrued but unpaid pension liability for the Supplemental Plan.

Financial Data

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

Section 5 reconciles the Plan's assets between 2008 and 2009. The estimated rate of return for 2008 was (27.92)%.

Membership Statistics

Data on active members and on retired members was supplied by the Administrator. The number of active members increased over the last year. The active membership increased from 40 members as of January 1, 2008, to 41 members as of January 1, 2009. The payroll increased from January 1, 2008 to January 1, 2009 ($938,160 for 2008 and $1,043,356 for 2009). Schedule A shows a summary of the membership data.

Actuarial Cost

		January 1, 2009	January 1, 2008
1.	Covered Payroll	$ 1,043,356	$ 938,160
2.	Actuarial present value of future benefits	$ 33,391,974	$ 31,344,735
3.	Actuarial present value of future normal costs	$ 1,338,678	$ 1,247,154
4.	Actuarial accrued liability (2 - 3)	$ 32,053,296	$ 30,097,581
5.	Actuarial value of assets	$ 18,139,795	$ 25,254,016
6.	Unfunded actuarial accrued liability (UAAL) (4 - 5)	$ 13,913,501	$ 4,843,565
7.	City's normal cost contribution	$ 176,155	$ 191,249
8.	Funding Policy contribution	$ 1,343,717	$ 1,243,717
9.	Total contribution as a percentage of covered payroll (8 ÷ 1)	128.79%	132.57%

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Analysis of Change in UAAL

1.	UAAL as of January 1, 2008	$ 4,843,565
2.	Changes due to:	
	a. Expected decrease	$ (730,225)
	b. Actual contributions greater than expected	0
	c. Liability experience	617,252
	d. Asset experience	9,182,909
	e. Assumption changes	0
	f. Total Changes	$ 9,069,936
3.	UAAL as of January 1, 2009	$13,913,501

Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2009

Section 4

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, 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%
January 1, 2008	25.254	30.098	4.844	83.9%	0.938	516.4%
January 1, 2009	18.140	32.053	13.913	56.6%	1.043	1,333.9%

GASB #25 Schedule of Employer Contributions for Year Ending December 31, 2008

Annual Required Contribution	Percentage Contributed
$1,243,717	100%

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Summary of Accumulated Benefits (FASB #35)

Accumulated Benefits at January 1, 2009

Vested benefits of participants and beneficiaries currently receiving payments	$ 24,830,005
Other vested benefits	7,216,628
Nonvested benefits	199,823
Total benefits	$ 32,246,456

FASB #35 Reconciliation

Accumulated benefits at January 1, 2008		$ 30,308,999
Benefits accumulated and actuarial gains/losses	$ 781,888	
Interest	2,519,481	
Benefits paid	(1,363,912)	
Assumption changes	0	
Total change	1,937,457	
Accumulated benefits at January 1, 2009		$ 32,246,456

Reconciliation of Fund Assets

	Year Ending December 31, 2008
1. Value of fund at beginning of year	$ 25,254,016
2. Contributions	
a. City	1,243,717
b. Member	45,468
c. Total	$ 1,289,185
3. Benefit payments	(1,363,912)
4. Refunds	0
5. Earnings	(6,988,623)
6. Expenses	(50,871)
7. Value of assets at end of year	18,139,795
8. Estimated rate of return	(27.92)%

Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2009

Schedule A

Membership Data

	January 1, 2009	January 1, 2008
1. Active members (excluding DROP)		
a. Number	15	17
b. Compensation	$ 483,199	$ 334,922
c. Average compensation	$ 32,213	$ 19,701
d. Average age	46.93	46.24
e. Average service (years)	18.60	22.06
2. Active members (DROP only)		
a. Number	26	23
b. Compensation	$ 560,157	$ 603,238
c. Average Compensation	$ 21,545	$ 26,228
d. Average age	54.08	54.78
e. Average total service	30.12	30.39
f. DROP account balance	$ 1,602,199	$ 1,778,725
3. Inactive members		
a. Number	112	111
b. Total annual benefit	$ 1,650,190	$ 1,549,559
c. Average annual benefit	$ 14,734	$ 13,960

Summary of Benefit Provisions
As of January 1, 2009
For Actuarial Calculations

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

Definitions

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

Average Computation Pay: Computation Pay averaged over 36 months.

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

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

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

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

Contribution Rates

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

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

Service Retirement Benefits

Annual Normal Retirement Pension

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

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

Early Retirement Pension

Condition for Retirement:

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

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

b. 20 years of Pension Service

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

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

Special Rule for Members of former Old Plan or Plan A

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

Disability Retirement Benefits

Service-Related Disability

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

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

Non-Service Related Disability

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

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

Survivor Benefits

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

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

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

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

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

Post-Retirement 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.

Benefit Supplement

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

Deferred Retirement Option Plan

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

Statement of Actuarial Methods and Assumptions
(Effective as of January 1, 2009)

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	.48	.28	.35	.70
25	47.0	23.0	48.30	26.30	.62	.29	.37	.75
30	35.0	18.0	36.20	23.70	.78	.33	.42	.84
35	25.0	18.0	27.80	21.40	.85	.45	.48	.96
40	25.0	18.0	28.20	20.90	1.00	.65	.57	1.15
45	25.0	18.0	32.20	22.40	1.46	.92	.79	1.58
50	NA	NA	38.30	25.70	2.33	1.31	NA	NA
60	NA	NA	60.30	33.10	7.09	3.86	NA	NA
70	NA	NA	73.90	41.10	21.73	12.71	NA	NA
75	NA	NA	84.20	49.20	34.05	20.38	NA	NA

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

Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2009

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

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 2007.

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		

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, set back one year 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 for eligible Members.

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 the market value of assets.

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Financial Statements
and
Required Supplemental Information

December 31, 2008 and 2007

(With Independent Auditors' Report Thereon)

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

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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, 2008 and 2007, 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, 2008 and 2007, 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 is 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.

MFR, P.C.

July 17, 2009

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MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

The Management's Discussion and Analysis (MD&A) of the Supplemental Police and Fire Pension Plan of the City of Dallas (the Supplemental Plan) financial position and performance provides an overview of the Supplemental Plan's financial activities for the fiscal years ended December 31, 2008 and 2007. 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 Supplemental 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 required employer contributions and notes to required supplemental information.

CONDENSED FINANCIAL INFORMATION

	2008	2007	2006
Assets	$18,103,822	23,752,976	21,169,910
Liabilities	8,598	44,023	
Net Assets Available for Benefits	18,095,224	23,708,953	21,169,910
Contributions	1,289,185	1,377,700	1,333,399
Investment and Other (Loss) Income	(5,482,130)	2,519,340	1,402,176
Benefit Payments	1,363,912	1,314,911	1,251,365
Administrative Expenses and Professional Fees	56,872	43,086	67,080

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FINANCIAL HIGHLIGHTS

- The Supplemental Plan's net assets decreased $5.6 million in 2008 to $18.1 million. Net assets increased $2.6 million in 2007 to $23.8 million. The decrease in plan net assets reflects the current financial market trend.

- The rate of return on Supplemental Plan investments was (24.0)% for the year, compared to an expected return (actuarial assumed investment rate of return) of 8.5%. The rate of return for 2007 was 10.3%. As of December 31, 2008, the Supplemental Plan's assets are valued at approximately $18.1 million representing a decline in net assets of 24% for the year. Although disappointing on an absolute basis, diversification and prudent investment management helped relative performance. The Supplemental Plan's agricultural investments, managed by the Hancock Agricultural Investment Group, had a double digits return for the year and a strong longer term performance track record. As of end of 2008, the Supplemental Plan's agricultural holdings have produced an annualized return of 23.4% over five years. The Supplemental Plan's investments in timber have served the Supplemental Plan well last year as well returning approximately 12%. Longer term performance is 15.7% and 16.2% for the three-year and five-year period ending December 2008. Among the Supplemental Plan's real estate investment managers, Kennedy Associates Real Estate Counsel LP returned an impressive 49.9% net of fees for the year ranking as the top producing real estate investment manager. Recent events in the financial markets include a devaluation of some assets including certain mortgages and derivative assets. The U.S. banking system and credit markets has required intervention by the Federal Reserve and the U.S. Treasury Department. In addition, the public equity markets have seen large price declines on a year to date basis. As a result, future investment returns could be adversely impacted in certain asset classes. Management is assessing the likely impact on future investment returns and developing risk mitigation strategies.

- The Supplemental Plan had $8,598 in liabilities as of December 31, 2008. The Supplemental Plan had $44,023 in liabilities as of December 31, 2007.

- The Supplemental Plan received employee contributions of $45,468 in 2008 and $37,286 in 2007. The Supplemental Plan received employer contributions from the City of Dallas in the amount $1.24 million in 2008 and $1.34 million in 2007.

- The Supplemental Plan paid $1,363,912 in service retirement, disability retirement and survivor benefits during 2008, compared to $1,314,911 in 2007. No changes to benefit provisions were implemented in 2008.

- The cost of administering the benefit programs of the Supplemental Plan, including administrative costs and professional fees, was $56,872 compared to $43,086 for 2007. A pro rata share of the total expenses of the Group Master Trust are allocated to the Supplemental Plan according to the ratio of Supplemental Plan assets to the total assets of the Group Trust, plus any expenses specific to the Supplemental Plan.

- The active membership of the Supplemental Plan increased by one to 41 members as of the end of 2008. There were 40 active members in 2007. The number of retired, terminated vested and beneficiaries was 112 as of December 31, 2008 and 111 as of December 31, 2007.

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 System contracted with Buck Consultants to conduct an actuarial valuation to determine the actuarial position of the System as of January 1, 2009. 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 decreased $857.9 million during 2008 to $2.53 billion as of January 1, 2009. The market value of assets as of January 1, 2008 was $3.35 billion. During the same period, the actuarial value of the assets (AVA) decreased $219.0 million to a total of $3.04 billion as of January 1, 2009. The actuarial value of the assets as of January 1, 2008 was $3.26 billion.

- As of January 1, 2009, the actuarial accrued liability (AAL), or actuarial value of liabilities, increased during 2008 by $234.4 million to $3.88 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 decreased to 78.4% during 2008. The ratio as of January 1, 2008 was 89.4%.

- 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, 2009, the System's UAAL was $838 million, an increase of $453 million from a UAAL of $385 million as of January 1, 2008.

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, 2009, the employer contribution rate of 27.5% covers the normal cost and the amortization of the UAAL over 33 years, compared to 14 years to fund as of the January 1, 2008 valuation. This increase of 19 years in the number of years to fully fund the System demonstrates the impact on the System's funding status of the economic downturn in 2008.

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 4100 Harry Hines Blvd., Suite 100, Dallas, TX 75219.

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Statements of Plan Net Assets
December 31, 2008 and 2007

	2008	2007
Assets		
Plan interest in Group Master Trust, at fair value (notes 2, 3, 4, 6, 7 and 8)	$ 18,102,892	23,752,524
Total investments	-	23,752,524
Accrued employee contributions receivable (note 5)	930	452
Total assets	18,103,822	23,752,976
Liabilities and Plan Net Assets		
Administrative and benefit expenses payable	8,598	44,023
Plan net assets held in trust for pension benefits (a schedule of funding progress is presented on page 25)	$ 18,095,224	23,708,953

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, 2008 and 2007

	2008	2007
Additions:		
Net investment income -		
net investment (loss) gain from the Group Master Trust	$ (5,482,130)	2,519,340
Contributions:		
Employer	1,243,717	1,340,414
Member	45,468	37,286
Total contributions	1,289,185	1,377,700
Total net (reduction) additions to plan net assets	(4,192,945)	3,897,040
Deductions:		
Benefit payments	1,363,912	1,314,911
Administrative and professional fees	56,872	43,086
Total deductions from plan net assets	1,420,784	1,357,997
Net (decrease) increase in plan net assets	(5,613,729)	2,539,043
Plan net assets held in trust for pension benefits:		
Beginning of year	23,708,953	21,169,910
End of year	$ 18,095,224	23,708,953

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, 2008 and 2007

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, 2008 and 2007, the Supplemental Plan membership consisted of:

	2008	2007
Non-active members - pensioners and qualified survivors currently receiving benefits:		
Firefighters	48	46
Police officers	64	65
Total non-active members	112	111
Current employees - vested:		
Firefighters	15	16
Police officers	26	24
Total members	41	40

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 $6,528,220 and $5,519,457 for December 31, 2008 and 2007, 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.

Plan Interest in Group Trust

Beginning January 1, 2006, the Supplemental Plan's investments are held in the Group Master Trust (Group Trust). JP Morgan Chase served as custodian for the years ended December 31, 2008 and 2007. 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 0.711% and 0.702% at December 31, 2008 and 2007, respectively. 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. 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.

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.

Benefits

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

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SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

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, 2008 and 2007 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, 2008 and 2007, respectively. These foreign exchange gains and losses are included the in Group Trust net (depreciation) appreciation in fair value of investments in the accompanying disclosures of the Group Trust.

Administrative expenses

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

2. **Cash and 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, 2008 and 2007, the Group Trust had bank balances of $2,318,275 and $5,840,577, respectively, that are in demand deposit accounts subject to coverage by Federal Deposit Insurance Corporation, but not collateralized. The Group Trust and the Supplemental Plan do not have a deposit policy for custodial credit risk; however, management believes that 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.

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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 the Supplemental Plan's interest in Group Master Trust are made for the Group Master Trust as of and for the years ended December 31, 2008 and 2007. 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. 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. Dividend income is recorded on the ex-dividend date. Interest and income from other investments are recorded as earned.

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

	2008	2007
Investments, at fair value (notes 2, 3 and 4):		
Cash and cash equivalents	$ 189,628,091	288,681,823
United States government securities	1,754,304	10,879,556
United States government sponsored enterprises	19,479,059	20,496,465
Foreign government securities	99,780,380	204,014,254
Commingled funds	20,999,013	85,940,352
Domestic equities	367,155,694	1,045,749,584
International equities	1,012,510,245	990,822,594
Corporate securities	243,474,306	306,456,923
Investments, at appraised value - real estate equity funds	1,138,167,164	943,189,733
Total investments	3,092,948,256	3,896,231,284
Receivables:		
Accrued interest and dividends	8,945,704	11,956,730
Forward currency contracts (note 6)	57,271,091	166,741,241
Securities sold	26,852,309	32,273,311
Total receivables	93,069,104	210,971,282
Total assets	3,186,017,360	4,107,202,566
Liabilities and Net Assets		
Repurchase loan agreement (note 7)	33,316,200	32,572,000
Payable for securities purchased	28,701,252	31,691,181
Professional fees payable	5,982,653	4,769,636
Forward currency contracts (note 6)	56,691,520	166,352,773
Securities lending collateral (note 4)	148,844,078	218,371,133
Line of credit and other bank loans (note 8)	366,476,000	276,850,000
Total liabilities	640,011,703	730,606,723
Net assets in the Group Trust	$ 2,546,005,657	3,376,595,843

Continued

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 years ended December 31:

	2008	2007
Investment income:		
Interest	$ 33,379,607	36,676,719
Dividends	40,171,711	35,347,457
Real estate income	9,123,317	44,149,704
Net (depreciation) appreciation in fair value of investments	(865,198,727)	148,254,082
Securities lending income	1,253,546	922,183
Less investment expenses:		
Custody fees	(645,670)	(269,847)
Investment services	(20,077,353)	(17,533,373)
Total investment (loss) income in Group Trust	(801,993,569)	247,546,925
Plan net assets held in trust for pension benefits:		
Beginning of year	3,376,595,843	3,149,791,259
Benefits payments in excess of contributions received for System and Supplemental Plan	(28,596,617)	(20,742,341)
End of year	$ 2,546,005,657	3,376,595,843
The following is a break out of interest held in the Group Trust:		
Group Trust interest held by the System	$ 2,527,902,765	3,352,843,319
Group Trust interest held by the Supplemental Plan	18,102,892	23,752,524
Total nets assets of Group Trust	$ 2,546,005,657	3,376,595,843

Portions of the Group Trust's 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, 2008 and 2007 are presented by type, as follows:

		2008	2007
Cash and cash equivalents	$	189,628,091	288,681,823
United States government securities		1,754,304	10,879,556
U.S. government sponsored enterprises		19,479,059	20,496,465
Foreign government securities		99,780,380	204,014,254
Commingled funds		20,999,013	85,990,352
Domestic equities		367,155,694	1,045,749,584
International equities		1,012,510,245	990,822,594
Corporate securities		243,474,306	306,456,923
Investments, at appraised value - real estate equity funds		1,138,167,164	943,189,733
Total investments	$	3,092,948,256	3,896,231,284

The System's Board has contracted with investment managers to manage the investment portfolio of the Group Trust, subject to the policies and guidelines established by the Board. The System's 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.

Group Trust 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:

		2008 Fair value	2007 Fair value
Investments greater than 5% of net assets, at quoted market value:			
Securities lending - Global Securities Lending JP Morgan	$	148,884,079	218,371,133
Total investments greater than 5% of net assets		148,884,079	218,371,133
Investments less than 5% of net assets:			
At quoted market value		1,805,897,013	2,734,670,418
At appraised value		1,138,167,164	943,189,733
Total investments	$	3,092,948,256	3,896,231,284

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SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

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 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 or 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, 2008 and 2007, 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.

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 within a 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 will further diversify by employing investment managers who implement the strategies selected by the System's 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.

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SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

3. The System's 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 System 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 System's 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 System Board's approval. The manager shall have discretion to manage the portfolio consistent with the style presented to the System Board at the time of selection and further subject to the restrictions established by the policy herein.
   b. The Chair of the System Board may execute amendments and consents if the resulting changes or allowances are provided for in the governing documents as previously accepted by the System Board. Otherwise, such changes are to be approved by the System Board. The System Board will be notified on a quarterly basis of all executed amendments.

3. The System 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 System 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 System 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 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 comes due and payable) in years, weighted to reflect the dollar size of individual investments within the investment type. The Supplemental Plan 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, 2008, the following tables show the Group Trust's investments by type, time-to-maturity, fair value, and foreign currency fluctuation.

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	$	1,754,304			1,754,304
U.S. Gov't agency securities				19,479,059	19,479,059
Municipal bonds				635,000	635,000
Corporate securities:					-
Asset backed securities					-
Collateralized mortgage obligation			16,155	10,943,286	10,959,441
Corporate bonds	113,494	40,051,402	72,153,824	117,538,673	229,857,393
Commingled funds				20,999,013	20,999,013
Convertible bonds		1,771,716		120,375	1,892,094
Investment interests				130,380	130,380
Total fixed maturity domestic	113,494	43,577,425	72,169,979	169,845,786	285,706,684
International government bonds:					
Australian Dollar		923,245	10,513,133		11,436,378
Argentina Peso					
Belgium Franc		1,393,442			1,393,442
Brazil Real		2,897,601			2,897,601
British Pound Sterling		8,866,438	5,073,840	3,099,513	17,039,791
Canadian Dollar		2,713,901			2,713,901
EURO Currency		3,537,619	8,840,492	6,840,422	19,218,533
Iceland Krona		501,021			501,021
Indonesian Rupiah		1,432,374		292,000	1,724,374
Japanese Yen		11,716,794		2,849,424	14,566,218
Malaysian Ringgit		4,020,467			4,020,467
Mexican New Peso		7,321,936		2,129,039	9,450,975
Netherland Guilder				949,516	949,516
New Zealand Dollar		2,520,898			2,520,898
Norway Krone					-
Philippines Peso		864,320			864,320
Poland New Zloty		6,388,272			6,388,272
Singapore Dollar					-
South African Rand		1,837,878			1,837,878
Swedish Krona		2,256,791			2,256,791
Uruguay Peso					
Total international government bonds	-	59,192,997	24,427,465	16,159,916	99,780,378
Total fixed maturity	$ 113,494	102,770,422	96,597,444	186,005,702	385,487,062

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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, 2008 is as follows:

Type	S & P Rating	Amount	Percentage of holding
Corporate securities:			
Convertible bonds:			
	B	$ 120,375	0.03%
	NR	1,771,719	0.46%
Total convertible bonds		1,892,094	0.49%
Corporate bonds:			
	AAA	1,264,490	0.33%
	AA+	1,426,570	0.37%
	AA	1,430,977	0.37%
	AA-	2,222,482	0.58%
	A+	3,782,987	0.98%
	A	2,891,675	0.75%
	A-	2,032,932	0.53%
	BBB+	6,196,460	1.61%
	BBB	4,723,583	1.23%
	BBB-	12,299,820	3.19%
	BB+	2,438,663	0.63%
	BB	18,014,497	4.67%
	BB-	16,773,849	4.35%
	B+	25,258,021	6.55%
	B	18,463,530	4.79%
	B-	7,466,063	1.94%
	CCC+	6,641,835	1.72%
	CCC	8,832,313	2.29%
	CCC-	1,747,725	0.45%
	CC	387,146	0.10%
	C	1,736,295	0.45%
	D	1,430,163	0.37%
	NR	82,397,346	21.37%
Total corporate bonds		229,857,392	59.62%
Mortgage bonds:			
	AAA	5,991,186	1.55%
	A+	16,155	0.00%
	A	297,438	0.08%
	NR	4,654,661	1.21%
Total mortgage bonds		10,959,440	2.84%
Investment fund	NR	130,380	0.03%
Total corportate securities		242,839,306	62.98%
Government sponsored enterprises:			
	AAA	2,436,296	0.63%
	NR	17,042,763	4.42%
Total government sponsored enterprises		19,479,059	5.05%
Foreign government securities:			
	AAA	26,045,850	6.76%
	AA+	6,196,848	1.61%
	AA	16,371,280	4.25%
	A+	15,149,552	3.93%
	A	13,768,695	3.57%
	A-	3,305,460	0.86%
	BBB+	2,289,035	0.59%
	BBB	1,191,803	0.31%
	BB-	4,193,336	1.09%
	B-	1,134,288	0.29%
	NR	10,134,233	2.63%
Total foreign government securities		99,780,380	25.89%
United States government securities - Treasury Notes	AAA	1,754,304	0.46%
Municipal bonds	Aaa	635,000	0.16%
Commingled	NR	20,999,013	5.45%
Total credit risk debt securities		$ 385,487,062	100.00%

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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 to enter into an agreement with JP Morgan Chase (JP Morgan) for the lending of certain of the Group Trust'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, securities held by JP Morgan as the Group Trust's custodian, 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 2008 and 2007 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 2008. Moreover, there were no losses during the 2008 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 2008 and 2007, 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 Group Trust'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 System Board could not determine. On December 31, 2008, 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 $148,884,079 and $218,371,133 at December 31, 2008 and 2007, respectively.

Disclosure of securities lending revenue is shown gross with the associated reductions for investment expenses on the face of the Group Trust's 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 Group Trust as of December 31, 2008 and 2007.

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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, 2009 and 2008. 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, 2009, consists of 128.79% of covered members' salaries, increased by 132.57% of covered members salaries of 3.78%, as of January 1, 2008.

The required contribution rate of the City, pursuant to an actuarial study effective January 1, 2008, consists of 132.57% of covered members' salaries, increased by 10.46% of covered members' salaries of 154.79% as of January 1, 2007.

Historical trend information

Historical trend information is provided as supplemental information on pages 25 through 27. 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 years 2008 and 2007, 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, 2008 and 2007.

During 2008 and 2007, the Group Trust recognized net gains and net realized losses on foreign currency forward contracts of $7,081 and $388,468, respectively. At December 31, 2008 and 2007, the Group Trust had net unrealized gains and net unrealized loss on forward currency contracts reflected in the accompanying Group Trust summary information of $556,702 and $5,941,188, respectively.

7. **Obligation Under Reverse Repurchase Agreements**

State statutes permit the Supplemental Plan to enter into reverse repurchase agreements. The credit exposure at year end 2008 and 2007 related to these agreements was $33,316,200 and $32,572,000, respectively, 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 Supplemental Plan 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, 2008 and 2007.

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 at the 30 day floating LIBOR plus 45 basis points and 40 basis points at December 31, 2008 and 2007, respectively, payable quarterly. At December 31, 2008 and 2007, the Group Trust had borrowed approximately $329,216,000 and $276,850,000, respectively, related to the revolving credit line, which provides for a maximum borrowing of $350,000,000. The revolving credit line was opened on November 1, 2006, and expires on September 13, 2009. The Group Trust and the System also pay a quarterly fee on the unused portion of the line of credit equaling .14 basis points. The line of credit agreement contains various covenants under the terms of the agreement in which the bank may call the line of credit, if the Group Trust is in violation of any restrictive covenants.

Continued

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

In addition to the line of credit, the Group Trust has an additional loan agreement with the commercial bank bearing interest per annum at the LIBOR rate plus 45 basis points and 40 points at December 31, 2008 and 2007, respectively, payable quarterly. At December 31, 2008 and 2007, the loan balance outstanding was $37,260,000. The loan is secured by real property and matures on September 30, 2009. The bank loan agreement contains various covenants under the terms of the agreement in which the bank may call the loan if the Group Trust is in violation of any restrictive covenants.

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.

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. The Supplemental Plan reimbursed the City for $119,159 and $69,310 related to the Supplemental Plan's overall administrative costs during the years ended December 31, 2008 and 2007, respectively.

Group Trust investment related expenses for the years ended December 31, 2008 and 2007 also include $20,077,353 and $17,533,373, respectively, in asset management fees for the Group Trust.

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, 2008 and 2007, aggregate contributions from active members of the Supplemental Plan with less than five years of service were $47,990 and $23,610, respectively.

The Group Trust had outstanding investment commitments to various limited partnerships and international investment advisors of $417,523,031 and $566,176,827 at December 31, 2008 and 2007, respectively.

12. **Risks and Uncertainties**

The Group Trust invests in various investment 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.

Continued

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

The Supplemental Plan contribution rates and the actuarial information included in the schedule of contributions, page 26, and schedule of funding progress, page 25, 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, 2008 and 2007.

REQUIRED SUPPLEMENTAL INFORMATION

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 in 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)
1/1/2000	$ 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 %
1/1/2008	25,254	30,098	4,844	84 %	938	516 %
1/1/2009	18,140	32,053	13,913	57 %	1,043	1,334 %

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
1999	$ 1,030,687	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 %
2007	1,340,414	100 %
2008	1,243,717	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, 2009 and 2008 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
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 2009 and 2008
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 2009 actuary report and 11% of base pay per the 2008 actuary report.

The actuarial information presented was determined by the actuarial firm Buck Consultants, Inc. for 2008 and 2007 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, 2009 and 2008, and are not materially different from what they would have been had they been calculated on December 31, 2008 and 2007, 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.

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